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Interstate Economic Integration - Essential Characteristic of the Contemporary World Economy

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A R T I C L E I N F O

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A B S T R A C T

After the Second World War, the world economy became more and more characterized by an intensification of economic relations between different countries. The complex and diverse problems that faced the states, have imposed necessity for the identification of appropriate solutions to economic cooperation and economic interstate integration was considered an effective way to development and an answer to all these problems. The purpose of this article is to analyze the integration process of interstate economic integration in all its essential aspects. The study begins with the definition of the concept and continues with the analysis of the forms of interstate economic integration and the main organizations of this kind that existing in the world economy nowadays.

1. Introduction

Starting with the second half of the twentieth century, the world economy featured an increasingly accentuated trend toward the interstate economic integration.

Given the proximity both geographically and as development levels of some countries, there have been established organizations that have implemented interstate economic integration process, based on diverse understandings, agreements and negotiations between the participating countries. Interstate economic integration is a natural result, emerged from the desire and need of a group of countries to promote and defend common interests.

Such a process therefore is based on the desire to create a common space, more efficient from multiple viewpoints and with multiple benefits for the parties involved.

The process of economic integration has gone through some phases, evolving from simple to complex, from *Free Trade Areas* to *Economic and Monetary Unions*, the ultimate goal being that of achieving a *Complete Economic Union*.

2. Overview of interstate economic integration

The concept of integration originates in the Latin verb *Integro*, signifying the formation of a whole [8], or in other words the completion of a system based on several subsystems that thus become integral parts thereof.

The term of economic integration is used in the literatura after 1940. Thus "as a term, the integration of economies of separate states is not found anywhere in the old, chiefly historical literature on the economic interrelationships between states, nor in the literature about customs unions (including the German Zollverein 1834-71), nor in the literature on international trade prior to 1940s" [4].

The literature provides many definitions of the term economic integration. Some authors consider this as being a process represented by the absence of various forms of discrimination between national economies and make the distinction between integration and cooperation considering that there is both qualitative and quantitative difference between the two terms [1].

Another definition given to the economic integration is that it consist in eliminating the economic borders between two or more economies. An economic frontier, in its turn, is defined as any limit over which any mobility of goods, services and factors of production is relatively low. On both sides of the determination of prices, quality goods, services and factors of production is not the marginally influenced by the flows across borders. It also makes the difference between economic borders and territorial borders, given that the countries are outlined by territorial borders and economies by economic frontiers [5].

From another perspective, the economic integration is viewed from two view points, namely: negative integration which refers to the elimination of restrictions and liberalization of some economic transactions

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among the participating states and positive integrating meaning to establish new policies and institutions with coercive powers while redefining the existing policies [6].

Although a single definition has not been established yet, all views converge towards the idea according to which economic integration is materialized in an agreement between countries from a given geographic region and aims at reducing or eliminating any tariff and non tariff barriers in order to achieve the free movement of goods, services and factors of production.

A primary objective of the economic integration was that of increasing well-being and living standards in member countries, considering that any trade growth within the various forms of economic integration leads to PIB (GDP) growth of the participating countries and therefore to an increased well-being and prosperity.

3. Forms of interstate economic integration

There are different stages of integration, and in an advanced acceptation the economic integration is not just about market integration, but also the integration of economic policy. Given that the intensity of integration increases, it becomes imperative necessary to create organizational and legally autonomous structures whith super-national character that may contribute to achieving the best conditions of the process of economic integration. In terms of the theory of integration, from simple to complex, are distinguished the following forms of interstate economic integration: free trade zone, customs union, common market, economic union, monetary union and complete economic union. Each type reflects a certain level of economic integration:

- **Free Trade Zone**: is formed when at least two states agree to eliminate trade barriers between them (customs duties and quantitative restrictions), keeping each one its own trade barriers in relations with non-member states (external independence trade policy). This form is preferred by some countries which are just starting on the path of economic integration as well as for those wishing to experience or cannot assume higher levels of economic integration. In order to exclude regional exploitation of the tariffs elimination within the free trade zone, there exist the so called rules of origin which consist in using the system of certification of origin for goods from the territory of a Member State.

- **Customs Union**: occurs when a group of countries eliminate the trade barriers between them, also harmonizing customs legislation and adopting a common customs tariff in relationships with third parties (instituting a common external trade policy). It is worth mentioning that "although it involves lower costs than creating a free trade area, customs union requires more coordination. Once established a common external tariff by reconciling member states, customs union requires permanent political decisions based on subsequent adjustments [...]. Such measures can constitute loss of sovereignty in field of trade policy and customs regulations of the member countries" [2].

- **Common Market**: involves free trade of goods and services, establishes common barriers in relations with non-member countries and also allows for free mobility of labor and capital between member countries. An organization of this kind has many benefits. In conditions of full freedom for all factors of production between countries, can be achieved a more efficient allocation of resources and a supplementary increase of productivity. However, it can also contribute to deepening inequalities as a result of disparities between the member countries, which highlights the need to progress to another stage of the economic integration process .

- **Economic Union**: involves the development of a single market and harmonization of Member States' economic policies. Participating countries remove any barriers to trade, movement of labor and capital, establish a common trade policy in relations with third parties and establish common economic policies. It is all but natural, considering the fact that all countries will share the same economic space and application of divergent policies within them would be counter-productive measure.

- **Monetary Union**: implies a common monetary policy and adopting a common currency. This aspect is performed by unification of various currencies into a single currency that circulate in states participating to respective union.

- **Full Economic Union**: it is the final stage of economic integration and implies a complete unification of the economies participating in the realization of this union.

Table 1. Stages of economic integration

Stages of economic integration	Elimination of trade barriers	Common customs tariff in relations with non-members	Free movement of productive factors	Common economic policy	Common currency	Complete unification of the member countries economies
Free Trade Area	X					
Customs Union	X	X				
Common Market	X	X	X			
Economic Union	X	X	X	X		
Monetary Union	X	X	X	X	X	
Complete Economic Union	X	X	X	X	X	X

Source: elaborated by autor

4. Organizations of regional economic integration

Organizations of interstate cooperation and economic integration are found in many areas of the globe and are formed with the participation of countries of different sizes and with different stages of development, but all have the common objectives: economic cooperation, prosperity, stability, rising living standards, and so on. Further, reference will be made to the unfolding economic integration process and to the existence of interstate economic integration organizations in the following areas of the globe: North America, South America, Southeast Asia, Africa and Europe.

a) North America:

- *North American Free Trade Agreement* (NAFTA): is a trilateral agreement for a free trade area formed with the participation of the USA, Canada and Mexico. Came into effect on 1 January 1994, this agreement has two main directions, establishing rules for international trade and for investments between the three member states.

The objectives of the agreement are [10]:

- progressive elimination of trade barriers;
- protection for foreign investment;
- protection for intellectual property;
- easier access for business travelers;
- access to Government procurement;
- protect the environment;
- labor cooperation.

b). South America

- ***Southern Common Market (MERCOSUR):*** whose members are Argentina, Brazil, Paraguay, Uruguay and Venezuela. Also, associate members are Bolivia, Chile, Colombia, Ecuador and Peru. It was created on March 26, 1991 as free trade zone.

Stated objectives of MERCOSUR are [3]:

- increase economic efficiency and competitiveness of Member States by opening markets and accelerating economic development;
- better use of resources, environmental protection;
- improve communication lines;
- macroeconomic policy coordination while complementing the industries.

- ***Latin American Integration Association (ALADI)****:* established on August 12, 1980 and was sucessor of Latin American Free Trade Association. Participating countries are: Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay, Venezuela, and except for Cuba (1999) and Panama (2011), all the other states have been founding members too. The long –term objective of this organization is to provide a common market in its member states. At the same time it aims is to support the economic development of the region in question and achieve a certain level of stability and prosperity.

c). Southeast Asia

- ***Association of Southeast Asian Nations (ASEAN)***: was founded on August 8, 1967 through the ASEAN Declaration, which was signed in Bangkok by Indonesia, Malaysia, Philippines, Singapore and Thailand. Currently ASEAN is formed with the participation of 10 countries: the five founders plus Brunei, Vietnam, Laos, Myanmar and Cambodia. Unlike other economic integration organizations, ASEAN is considering not only promoting free trade, and has a more extensive sphere of action.

Thus, the objectives set out in the Declaration of ASEAN include among others [7]:

- economic growth, social progress and cultural development in the region;
- promote peace and regional stability;
- active collaboration and mutual assistance in economic, social, cultural, scientific, technical and administrative fields;
- mutual assistance in the form of training and research facilities in the field of education, vocational, technical and administrative issues;
- collaboration for getting an efficient use in areas such as agriculture, industry, transport, aiming at raising living standards in member states;
- close and beneficial cooperation with existing international and regional organizations.

ASEAN supports the equitable economic development and dimishing of social disparities and poverty in Member States.

d). Africa :

- ***Economic Community of West African States(ECOWAS):*** created on May 28, 1975**,** and nowadays is formed with participation of the following countries: Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Sierra Leone, Senegal and Togo.

The purpose of this organization is to create „a borderless region where the population has access to its abundant resources and is able to exploit same through the creation of opportunities under a sustainable environment. What ECOWAS has created is an integrated region where the population enjoys free movement, have access to efficient education and health systems and engage in economic and commercial activities while living in dignity in an atmosphere of peace and security"[9].

e). Europa:

- ***European Free Trade Association (EFTA)****:* was established in January 1960 for the purpose of promoting free trade and economic cooperation among its member states . Founding memebers are: Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom. In the long run there were countries that left the organization to join the European Economic Community (EEC). At present the EFTA represents a free trade area whose members are: Switzerland, Island Norway and Liechtenstein.
- ***Central European Free Trade Agreement(CEFTA):***. it was founded on December 21, 1992 with the desire to facilitate free trade and economic cooperation in the region. Founding members were Poland, Czechoslovakia and Hungary. Romania too was a member of CEFTA in the period 1997-2007. The purpose of this union was to prepare Member States for joining the European Union. On December 19, 2006 it was signed the Accession and Modernization Agreement project of the Central European Free Trade Agreement, also known as CEFTA 2006. Currently CEFTA members are: Albania, Bosnia and Herzegovina, Macedonia, Moldova, Montenegro, Serbia, Kosovo.
- ***Commonwealth of Independent States (CSI)***: which was established in December 1991 as an economic union between 11 of the 15 republics of the Soviet Union (the four non-signatory countries at that time being Estonia, Latvia, Lithuania and Georgia). CSI objective is to facilitate the exchange of goods and economic cooperation in the region. Currently CIS members are: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, and Uzbekistan.
- ***European Union (EU)***: is an international economic integration organization and represents the most advanced and extended form of economic union in the contemporary world economy. It is the result of a long historical process and its evolution from the simplest to the most complex form of integration is downright remarkable. This process actually began once the European Coal and Steel Community was established (on May 9, 1950 presentation of the project, and on April 18, 1951 the organization was legally born), knowing several stages and evolving continously. Nowadays EU counts 28 members of which 19 are in the *euro area* using a single currency.

It is widely accepted that the European Union is undoubtedly the greatest success in the regional economic integration, and if it refers to the entire European continent, in terms of economic integration and especially due to the intensity and extension of this process, it can be said that Europe is a superpower at worldwide.

5. Conclusions

Interstate economic integration is one of the essential features of the contemporary world economy. Although a single definition has not been establised yet, all views converge towards the idea according to which economic integration is materialized in an agreement between countries from a certain geographic region and aims at reducing or eliminating tariff and non tariff barriers in order to achieve the free movement of goods, services and factors of production.

A primary goal of economic integration was that of increasing well-being and living standards in member countries, considering that the trade growth in the various forms of economic integration leads to GDP growth of participating countries and therefore to an increase of well-being, of prosperity.

Given the proximity both geographically and as development of some countries, there have been established organizations that have implemented interstate economic integration process, based on different understandings, agreements and negotiations between the participating countries. Interstate economic integration is a natural result, emerged from the desire and need of a group of countries to promote and defend common interests.

This process is based on the desire to create a common space, more efficient from multiple viewpoints and with multiple benefits for the parties involved. First through such a process are formed a large, ample marketplace in which it is unlikely to appear monopolies while competition is amplified. This latter aspect can lead to lower prices, due to manufacturers' desire to be competitive, but also due to the efforts undertaken by them in the use of new more efficient technologies, pay more attention to reducing production costs. Thus, consumers can buy cheaper products. At the same time, manufacturers have the possibility of obtaining benefits from scale economies by expanding the production to the new size of the sales market. The increase of investment opportunities is another advantage of creating broad markets. Given that, in more advanced forms of economic integration, labor can move freely in member countries, employment opportunities increase as well and therefore the employment rate is higher. In terms of political cooperation, this is more effective as a group of nations has greater political leverage in negotiations than each separate state.

In the world economy, there are different stages of integration, and in an advanced acceptance the economic integration does not refer just about market integration, but also the integration of economic policy. Given that the intensity of integration increases, it becomes imperative creating organizational and legally autonomous structures with super-national character that may contribute to achieving in the best conditions of the process of economic integration. In terms of the theory of integration, from simple to comlex, there can be distinguished the following forms of interstate economic integration: free trade area, customs union, common market, economic union, monetary union and complete economic union. Each type reflects a certain level of economic integration.

Organizations of interstate cooperation and economic integration are found in many areas of the globe and are formed with the participation of countries of different sizes and with different stages of development. Out of all these areas it is obvious the scope and achievements of the integrationist process unfolded across Europe, and the European Union is undoubtedly the biggest success of interstate economic integration in the contemporary world economy.

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