THE ECONOMICS OF INTERNATIONAL INTEGRATION

Fourth edition

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ROUTLEDGE

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CONTENTS

FIGURES AND TABLES

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TABLES

ABBREVIATIONS AND ACRONYMS

APEC	Asian Pacific Economic Co-operation
AFTA	ASEAN Free Trade Area
ASEAN	Association of South East Asian Nations
BLNS	Botswana, Lesotho, Namibia and Swaziland
CACM	Central American Common Market
CAP	Common Agricultural Policy
CARICOM	Caribbean Community
CARIFTA	Caribbean Free Trade Area
CEAO	Communauté Economique de l'Afrique de l'Ouest (Economic Community of West Africa)
CEC	Commission of the European Communities
CEEC	Commission of the European Economic Community
CET	Common External Tariff
CFA	Communauté Financière Africaine
CMEA	Council for Mutual Economic Assistance (COMECON)
COMECON	See CMEA
CU	Customs Union
CUFTA	Canada—US Free Trade Agreement
EAC	East African Community
EAGGF	European Agriculture Guidance and Guarantee Fund
EC	European Community
ECB	European Central Bank
ECCM	Eastern Caribbean Common Market
ECOWAS	Economic Community of West African States
ECSC	European Coal and Steel Community
ECU	European Currency Unit
EDF	European Development Fund
EEC	European Economic Community
EFTA	European Free Trade Association
EIB	European Investment Bank

EMS	European Monetary System
EMU	Economic and Monetary Union
ERDF	European Regional Development Fund
ERM	Exchange Rate Mechanism
ESCB	European System of Central Banks
EU	European Union
FTA	Free Trade Area
FTAA	Free Trade Area of the Americas
FDI	foreign direct investment
GATT	General Agreement on Tariffs and Trade
GSP	Generalized System of Preferences (for developing countries)
IMF	International Monetary Fund
LAFTA	Latin American Free Trade Association
LAIA	Latin American Integration Association
MERCOSUR	Mercado Común del Cono Sur (Common Market of the Southern Cone)
NAFTA	North American Free Trade Agreement
NAIRU	non-accelerating inflation rate of unemployment
OECD	Organization for Economic Co-operation and Development
PPS	purchasing power standards
SACU	Southern African Customs Union
TEU	Treaty on European Union
TNC	transnational corporation
UDEAC	Union Douanière et Economique de l'Afrique Centrale (Customs and Economic Union of Central Africa)
UEMOA	Union Economique et Monétaire Ouest-Africaine (West African Economic and Monetary Union)
UMOA	Union Monétaire Ouest-Africaine (West African Monetary Union)
VAT	Value Added Tax
WTO	World Trade Organization

NOTE

The 1992 Treaty on European Union established the European Union. The European Community is the pillar or dimension of the Union which is concerned with economic integration. The term European Union is in general use to refer to all activities undertaken by the Union unless legal enactments concerning the institutions or individual treaties are in question. In this volume, for simplicity, this practice has been followed.

Strictly speaking, there are three European Communities: the European Community (prior to 1992 formally termed the European Economic Community); the European Coal and Steel Community; and the European Atomic Energy Community. Since 1967 there has been a single Commission and a single Council for all three.

PREFACE

This book sets out to provide a concise and accessible introduction to the economics of international integration. Its main concern is with the analytical framework that has been developed for throwing light on the central policy issues of regionalism, both from the standpoint of the group, and from that of its component member states. Global and systemic implications of regional integration are largely left aside. At the core of the subject is the theory of customs unions that originated in the writings of Jacob Viner and others half a century ago. That theory remains basic, but it is only one part of the apparatus that is required today to analyse the many issues that arise in contemporary forms of regional economic integration. These go far beyond those addressed in the traditional theory of customs unions or free trade areas and concern not only those that arise in common markets but also others posed by policy integration in other key areas, notably taxation and fiscal and monetary policy. The analysis of the distributional aspects of integration in its spatial dimension, largely ignored in orthodox theory, has also become an important component of the subject.

During the past decade or so, substantial changes have taken place in the analysis of regional integration. One of the most important is that, in its analysis of welfare gains, the traditional perfect competition approach has been supplemented by models that allow for imperfect competition, economies of scale and product differentiation. This development has considerably modified the views of economists both on the rationale for regional integration and its gains. Scale economies both internal to the firm and external are also central to newer models of the spatial aspects of integration. The embodiment of these and other, newer currents of thought into the analysis of international integration is not yet fully consolidated. This revised edition reflects central elements of those recent contributions that form part of the emergent mainstream and places them in historical perspective.

It has often been remarked that the theory of international economic integration has been policy-driven. The initiatives of the EU have provided the principal driving force and inform much of the theorizing. The analysis that has emerged is nevertheless of far wider application. Few of the propositions of the modern theory of international integration are EU-specific, although some of the strategies that have been developed for the EU would not necessarily be transferable or of interest, elsewhere. The experience of the European Community (since 1992 the European Union) and its approaches to key issues in any case merit attention beyond its borders, since the EU is the world's most highly developed example of regional integration and its policies and strategies are far and away the best documented and the most intensively scrutinized. Many of those policies will doubtless continue to furnish guidelines to other blocs as they have in the past. The EU context is discussed in each of the chapters dealing with the new economics of market integration, TNCs and fiscal, monetary and spatial issues.

The literature of regionalism has grown very rapidly since the middle of the last decade, reflecting the renewed policy concern with the subject in Europe, the western hemisphere and beyond. In undertaking this revision to take account of recent analytical contributions, empirical evaluations and institutional progress, the summing-up has necessarily had to be highly selective. Lack of space has ruled out discussion of a number of important topics. It is believed nevertheless that a balanced appraisal is presented. Those who wish to penetrate more deeply into the subject will find a guide to more specialized theoretical and empirical studies in the list of references and the select bibliography.

For this edition, the main structure of the book has been left unchanged, but two new chapters have been added and others deleted mainly to reflect new or neglected perspectives. The emergence of newer analytical perspectives on market integration which emphasize pro-competitive effects rather than comparative advantage is reflected in the chapter on the 'new' economics of market integration. The second new chapter deals with the significance for regionalism of the ability of transnational corporations, by internalizing transactions, to bypass the market on which the effects of integration in the orthodox model depend. Another substantially new chapter, which deals with regional integration initiatives in a global perspective, looks at the context and objectives of the main new regional initiatives of the past decade, including the North American Free Trade Agreement. The chapter in the last edition dealing with integration among planned economies and COMECON has been deleted, since it is today of purely historical interest.

In the course of writing successive editions of this book I have incurred many intellectual obligations to academic colleagues and others that are too numerous to acknowledge adequately here. I therefore limit myself to thanking specifically those who have made helpful comments on the major changes for this edition. In St Andrews, I wish first to record thanks to Christopher Jensen-Butler. Outwith St Andrews, my particular thanks are due to Michael Keen, Anthony Thirlwall and Ian Wooton. In revising the chapter on monetary integration I have benefited from the collaboration of my colleague David Cobham. The analytical structure and thrust of that chapter remain largely unchanged, but the issue of time consistency is specifically addressed and the account of recent developments in the EMS has been completely recast, drawing in particular on studies by Cobham. He has agreed to allow his name to be associated with the revision of that chapter, for which we take joint responsibility.