KEY FEATURES AND REGIONAL TRENDS OF ECONOMIC INTEGRATION

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Abstract*: In today's world, various forms and degrees of regional economic integration represent an important determinant of overall international relations, and the formation of regional economic integration has different effects on countries within and outside of the integration. In addition, of strengthening the position of its member countries, creation of economic integration leads to internal liberalization and increase mutual economic relations among member states and the final effect of an increase in profits of each country and the economic integration of all countries. They are, in fact, the link in the chain of interdependence of states and an important mechanism through which is realized by intensifying globalization of world economy.*

Keywords*: economic integration, globalization, EU, trade*

1. INTRODUCTION

Regional economic integrations are the result of the increased connectivity of two or more national economies into one economic and political area in which you reduce obstacles and increase the free movement of people, goods and capital. The motives for the formation of integration are the use of economies of scale, prosperity, security, population, increase productivity and efficiency, and the conditions that lead to their emergence as modern technology, mobility of production factors, goods and services, modern communication systems and so on. Regional integrations have different institutional forms, from the simplest to most complex. Most elementary form of regional integration is a preferential trade agreement, by which the parties undertake to apply to trade at lower tariffs than those applied to imports from the other, or "third countries". As a rule, preferential trade agreements are the first step toward higher forms of regional economic integration of countries.

Free Trade Area - FTA is a form of economic integration that establishes a group of countries signing FTAs. Trade between Member States is conducted freely, provided you retain an independent customs system for trade with non-member countries (establishing their own tariffs on imports from third countries, etc.). Examples of a free trade zone are EFTA and NAFTA. The agreement may contain an exemption for certain products (e.g., agriculture), and possible differences in the level of development of member countries. Customs free zones apply only to goods with certification that they are produced in a member country. By applying the rules of origin, the possibility of using differences in tariff rates are prevented, i.e. redirected through the country of import customs with the lowest rate

The most common manifestation of regional economic integration is the customs union. Customs union is an agreement between countries on the abolition of customs duties in trade between, and the introductions of a common customs tariff to third countries. The effects of creating a customs union eventually exhaust and because of that, the regional integration process is heading to higher forms. The economic effects of customs unions are shown as trade creation or trade diversion. The effect of trade creation is achieved by creating or increasing the trade between EU member states with the reorientation of products of the partner country with high costs to the products of the partner country with low production costs. Trade diversion effect is achieved by replacing trade with non-member countries with members of customs union. This happens because the prices of goods duty free member is lower than non-member price of goods, and includes duties of which the goods is obtained.

The common market implies a fully integrated market space, not only in terms of completely free internal trade in goods and services, as well as the customs union, but also in terms of free movement of labor and capital. Free movement of labor implies the right of residence and employment in any member country of the common market, and mutual recognition of acquired professional and technical qualifications. Free movement of capital means the flow of capital from one country to another party without any exchange controls, as well as the right to work in any member state. The most successful example is the EU common market. Full or complete economic union formed by agreement of countries to create a common currency, to maintain a single economic policy and to educate the supranational institutions with supranational powers and represents the final step toward full economic integration.

2. ECONOMIC INTEGRATIONS - THE CONSEQUENCES OF THE GLOBALIZATION PROCESSES

Regional economic integration is, despite some of their indisputable autonomous determinants, as an integral part of the world economy. Each of the existing regional economic integration in the world is a rival and partner-oriented, striving to be the greater, and to change and expand its limits, to be globalized. Thus, for example, the EU moves its borders towards the Eastern and Southeastern Europe. None of the existing regional economic integration, no matter how big it is, is not self-sufficient, but depends on "the rest of the world." Therefore, the existing integration between already established or are in the process of establishing special relations of economic and other cooperation. Economic integration usually occurs in two ways. The first is the political will of the state that is strong enough to impose such an idea (e.g. the Roman Empire, or the European colonial powers of XVIII and XIX century). The second is based on an agreement between sovereign states. It is a common way of creating integration in the twentieth century, and usually involves some kind of institutional forms of association. Economic integration began to develop immediately after the war under the influence of international economic factors that have sought post-war reconstruction and unification of Europe, the decolonization process and increase the number of countries in the world, the effort of the poor and developed countries to accelerate economic development.

The formation of certain associations in the world was a reflection of institutional polarization of the world after World War II. Post-war development of economic relations among European states took place mainly between neighboring countries with similar political views. With the development of transport, telecommunications and computer links between the countries and the reduction of ideological barriers between the political blocs in the world appeared a new era in international economic relations. The boundaries are losing their role, and in such globalized international economic conditions, exchange of national frameworks of small and medium-sized countries are becoming insufficient for a rational and efficient development of a successful transfer, adapt and develop their own knowledge and technology, as well as for successful inclusion the international division of labor. Thus, the financial capital of the world's leading managed to connect each point (the national economy, the company) on the globe, into one, the global village.[1] Although the G7 countries still dominate the global economy, the BRIC countries are rapidly catching up and now can be compared to anyone other than the United States. Goldman Sachs has predicted that by 2050, only the U.S. and Japan will be among the six largest world economies, as seen in dollar value, and the world's largest economies will be China, not U.S.

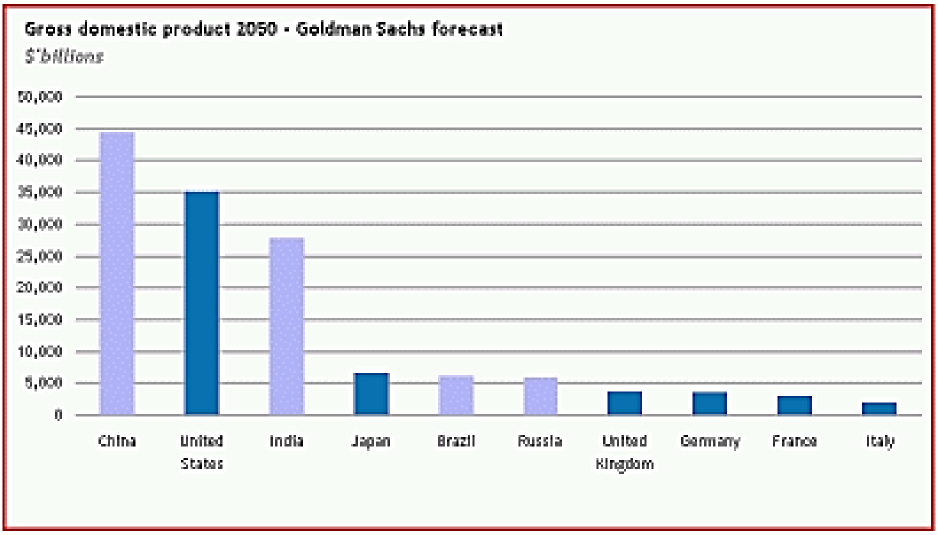


Figure 1: Prediction of the degree of development of world economy by 2050

The multinational companies fit their interest in the national interest as much as possible, although there is some conflict of interest. The multinational companies want to maintain their autonomy in order to achieve maximum profit interests, and it is also possible that in some countries, multinational companies are the engines of development and those that lead to the grave consequences of their business. Today it is usually about the global economy, multinational companies in the economy, which after ‘80s of the 20th century, control over 50% of world production, 2/3 of world trade, 3/4 of the international transfer of technology, with a tendency of further growth.

Although globalization is aimed at creating a single world market, it carries with it some very significant negative consequences, especially for the underdeveloped countries of the world. Thus, for example, most trade takes place within the three integration units - regions (North American Union, the European Union, and Asian Union) and not between countries

[1]Pečujlić, M., (2000), *Globalizacija - dvalikasveta,* Savremenaadministracija, Beograd, p.126

belonging to different integration entities. Research shows that OECD countries will rather purchase goods from their country than to buy such goods in another country. This means that most trade takes place within the three regions, and not between all regions, suggesting that there are significant differences in the prices of identical products in different countries.

3. CHARACTERISTICS AND TRENDS OF REGIONAL INTEGRATIONS

In today's global conditions, the perception of the economic environment is important to a country's participation in regional integration, given that a growing number of countries on that basis organized its economy. The formation of regional trading arrangements, whether in the form of integration or in terms of the agreement, was intensified in the late 20^{th} century, and the economic public attention once again activates the forgotten relationship between regionalization and globalization. Basic characteristics of the process of regionalization in the past decade, we point out in three dimensions:

- Expansion of existing regional trade agreements, in the sense that the first of these agreements relate only to trade restrictions such as tariffs and quotas, and the latest trends are increasingly expanding to other areas, such as health and environmental standards, intellectual property rights and the like. Orientation to new areas of cooperation leads to the evolution of existing agreements; where as a classic example is the European Union, which has evolved from a common market across the European Union, the EMU.
- Expansion of existing regional trade agreements, i.e. more frequent tendency of a signatory countries of an access and other agreements
- Creation of new regional trade agreements or "waking up" of the existing ones. An example is Central American Common Market, which was founded in 1960, but was weakly active up to 1993.

In the last decade of the twentieth century, there has been a great increase in the number of regional trade arrangements. Although there were plenty of suggestions and attempts to form a free trade area or customs union, during the 60's, then regional integration had not have so significant a role as it is today. However, since the eighties, regional integration have begun to create a European area and beyond. Today, virtually there is no country WTO member, which is not connected at least to one preferential trade agreement. Approximately one third of current regional trading arrangements are applicable to countries that are under development. Number of regional trade arrangements between developed and developing countries over the years increased, while in the process the EU had a dominant role. EC (European Community) as a precursor to the EU has been a pioneer in introducing preferential trade relations. EU trade preferences have played a significant role in shaping trade relations with former colonies of some EU member states. Today the EU is performing duty free, quota free trade with the majority of products with a large number of countries, including the Western Balkans countries.

New regionalism is a new global trend, characterized by the intertwined network of regional units. For example, APEC forum represents developing of economic links between economic integration. It brings together members countries of ASEAN and NAFTA, as well as a number of very significant economies in global terms. Unlike other regional groupings, APEC does not require the establishment of a customs union or free trade, but seeks to achieve a reduction of tariffs and other trade barriers with the most favored nation clause. According to available information and certain assumptions (if all the negotiations now taking place around the emergence of new regional trading arrangements, soon brought to a successful end), one might expect that more than 50% of world trade is conducted under the auspices of regional trade agreements. Modern features of international economic relations is a growing trend of bilateral trade arrangements with geographically distant countries or regions, as well as participation in preferential trade arrangements, those countries that have for years remained by the side of these developments. As regards the first, best example is the EU, which concluded a preferential trade agreement with Mexico, Chile, South Africa and many other countries of Africa and the Middle East region. As for the countries that recently joined the trend, leading among theme is Japan, which signed a free trade agreement with Singapore in 2002. Japan is also considering entering into negotiations for preferential trade with Canada, Chile, Mexico and the Philippines.

Regional integration has great benefits when they do not have solely an internal orientation, i.e. when they are based on non-discrimination, transparency and complementarities of the liberalization of most favored nation clause. In seeking reciprocal liberalization, the state can be focused on only to geographically close countries and regions, but also to the global trading system as a whole. Global approach is fundamentally superior, because it maximizes the number of foreign markets to avoid discrimination against trading partners, which also confirmed the operation of GATT and the WTO.[2]

The following table 2 presents the major regional trading arrangements in the world. Regarding the number of Member States, the largest regional integrations are the European Union (27), APEC (18), and ECOWASP (16). Their internal relations are different, although the most important criterions are the economic potential and the integration volume, according to which the EU is by far at the first place.

Table 1. Significant regional integrations in the world

EU (European Union)	Belgium, Luxembourg, Netherlands, Germany, France, Italy, Denmark, Ireland, Great Britain, Greece, Spain, Portugal, Finland, Sweden, Austria, Czech Republic, Slovakia, Poland, Estonia, Latvia, Lithuania, Hungary, Slovenia,Malta, Cyprus, Bulgaria, Romania
APEC (Asia-Pacific Economic Cooperation)	Australia, Brunei, Canada, Chile, China, Hong-Kong, Indonesia, Japan, Malaysia, Mexico, N. Zealand, Papua, N. Guinea, Philippines, Singapore, J. Korea, Taiwan, Thailand, United States
NAFTA (North American Free Trade Agreement)	Canada, Mexico, USA
AFTA-(ASEAN Free Trade Area)	Brunei, Indonesia, Malaysia, Philippines, Thailand, Singapore, Laos, Vietnam, Cambodia, Myanmar
ANCOM (Andean Common Market)	Bolivia, Colombia, Ecuador, Peru, Venezuela
CACM (Central American Common Market)	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua
CARICOM (Caribbean Community)	Antigua, Bahamas, Barbados, Belize, Dominican republic, Granada, Guyana, Jamaica, Montserrat, St. Kits&Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad, Tobago

[2] For example, if a country reduces tariffs on imports from other countries, it must giveequal treatment to all other states. This principle is well known in economic theory, because if the country reduce the tariffs on non-discriminatory basis, will have more benefits than if cut them in a few countries.

EFTA (European Free Trade Association)	Iceland, Liechtenstein, Norway, Switzerland
ECOWAS (Economic Community of West African States)	Benin, Burkina, Faso, Cape, Verde, Gambia, Ghana, Guinea, Guinea Bissau, IvoryCoast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo
GCC (Gulf Cooperation Council)	Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE
MERCOSUR (Southern Common Market)	Argentina, Brazil, Paraguay, Uruguay
LAIA (Latin American Integration Association)	Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela

Source: Popovic-Avric S. (1988), Rakita B. (1993), revised data for the EU-27

Impact of existing integration of world trade is extremely complex. They often represent a strong incentive to structural reforms of Member States (e.g. the EU and NAFTA) and some of them offer the possibility to Member States to make the first steps toward a broader process of integration into the global economy. In most cases, progress made in the elimination of intra-regional trade barriers in the Member States easier access to world markets. In some areas, such as technical regulations and standards, processes of regionalization have achieved faster and deeper liberalization than would be possible at the multilateral level. Some aspects of regionalism at the same time causing concern, especially when it comes to customs preferences, which are guaranteed by the Member States, when imposing complex rules of origin, to protect regional preferences, and when access to new members led by increasing tariffs by the existing members. In addition, the strength of regional groups may discourage smaller member states to adopt more liberal multilateral trade policy measures.

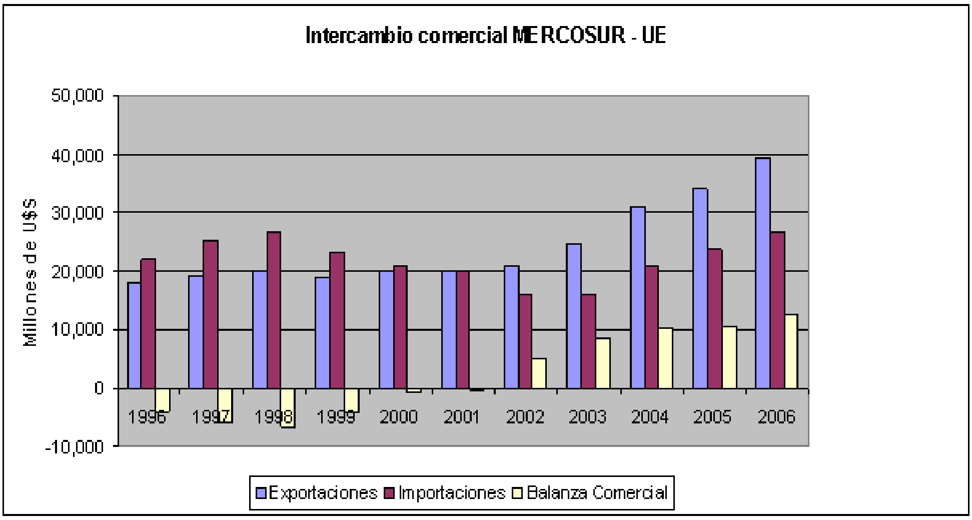
4. SOUTH AMERICAN INTEGRATIONS (MERCOSUL)

MERCOSUL (*Mercado Comun do Sul*, Portuguese) and MERCOSUR (*Mercado Común del Sur*, Spanish) is a regional trade agreement (*Regional Trade Agreement* - RTA) between Brazil, Argentina, Paraguay and Uruguay, as the most important segment of the overall process of economic and political integration of South America.[3] MERCOSUR was established in the Treaty of Asunción, capital of Paraguay, 26 March 1991. Treaty of Asuncion was updated 16 December 1994, with the Protocol of Ouro Preto, a town of historical importance in Minas Gerais, the Brazilian state. MERCOSUR became a customs union (free trade zone with common external tariffs). Bolivia, Chile, Colombia, Ecuador and Peru currently have associate member status of MERCOSUR - and, in accordance with the agreement, MERCOSUR and the Andean Community (CAN) since December 2004. Venezuela has signed a protocol on joining the MERCOSUR (Protocol Adesão de da República Boliviana da Venezuela ao MERCOSUR), 17 June 2006, but the parliaments of Paraguay and Brazil have not yet ratified, which is the condition of its full membership. Mexico has the status of the state - observer in MERCOSUR.
With an area of 11.9 million km2, MERCOSUR represents 70% of the territory, 64% population and 60% of the total GDP of South America. MERCOSUR has established

[3] Unković, M., (2009), *Međunarodna ekonomija*, Univerzitet Singidunum, Beograd., p. 281

special economic relations with all relevant partners in the world, global and regional organizations and integration as well as individual states, especially the economically strongest one (U.S., EU, China, India, Japan, Russia, etc.), expanding its presence in world markets.

Figure 2: MERCOSUR-EU Trade



Source: www.monografias.com, integracion-mundial-Mercosur

The main objective of the establishment of Mercosur is to promote free trade and free flow of goods, people and capital, aiming to become a common (single) market with a single currency, modeled on the European Union, to valorize its abundant resources on the world market, and to be a partner with other global economic powers, especially the U.S. and EU.[4]

RESUME

Effects and net benefits from the integration of measures with balance of trade creation between member countries and the effects of loss or trade diversion with third countries. Trade creation occurs when domestic production replaces imports from member countries of the given agreement, in which a given product produced at lower cost. Trade diversion occurs when imports from countries with lower costs, which is outside the regional trade agreement, is replaced by imports from countries with higher costs, which is located within a regional trade agreement. Creation of trade increases the welfare of member countries and thereby does not cause the loss to non-member countries. The benefits of trade decreased for the creation of losses from trade diversion are static benefits of economic integration. Dynamic benefits of economic integration are much more important. Economic integration creates a dynamic use if it leads to economies of scale, rapid technological changes and the mobility of production factors in common, the broader market.

[4] Todorović J., (2008), *Implikacije mtemacionalizacije poslovanja na strategiju i strukturu preduzeća*, Zbornik radova, Ekonomski fakultet Beograd, p. 111

The success of any regional economic integration depends on the nature of the relationship that is built. Fair economic relations among member states guarantee the integration of its progress. Integration requires a degree of equality among the participants. In that context, the regional economic integrations are, despite some of their indisputable autonomous determinants, are an integral part of the world economy. Regionalization and globalization are presented as complementary rather than divergent processes. Regional economic integration is, in fact, the link in the chain of the growing interdependence of states and international actors of the market scene, one of the important mechanisms through which it realizes intensive globalization of the world economy. Regional economic integration is the economic basis of global trade, which fosters universal economic competitiveness of the benefits that consumers have in the world. Many regional agreements have made significant contributions to economic prosperity and political stability.

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