THE USV ANNALS OF ECONOMICS AND PUBLIC ADMINISTRATION | VOLUME 20, ISSUE 1(31), 2020

REGIONAL COMMERCIAL BLOCKS AND ECONOMIC INTEGRATION

PhD Student **Claudia Mihaela ENACHI**
"Ștefan cel Mare" University of Suceava, Romania
enachimclaudia@gmail.com

Abstract:
The processes of regionalization and globalization have intensified in the last decade, markets have opened up more than ever and trade has been liberalized under the free trade agreements signed. We could say that regionalization is a stage of globalization, a globalization that still has certain limits, because I do not think it will be achieved at the level of all states. It also feels the need to strengthen the rules at the level of international trade, in order to ensure the fulfillment of the objectives regarding the development of the states and to avoid certain imbalances at the level of the economy of some states. A trade bloc is a type of intergovernmental agreement, often part of a regional intergovernmental organization, in which regional barriers to trade (tariffs and non-tariff barriers) are reduced or eliminated among participating states. In Europe, several regional blocs have been formed to rebuild this continent decimated by the two world wars. Starting from the idea of rebuilding Europe, the European Union was created, an organization that today enjoys great success, being one of the main players in the world. This structure takes on new dimensions from one period to another, seeking not only to liberalize trade at its level, but also to integrate economically by implementing development projects carried out at the level of candidate countries, new entrants or to further develop the economies of founding member states.

Key words: regional integration, economic integration, regional trade bloc.

JEL classification: O01, P10.

1. INTRODUCTION

Regional integration schemes have multiplied considerably in recent decades, and the importance of regional trade, currency and political groups is increasing dramatically. However, regional integration is not a new phenomenon. Examples of unions, associations, pacts, confederations, councils, leagues are often encountered throughout history. Many of them were made for defense and security reasons. The first major voluntary initiatives for regional integration appeared in the 19th century. In 1828, for example, Prussia established a customs union with Hesse-Darmstadt. Half a century later, the idea of European integration was revived and the process of bringing the nation-states into a prosperous and stable economic system began. The first step was taken by the creation of the European Iron and Coal Community (CEFC) in 1952. Regional integration groups are extremely different in terms of the motivations that lead countries to initiate such agreements. Boosting trade between neighboring states, most often, access to a larger market or a source of supply that may become cheaper, compensating for the deficit or surplus of labor (depending on the degree of integration) may be some of economic motivations. Many countries are also animated by political interests. Belonging to an integrationist group can offer security guarantees that should not be neglected. Cultural and historical affinities are also motivations that can underlie the consolidation of regional agreements.

2. THE CONCEPT OF ECONOMIC INTEGRATION

The term economic integration (Machlup, 1977) was formally used for the first time in the documentation of the Marshall Plan - European Reconstruction Program. The documentation was prepared by three American economists: Charles P. Kindleberger, Harold Van B. Cleveland and Ben T. Moore and aimed at "coordinating the program of rebuilding Europe in order to create a strong and economically integrated Europe" (Cini, 2007). At that time, this term covered a wide range of notions such as: economic cooperation, economic solidarity, economic merger and

unification, economic rapprochement. It was not until 1950 that the term began to have a meaning closer to the current definition.

From the perspective of Michelle Cini, the concept of integration can be defined in a general way as “the ability to unify several parts, to succeed in a dynamic process of change, and if we refer to European integration it resembles an association with intensely institutionalized forms of economic and political cooperation, with the aim of achieving a united Europe in a single bloc ”. Other economists (Viner, 1962) and (Haberler, 1993) considered that "integration is in fact a unification of economies, in which a free market is created - removing barriers to facilitate trade."

Economic integration determines the transformation of the contemporary international system and somewhat alters the classical view on the role of the state and on the concept of sovereignty.

Paul Krugman appreciates that geographical proximity gives rise to "natural" trading blocks created between partners that carry a significant part of their business flows.
Jean Weiller - economist of French origin, extends the concept of integration through the perspective of Western-European integration. From his point of view, “integration cannot be associated with a simple assembly, but, in a delimited space, it participates in increasing the possibilities of coordinating the plans of the decision centers, in order to create a unique economic system. To study integration involves raising us above the market level and turning our attention to decisions, anticipations and intentions ” (Weiller, 1998).

European integration is still perceived (Wiener and Diez, 2018) as "a political cooperation, through which common political institutions are developed, by theorizing the constructions - in exchange of identities and interests of the social actors".
Bela Balassa - an economist of Hungarian origin, makes significant contributions by defining the notions of "common market and economic union". It has also made the broadest presentation of the phenomenon of economic integration (Balassa, 1961), arguing that it can be seen as a process through which different countries can set up a regional trading bloc or group.

A topical vision (Bărbulescu and Răpan, 2009) considers “economic integration a process through which EU member states understand progressively transferring (from national to supranational), competences related to national sovereignty, agreeing to exercise them jointly, and through close cooperation in their respective fields of activity, will succeed in achieving political, economic, social and cultural objectives, which pursue the progress and development of the Union and States. "

Economist Balassa distinguishes 5 stages of international economic integration:

a. Free Trade Economic Zone - an agreement between a group of states to remove barriers and double taxation in mutual trade relations. Each state maintains its trade relations with non-members of the zone. At the same time, each country adopts its own trade policy towards countries outside the free trade zone. Such organizations are: European Free Trade Association (EFTA), Central European Free Trade Agreement (CEFTA), North American Free Trade Agreement (NAFTA), Association of South West Asian Countries (ASWAC), Latin American Association of Integration (LAAI).

b. Customs Union - The countries that constitute it decide to progressively avoid customs duties and quantitative restrictions between them and also to progressively replace their individual policies towards third parties with a common external tariff. Among the regional groups that can currently be considered customs unions are:
- ANDIN Pact (Andean Community of Nations)
- The common market of Central America
- Common market of the Caribbean countries
- The Latin American economic system.

c. Common Market - in which obstacles to the free movement of capital, labor, services and people are removed.

d. Economic union - it adds to the characteristics of the common market the harmonization of economic policies in the economic field. The evolution of this Economic Union over time must also include the monetary dimension (eg the EU - the only integration organization at this stage).

e. Total economic integration - implies the unification of fiscal, social monetary policies. This cannot be done without the establishment of a verifiable supranational authority. Towards such an integration tends the EU, the process of economic integration has led to the creation of specific institutions (European Commission, European Parliament, European Monetary Institute and European Central Bank).

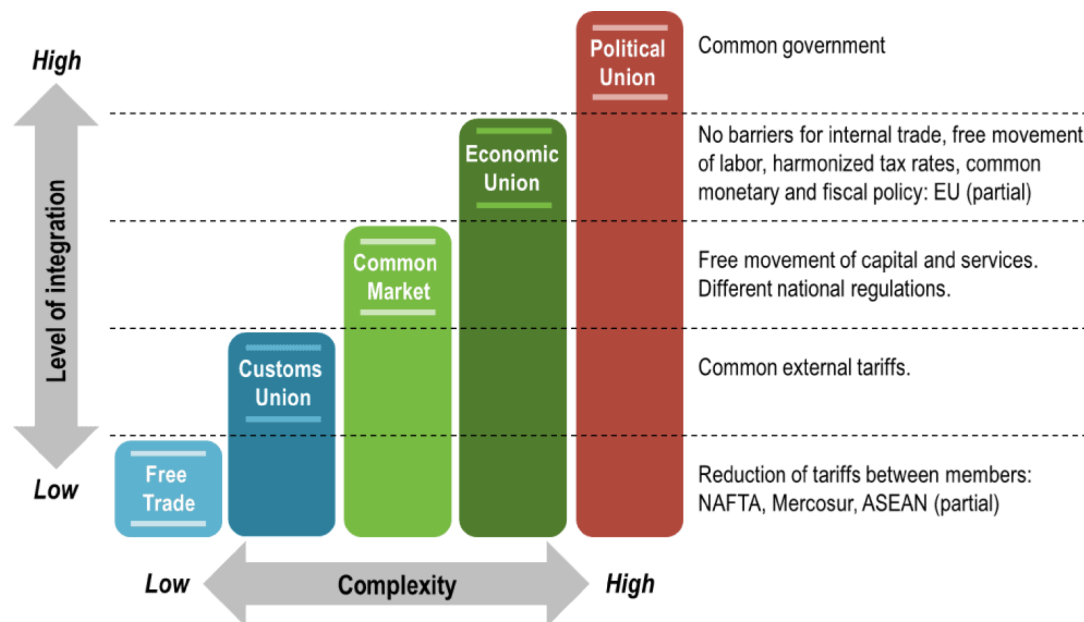

Figure no. 1. Levels of Economic Integration
Source: author's own representation

More than half a century has passed since the first steps on the path to Western European economic integration. Western European countries are taking on unprecedented responsibilities to integrate. These countries were the first to have the courage to embark on a path of economic integration. Based on these countries, the process of interstate integration has developed considerably, through organizations such as:

- European Coal and Steel Community (ECSC);
- European Economic Community (EEC);
- Atomic Energy Community (EURATOM);
- European Union (EU).

The European Coal and Steel Community (ECSC) is a state monopolistic group, formed on the basis of the Treaty of Paris in 1951. It entered into force in 1952. The Treaty was signed by 6 Western European countries: Germany, France, Italy, Belgium. , Netherlands, Luxembourg. The Treaty of Paris provided for the establishment of the ECSC for a period of 50 years. The objective of the ECSC was to create a common market for coal and steel in which free movement and free competition would prevail. The ECSC is the first European organization to have supranational powers. Supranationality applies only to limited sectors.

The European Economic Community (EEC) is a European intergovernmental organization with an integrationist character and established under the Treaty of Rome signed on 25 March 1957, but entered into force in 1958. The Treaty of Rome was signed by the representatives of the 6 Member States of the ECSC.

At the same time, some changes are made in the Treaty on the European Atomic Energy Community (EURATOM). At this moment we can talk about the existence of three European communities. The main objective of the EEC was to create a common market for the free movement of goods, services, capital and people.

Completing a common market involves:

- First of all the commercial, technical, fiscal or administrative barriers between the respective countries should be removed, which is known as negative integration;
- To develop rules on the negative circulation of the 4 components of the market, to have a process of harmonization of national regulations and the establishment and use of common policies, which is called positive integration;
- Permanent adjustment and adaptation to exchanges;
- Removal of any customs control within the area that leads to the full integration of national markets, to the formation of a true international market;
- The single market means the most advanced process of integration in the commercial plan.

3. EUROPEAN UNION

The European Union was established under the Treaty on European Union in 1992 in Maastricht, signed by the member states and governments of the European Communities (ECSC, EURATOM, EEC), which entered into force in November 1993. The headquarters is in Brussels. Relations between the EU countries after this date are based not on the Treaty establishing the European Communities of 1957, but on the basis of the new Treaty on the EU (Maastricht Treaty of 7 February 1992). The European Union has the highest degree of European economic and political integration. After 1951 in seven successive waves of enlargement, the EU reached 27 member countries.

- The first enlargement took place in 1973, where Denmark, Ireland and the United Kingdom were included;
- The second wave in 1981 joined Greece.
- Third enlargement in 1986 - Portugal and Spain.
- The fourth enlargement 1995 joined Austria, Finland, Sweden.
- Fifth enlargement 2004 - Cyprus, Czech Republic, Estonia, Lithuania, Latvia, Malta, Poland, Slovakia, Slovenia and Hungary.
- Sixth enlargement 2007- Bulgaria and Romania.
- The seventh enlargement 2013 – Croatia

The EU includes over 100 developing countries with associated country status. Through its entire system of EU Treaties and Agreements, it represents an important center of economic power of the contemporary world, with a population of 520 million people. The economic potential being very high. The EU is a community of independent European states, united around common political, economic, cultural and social values. The EU has a special mission, namely to organize relations between the Member States and their peoples in a coherent manner and on the basis of solidarity between them.

4. REGIONAL AGREEMENTS

The North American Free Trade Agreement (NAFTA) is an agreement signed by the governments of Canada, Mexico and the United States, creating a trilateral trading bloc in North America. NAFTA entered into force on 1 January 1994 and replaced the Canada-US Free Trade Agreement. NAFTA also seeks to remove non-tariff trade barriers and protect intellectual property rights over products. NAFTA is a heterogeneous conglomerate of states, unequal in economic power and supply. NAFTA does not have supranational bodies. NAFTA is a special form of interstate economic integration between the 3 states and is one of the largest integral markets and at the same time is a direct competitor of the European Union. NAFTA exceeds the EU nearly 5 times as much as the surface, whereas the EU exceeds the NAFTA population. Therefore North America is the largest free trade area but also the most competitive and integrated of the 3 world zones. In fact, one third of the regional trade is carried out within NAFTA. NAFTA is an integration group

that has made possible, within a decade of launch, an economic growth of partners of: 38% for the US, 30.9% for Canada and 30% for Mexico.

The creation of free trade zones also involves sacrifices on the part of members, so that we can see how non-competitive economic sectors disappear, there can be reductions for jobs due to the shift of economic resources to areas that offer greater benefits. NAFTA is responsible for the degradation of the Mexican environment, the loss of the entire industry in New York or Michigan, the mistreatment of workers in the United States, the abandonment of Mexican farms (because of subsidized American products). From an economic point of view, NAFTA is a success. Without it, the United States would not be as strong.

The Common Market of the South (MERCOSUR) is an international organization in South America founded in 1991. The member countries are Argentina, Brazil, Paraguay, Uruguay and Venezuela. Chile, Colombia, Ecuador and Peru have been associate members since 1996. Bolivia and Venezuela were invited to become full members in 2005. Mercosur's overall objectives are: to increase yield and productivity for the four economies, with the opening of markets and accelerating economic development; better prospects for more judicious use of available resources; environmental conservation; improving communications; harmonizing and coordinating macroeconomic policies and complementing different industries.

Asia-Pacific Economic Cooperation (APEC) comprises 21 members: Australia, Brunei, Canada, Chile, China, South Korea, Philippines, Hong Kong, Malaysia, Mexico, New Zealand, Taiwan, Thailand, Singapore, USA, Peru, Russia, Vietnam. APEC accounts for about 60% of the world economy, and which discusses the regional economy, cooperation, trade and investment.

We note that NAFTA has set as its main objective the creation of a free trade area, while MERCOSUR (Southern Common Market) has been much more ambitious, wanting, in addition to the creation of a free trade area, a customs union and a coherent policy for a common market. The European institutional framework is complex, with many bodies and agencies, while other regional trading blocs do not have such a framework. In the Asian market, the European Union is rather under represented, compared to its presence on the North American market. Therefore, the goal of the European Union is to secure a segment of the evolution of the Asian market in the next decade, in order to maintain its important position in the world economy.

The effects of regional trade blocks can also be analyzed in several directions, such as:

- The effects of creating trade. The liberalization of trade within the regional trading bloc has effects of creating trade, allowing cheap sources of supply to replace the less efficient ones. The effects of trade creation are even greater, and those of trade diversion all the less: trade between states was stronger before the bloc was formed, partners have a higher level of development and a more diversified economy, the proximity the prices of products traded within the group compared to world prices is higher, the level of customs duties before the formation of the group was higher, countries are large, the level of extra-group duties is lower.
- Revenues from customs duties. The reduction or elimination of customs duties determines the development of other alternatives (VAT) to compensate for the reductions in budget revenues. Involvement in such agreements involves the restructuring of the customs and tax system, which in many cases involves a harmonization of these systems between members of the group, with beneficial effects, but also with short-term costs.
- Foreign direct investments. In general, the effects are beneficial, because regional trade agreements involve a larger market, a harmonized legislative framework, elements favorable to investments.
- Competition. Regional trade blocs are driving increased competition, which has an effect on increasing efficiency and eliminating monopolies. Also, premises are created for the emergence of economies of scale, free access to a larger market, for the initiation of economic reforms, with direct effects on the growth of competition, for integration at the firm level (as in the case of NAFTA). On the other hand, the establishment of barriers for those outside the group has the effect of reducing competition.

I consider it appropriate to highlight some of the advantages and disadvantages of free trade agreements. I tried to refer to Romania to better highlight the effects of regional trade blocks. Among the advantages I mention:

- Better prices and a wider variety of products: eliminating import duties has the effect of reducing the prices on the shelf for consumers. Also, in the absence of these import taxes, the number of foreign companies tempted to offer their products in Romania is higher, so we have a higher offer. And strong competition, in turn, causes prices to fall.
- Jobs for export companies: a Romanian company has the possibility to export products to the EU without additional costs, so there is the potential to significantly increase sales. The effect is an increase in the number of jobs to cope with higher production, which means a reduction in unemployment.
- Generates economic growth: the increase of the aforementioned production contributes to the economic growth of Romania. Also, the drop in prices generates an increase in consumption, which in turn translates into economic growth (it is true, not a very healthy one in the long run). In addition, the level of foreign direct investment is significantly higher in a country with such trade treaties.

On the other hand, there are a number of disadvantages associated with free trade agreements. However, these are especially true for developed countries, and the most eloquent example is that of large companies that prefer to relocate their factories to emerging countries, such as Romania, in order to have lower production costs. Fortunately, Romania is still free from such problems, but there are a number of other disadvantages:

- Local producers and small businesses are affected: the entry of multinationals on the market with imported products has negative effects on local producers and small businesses. The latter are forced to enter a price war in order to remain in the market, and this reduces their competitiveness and long-term growth prospects. In some cases, small businesses are even forced to disappear from the market, in which case certain product segments may be monopolized by multinationals.
- Economic dependence: closely related to the first point, a country unable to have its own industry or its own products, whatever they may be, will end up becoming dependent on foreign companies. And such a monopoly subsequently has negative effects on prices, the exact opposite of the situation at the beginning of the application of a free trade agreement.
- Less concern for the environment: organizations fighting for environmental protection argue that one of the measures companies take to reduce costs and remain competitive in the European free market is to comply with environmental regulations. Especially in a country like Romania, these are often avoided in one way or another, and this affects us all.

Table no.1. Free trade agreements

Benefits	Disadvantages
• reduced prices; • a wider variety of products; • the number of foreign companies is higher (a higher offer); • strong competition (falling prices); • increasing the number of jobs (decreasing unemployment); • economic growth (by increasing consumption).	• local producers and small businesses are affected (due to multinationals); • dependence on foreign companies; • monopoly of the multinationals that dictate the price; • non-compliance with the environment.

Source: author's own representation

5. CONCLUSIONS

The European Union is always trying to maintain its global position in the face of emerging economic and geopolitical challenges, seeking to formulate strategies to increase competitiveness. Trade blocs unite several international markets, producers and other companies in member

countries. As commercial blocks eliminate trade barriers, expensive or previously unavailable products have become available in new markets at affordable prices. This changes consumer demand and behavior, as most customers turn to the lowest priced products. Producers and companies with the lowest prices are able to increase production, which leads to market efficiency. As these economies become stronger, they encourage foreign direct investment. Belonging to a trade bloc can effectively diminish a country's political autonomy. Another disadvantage of commercial blocks is that small businesses and local businesses are often subject to failure.

As the level of economic integration increases, so does the complexity. This involves a set of numerous regulations, enforcement, and arbitration mechanisms. The complexity comes at a cost that may undermine the competitiveness of the areas under economic integration since it allows for less flexibility for national policies. The devolution of economic integration could occur if the complexity and restrictions it creates, including the loss of sovereignty, are no longer judged to be acceptable by its members.

The Covid-19 pandemic is certainly having a major impact on regional trading blocs. In the future I propose to analyze the evolution of commercial blocks and their ability to adapt to new challenges.

6. BIBLIOGRAPHY

1. Allen, R. L. (1963). Review of The theory of economic integration, by Bela Balassa. Economic Development and Cultural Change 11 (4): pp. 449-454
2. Balassa. (1961). *The Theory of Economic Integration.* Homewood: Richard D. Irwin, Inc.
3. Bărbulescu and Răpan. (2009). *Dicționar explicativ trilingval Uniunii Europene.* Iași: Polirom.
4. Burns, L. S. 1987. Regional economic integration and national economic growth.Regional Studies 21: 327–43.
5. Cini. (2007). *European Union Politics* (2 ed.). Oxford: Oxford University Pres.
6. Duina, Francesco (2007). The Social Construction of Free Trade: The EU, NAFTA, and Mercosur. Princeton: Princeton University Press.
7. Haberler. (1993). *The Liberal Economic Order.* London: Edward Elgar.
8. Lindberg, Leon N., and Stuart A. Scheingold (eds.) (1971). *Regional Integration: Theory and Research.* Cambridge: Harvard University Press. HYPERLINK "https://en.wikipedia.org/wiki/ISBN_(identifier)" \o "ISBN (identifier)" ISBN HYPERLINK "https://en.wikipedia.org/wiki/Special:BookSources/978-0-674-75326-6" \o "Special:BookSources/978-0-674-75326-6" 978-0-674-75326-6
9. Machlup. (1977). *A History of Thought on Economic Integration.* London: Macmillan Press Ltd.
10. Shikova, I. (2011). Policies of the European Union. PH "Sv. Kliment Ohridski", Sofia. (in Bulgarian)
11. Viner. (1962). Relative Abundance of the Factors and International Trade. *Indian Economic Journal*.
12. Weiller. (1998). *Economie internationale hier et aujourd'hui. Crises – ruptures et desequilibres dans les relations internationales.* Grenoble: Presses Universitaires de Grenoble.
13. Wiener and Diez. (2018). Introducing the Mosaic of Integration Theory. *KFG Working Paper Series*, 4.