REGIONAL INTEGRATION AND EMERGING MARKETS

BACHELOR OF INTERNATIONAL BUSINESS

YEAR ONE

SEMESTER 2

NOTES ON REGIONAL INTEGRATION

Regionalism is not a new phenomenon. Its origins have been traced back to 19th -century Europe, but a significant milestone was reached more than a century later when the Treaty of Rome establishing the European Community was signed in 1957. The European Community (EC) was an economic association formed by six European member countries in 1957 (Belgium, France, Germany, Italy, Luxembourg and Netherlands), consisting of three communities that eventually were replaced by the European Union (EU) in 1993. The European Community dealt with policies and governing, in a communal fashion, across all member states (Investopedia,2021).

Furthermore, The Southern African Customs Union, set up in 1910, is the first attempt at regional integration on the continent, and among the oldest in the world. SACU consists of Botswana, Lesotho, Namibia, South Africa and Swaziland (Eswatini). Negotiations to reform the 1969 Agreement started in 1994, and a new agreement was signed in 2002. The new arrangement was ratified by SACU Heads of State.

What is Regional Integration?

Regional integration is an arrangement between two or more countries to cooperate, through formal, regional rules and institutions, to: overcome barriers to the flow of goods (by reducing tariff and non-tariff barriers), services, capital and people across borders, manage shared resources, and/or achieve peace and security in the region. Therefore, we can comfortably conclude that regional integration may be motivated by **economic**, **political**, **social** and **other strategic factors**, and these may change as integration advances. For example, it is well known that regional integration in Africa was initially driven by political rhetoric around Pan-Africanism during colonial times; however, economic considerations now seem to have taken over.

Conditions necessary for successful regional integration

The following are the conditions necessary for successful Regional integration

1. The creation of an appropriate enabling environment both economically socially and politically. There should be political stability among cooperative countries so as to ensure smooth operation of the regional activities. Also having broad reforms to open markets to enable the flow of goods and services.
2. Geographical proximity i.e. countries coming together into an integration should be geographically close to one another or should share common boarders in order to effect preferential treatment to each other.
3. Political and civic commitment and mutual trust among countries. There should be strong political will or similar political organisation among cooperative countries i.e. commitment by leaders and their population.
4. Common and same ideology i.e. they should have common historical background and ideology so as to harmonise their social economic policies e.g. socialism, capitalism and mixed economies.
5. They should be at the same level of development so as to ensure fair flow of resources otherwise resources would flow from less developed countries to developed countries. For example, the integration process has moved fast because all countries are almost at the same level of development.
6. Development of infrastructure: it is important that countries joining a regional bloc have adequate and well developed infrastructure to ease the production processes and to contribute towards a fast movement of goods and services.
7. The development of strong public sector institutions
8. The reduction of social exclusion so that all citizens can equally participate in regional integration.

9. Peace and security in the region: this promotes growth in the countries. If countries are not peaceful and are insecure, a huge amount of resources will be used to solve these issues instead of investing resources towards the growth of the country
10. The strengthening of the region's interaction with other regions of the world. This is important as well because having a good relationship with other countries means that you can learn from them
11. Macroeconomic stability and good financial management
12. Having a common language for example Kiswahili in the EAC contributes to successful regional integration.

Advantages of Regional Integration

- Trade gains (Regional economic integration is only beneficial if the amount of trade it creates exceeds the amount it diverts) (Trade creation refers to an increase in economic welfare from joining an FTA like a customs union. These agreements create more opportunities for countries to trade with one another by removing the barriers to trade and investment. Due to a reduction or removal of tariffs, cooperation results in cheaper prices for consumers in the bloc countries. Studies indicate that regional economic integration significantly contributes to the relatively high growth rates in the less-developed countries)
- Increased returns and increased competition (it is expected that market enlargement would allow firms in some sectors to exploit more *economies of scale*. *Competition* may lead to the removal of inefficient firms).
- Attracts investment
- The need to access larger markets
- More rapid spread of technology
- Prevents wars
- Better use of existing resources through specialisation (comparative advantage)
- Growth effect, accumulate more resources as expanded market size can promote increased and more efficient investments.
- Greater negotiating power

- Reversing the historic fragmentation of the continent into 55 countries, with the economic disadvantage this generates.

Disadvantages of Regional Integration

- Loss of national sovereignty
- Trade diversion is where Member countries may trade more with each other than with non-member nations. This may mean increased trade with a less efficient or more expensive producer because it is in a member country. In this sense, weaker companies can be protected inadvertently with the bloc agreement acting as a trade barrier. In essence, regional agreements have formed new trade barriers with countries outside of the trading bloc.
- Employment shifts and reductions: Countries may move production to cheaper labour markets in member countries. Similarly, workers may move to gain access to better jobs and wages. Sudden shifts in employment can tax the resources of member countries.
- Insecurity in one country may cause instability in other countries

Stages/Levels of Regional Integration

Following Balassa (1961), it is usual to identify five stages or levels of regional integration starting with the Free Trade Area (FTA). Not all arrangements, however, pursue the process to its ultimate end. However, some scholars identify 6 stages of integration starting from the Preferential Trade Area (PTA). Therefore, for this particular class we shall start from PTA for information purposes.

NB: Regional Integration is a gradual process and as the level of economic integration increases, so does the complexity of its regulations.

Preferential Trade Area (PTA)

This is the initial level in the development of economic integration where countries start their cooperation. In here, member countries give **preferential treatment** to each other. There are low tariffs charged/ removal of tariffs on **selected commodities** from member states while high tariffs are charged on commodities from non-member states. This is often the first small step towards the creation of a trading bloc. Agreements may be made between two countries (bi-lateral), or several countries (multi-lateral).

Free Trade Area (FTA)

Simplest form of economic integration which provides the internal free trade between member countries. Eliminates all barriers to the trade of goods and services among member countries. But each member is allowed to keep its tariffs regarding 3rd countries and to determine its own separate commercial policy with respect to non-members. For example, the European Free Trade Area (EFTA) established in 1960: Iceland, Liechtenstein, Norway and Switzerland. Latin America Free Trade Association (LAFTA) established
1960- Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela and Cuba.

NB: The latest we have in Africa is the African Continental Free Trade Area (AfCFTA) was signed in Rwanda on 21st march 2018 and Africa began trading under the AfCFTA began on 1st January 2021. As of 10 February 2022, 41 of the 54 signatories had deposited their instruments of ratification with the chair of the African Union Commission, making them state parties to the agreement. 54 out of the 55 countries have signed this agreement.

Customs Union (CU)

This is a more advanced form of integration. It involves Internal free trade among member countries and an adoption of a common external tariff to non-members or third countries.

- For example, Andean Community came into existence when the Cartagena agreement was signed in 1969 (Bolivia, Columbia, Ecuador and Peru).
- Southern African Customs Union established in 1910 is the oldest customs union in the world (Botswana, Lesotho, Namibia, South Africa, and Swaziland).

Common Market (CM)

- No barriers to trade among member countries
- Common external tariff
- Free movement of factors of production such as capital and labour.

For example, the East African Community- Burundi, Kenya, Rwanda, South Sudan, Tanzania, Uganda and now DRC.

Economic/Monetary Union

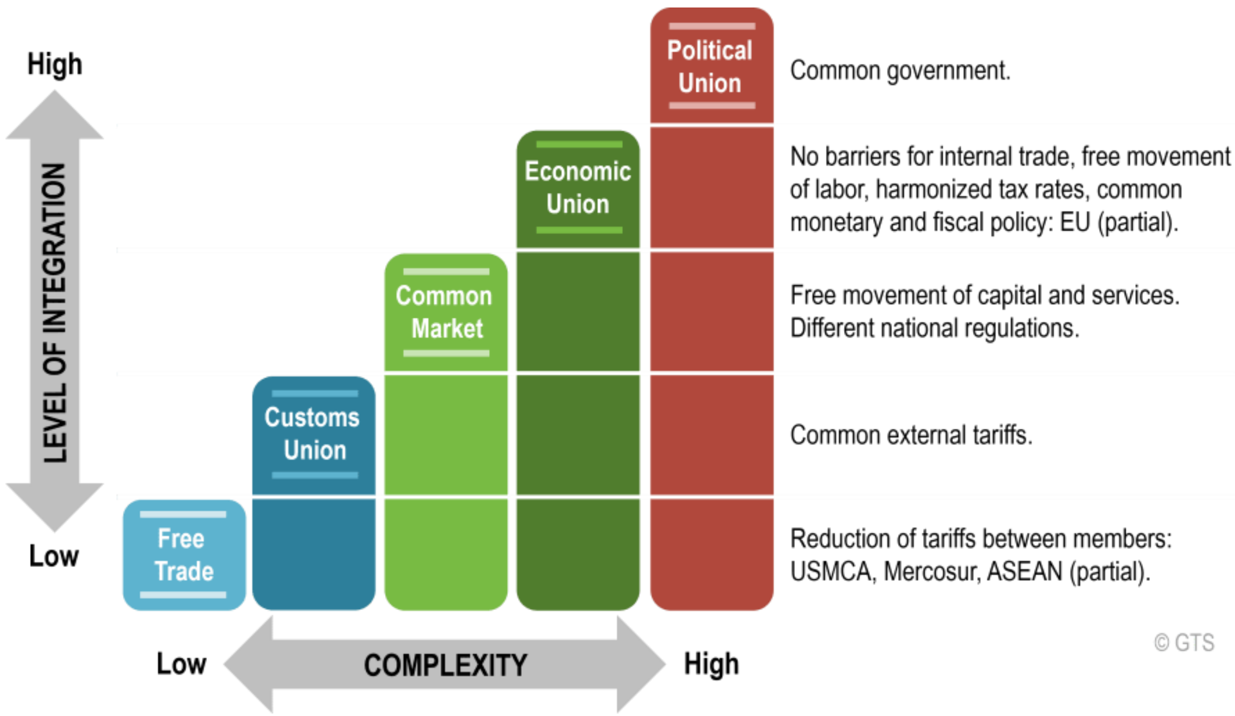
- Has free flow of products and factors of production for member countries.
- Common external tariff
- A common currency
- A harmonized tax rate
- A common monetary and fiscal policy

For Example, the European Union with its euro currency.

Political Union/Federation

- It is the ultimate level of integration where by member countries achieve not only monetary and fiscal integration but also political integration.
- Coordinate the economic, social and foreign policy of member states
- There's a common government but also the sovereignty of a member country is significantly reduced.

For example, the United States of America that united 50 states.



Thank You.