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STUDY OF NEED FOR ECONOMIC INTEGRATION

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ABSTRACT

Introduction and Importance - Benefits from Economic Integration – Problems of Economic Integration - Measures to Encourage economic Integration.

KEYWORDS: *Economic Integration , limited quantities , foreign investment .*

INTRODUCTION :

Economic integration among developing countries is needed to accelerate their economic development by (1) encouraging the establishment and growth of manufacturing industries; (2) expanding intra-regional and extra-regional trade; (3) increasing the gains from trade; and (4) providing benefits of the extension of competitive markets.

Developing countries chiefly export primary products which are traded freely in world markets. On the other hand, their imports consist mainly of intermediate goods and manufactures which the majority of them either do not produce or produce in limited quantities. Economic integration is essential to change the existing pattern of trade which requires changes in the existing pattern of production. The aim is to industrialise their economies on modem lines.

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There is much less interest in trade creation through destroying inefficient producing units existing in the member countries. But there is more interest in trade diversion by shifting purchases from the rest of the world to member countries, and more constructively, H, achievement of economies of scale

The purpose is also to mobilise and utilise fully their unemployed resources thrum it industrialisation.

Finally, there is the need to attract foreign investment and utilise it profitably for economic development of the customs union or free trade area.

BENEFITS FROM ECONOMIC INTEGRATION:-

There are many prospective gains from regional integration among developing countries. The following benefits accrue to developing countries when they form a trading block, or a customs union or a free trade area among themselves.

1)There is expansion of trade among member countries with the removal of trade barriers.

2)There is "trade creation" when goods which were being produced by high-cost partners are replaced by low-cost producers within the region

3)This leads to the movement of resources from less efficient to more efficient production. This further tends to increase the gains from trade

4)Since the developing countries have similar levels and patterns of consumption in particular regions, regional trade agreements among them provide greater opportunities to expand their markets and develop.

5)On the basis of inter-country agreements for the establishment of new and the expansion tit of existing manufacturing industries, the countries can benefit from the economies of scale The choice of industries and countries can be done on the basis of their factor endowments and by having detailed feasibility and social cost-benefit studies. To have the desired changes in the pattern of production will require a variety of policy measures like tariffs on imported manufactures, fiscal incentives, administrative controls, etc.

6)In order to exploit economies of scale and utilise excess capacities in existing plants <n process, developing countries can have complementary agreements for their development This will meet the internal demand for goods manufactured in such plants within the free trade union.

7) Regional integration among developing countries encourages competition among them Every member country tries to innovate and adopt new methods of production in its specified industries. It increases its technical and productive efficiency by increasing investment in new machines and equipments. Resources are reallocated from less efficient to more efficient industries. As a result, costs of production are reduced and output, employment and income increase with the expansion of trade within the trading block.

8) Integration among developing countries also attracts direct foreign investment in new regionally-based manufacturing industries that enjoy economies of scale. This requires, inter governmental agreement for the establishment of chosen industries or plants, as also policy measures like tariff against foreign competition, fiscal Land administrative measures for then implementation and success.

9) In the long-run, the new manufacturing industries will meet the local demand in member countries. With the extension of the market and increase in economies of scale, these industries will be able to compete in world markets and thus export manufactured goods.

10) Regional integration may also lead to improvement in the commodity terms of trade of member countries. This is achieved only if the demanded for imports by members is reduced by producing imports substitutes, imposing tariffs on imported goods and increasing exports to the outside countries. However, these conditions can be met in the long-run when the developing countries have reached the take-off stage.

PROBLEMS OF ECONOMIC INTEGRATION:-

There are many problems or difficulties in the formation of a customs union or free trade area by developing countries. They are enumerated as under:-

1) Political. In any regional integration, there are always small and large and less developing and more developing countries. The smaller, weaker and less developing countries fear that their freedom and sovereignty might be in danger if they form a customs union with their bigger and more powerful neighbor. This is particularly so in Asia and Africa where there are national rivalries and boundary disputes.

2) Administrative. There are certain administrative requirements of a customs union which may be beyond the capacity of poor and weak members. They may not have efficient and sufficient administrative staff to implement the policies of the union.

3) Uneven Distribution of Benefits. There are disparities among developing countries which create problems in equitable distribution of benefits. The lagging or weak countries fear that the economically better partner countries will retard rather than assist in their economic development. They are, therefore, reluctant to form a union with the latter countries.

4) Geographical Distances. The developing countries often lack in geographical proximity to each other. Nearness to each other is essential for forming an economic union to be successful. Even if there is geographical promity among them, they lack in good transport, communications, infrastructural and other facilities for intra-regional trade.
5) Trade Diversion. The volume of foreign trade in developing countries is generally high relative to their domestic production. But the volume of intra-regional trade is very small in the region's total foreign trade. These two diverse trade patterns will lead to trade diversion among developing countries when they form a union. This is because it will lead to diversion of old trade from foreign countries to each other. Thus it is no use forming a union because trade diversion is always harmful.
6) Economically Diverse. The majority of developing countries produce and export primary products. The formation of an economic union will not serve any purpose because they will be competing for the same world markets for their primary products. According to Kindleberger, they are not economically unified. They are typically more competitive than complementary, and their competitive interests make it hard for them to form an economic union.
7) Loss of Revenue. The fear of loss of revenue with the formation of a regional union is also an obstacle in the economic integration of developing countries. This is because with economic union, intra-regional tariffs will be eliminated. Moreover, with the formation of a union and adoption of a common external tariff, the weak members will not be in a position to raise tariffs by themselves in order to meet their revenue requirements.

MEASURES TO ENCOURAGE ECONOMIC INTEGRATION AMONG DEVELOPING COUNTRIES

The following measures are suggested for the formation and success of an economic union (or a free trade area or a regional block) among developing countries.

It may be noted that all measures should aim at removing fears of the dominant member creating confidence among the laggard members of the region, besides strengthening economic relations.

1) Trade Liberalisation: The first step should be towards partial liberalisation of regional trade. It might be in specific products. Trade barriers on products in which members of the region possess comparative advantage should be removed gradually. The bigger states shouts I give preferences in importing goods from the weak states without trade restrictions. On tin other hand, small states should be allowed to levy low tariffs on imported goods from the big member states so that they may not lose revenue.
2)Trade Infrastructure: For the development of intra-regional trade, the establishment of effective infrastructure facilities such as transport and communications within the region is required. Countries having common borders can have inter-connected road and rail transport u I facilities.
3)Foreign Investment and Technology: There should be a regional agreement for the entry. I foreign investment and technology in countries of the region. Such an agreement can bargain with foreign suppliers to the common benefit of all the countries. It can also decide about tin* establishment of joint ventures and technology transfer among the regional states. In thin regard, it is necessary that the interests of laggard states are protected.
4)Counter-Trade: To promote intra-regional trade and cooperation among small and big state counter-trade i.e. exchanging goods and services rather than purchasing them should be starlet.
5)Regional Institutions: To promote intra-regional trade such regional institutions as joint business councils, trade promotion organisation, regional trade information centre, region.il export processing zones, etc. can be helpful.
6)Balance of Payments Support: Economically weak countries are prone to balance of payments problems in intra-regional trade. To help such countries BOP support should be provided to them by establishing a regional payments union funded by all members in which big countries should contribute more.
7)Credit Facilities: To provide credit facilities to exporters, to give adequate line of credit to importers, and to coordinate the activities of existing trade financial institutions and commercial banks, a regional central bank should be established. This will help to increase intra-regional trade.
8)Fiscal Incentives: When a custom union is formed, small countries suffer the most from the loss of tariff revenue which forms a large part of their total revenues. For this, the union should compensate such member countries for

their net loss of revenue through inter-government.il budgetary transfers from big partners. This can be done by the adoption of an agreement among member countries to harmonise fiscal incentives.

Fiscal incentives may also be to the location of new enterprises in weak member states with the support of inter.-country fiscal transfers. Another measure is to set up a region.il development bank to provide loan finance on a preferential basis for investment in infrastructure and industries in such countries.

CONCLUSION

A few empirical studies of economic unions in Africa and Central and South America suggest that the benefits of economic integration among developing countries can be substantial. But they require effective coordination which the developing countries lack due to political and ideological differences among them and the fear of hegemony of large and strong states in regions. Despite these, even though a customs union may be the ultimate objective, it will still be a sizeable accomplishment in the immediate future to secure the mutually supporting measures of regional investment policies, regional trade liberalisation and regional aid institutions in developing countries". These difficulties or problems explain the failure or slow progress towards economic integration in developing countries. For example, the Central American Common Market (CACM), after some initial success, dissolved in 1969. The East Africa Common Market (EACM) was also dissolved.

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