

Regional Integration – Benefits for Members

Ilyas CILOGLU*
Teona KEKUTIA**

Abstract

Nowadays world economy is becoming more and more integrated due to regional integrations. Many economists, politicians argue about the effectiveness of these regional integrations. The purpose of the research paper is to analyze the functions of these integrations, their goals, aims and the benefits for the member country. The research was conducted by several methods, the previous researches about the regional integrations issue were analyzed; the survey and interview were conducted. The result is that the membership of some influential and strong regional integration gives some benefits to the country; many countries have been developed and made impressive progress with the help of regional integrations. But to conclude, behind the benefits there is politics on which the policy of international organizations and their actions depends. Sometimes a member country has to give up its independence and freedom of choice, it should act more carefully, because it is part of integration and has higher responsibility.

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Introduction

In today's world the role of regional integration and agreements is becoming more and more important and even dramatic. Regional agreements and integrations such as NAFTA, EU, APEC and others play a significant role in a country's economic policy, development and politics. Also, there are quite controversial opinions about the role, aim and objectives of regional integrations. The best example of it is the situation developed in Ukraine in the winter of 2013, one part of population wanted to become a part of EU but another part as well as president of Ukraine Viktor Yanukovich and other officials were against it. Yanukovich was considered to be under pressure of Russian government but he declined that. So, it is interesting to find out, why countries are eager to become the member of regional organizations, or what is the logic of becoming a member of such organizations and does a country benefit from it?

Literature review

A regional integration is not a new phenomenon or a new

idea in today's world. Even centuries ago, there were some unions, associations, pacts, commonwealths and so on. The purposes of such organizations are quite different and countries decide to have voluntary linking with other countries for different reasons.

As Mattli (1999) explained the first regional integration was created in 19th century, when in 1828 Prussia and Hesse-Darmstadt decided to form a custom union. However, half a century later, the idea of European integration was born and the main aim of it was unite European states into one strong, developed, stable and prosperous economy. The first step for reaching this goal was establishment of European Coal and Steel Community (ECSC) in 1952. In 5 years period, the Treaty of Rome was signed by Germany, France, Belgium, Luxemburg and Netherlands and European Community was established. In November, 1994 European Community changed its name to European Union (EU) and nowadays EU is considered to be one of the most developed regional integrations.

Nugent (2006) cited Walter Holstein who said about EU, that it is not a creation, it's a rediscovery and the main

* Assoc. Prof. Dr., Faculty of Social Sciences, International Black Sea University, Tbilisi, Georgia
E-mail: ciloglu@ibsu.edu.ge

** BA Student, Faculty of Social Sciences, International Black Sea University, Tbilisi, Georgia
E-mail: kekutianteona@gmail.com

difference between United States of European Union is that for more than thousand years the idea of unifying Europe always existed and was not forgotten. According to his view, Europe has special and unique values, which includes the duties and obligations of people, their rights, the way of forming society, long history which consist of shameful events and great achievements. Of course, in this word it is easy to define idealism and not everyone shares the idealism of Holstein. There is an opinion, that EU was initially established as an economic organization but it has enlarged its functions little by little, it covers many areas and fields and does not give chance to the members of such organizations to make independent decisions.

Of course, regional integration is not just European phenomenon. North American Free Trade Agreement is another example of significant regional integration. North America, United States and Canada signed the agreement in 1989, but this agreement became the North American Free Trade Agreement after the join of Mexico in 1994. According to the study of Martin (1993), the main objectives of NAFTA is to eliminate the trade barriers and support cross-border movement of goods and services, promote fair competition, improve investment climate between the member countries. "Trade and Migration: NAFTA and Agriculture" estimated that NAFTA can cause the increase of Mexican migration to the USA by approximately 100 000 persons annually, but in the long run perspective it will be possible to prevent migration by creating good economic environment and jobs in Mexico.

As Mattli (1999) wrote in his studies, Asia-Pacific Economic Cooperation was initially established as a consultative body for free trade in 1994. APEC was established in response to the growing interdependence among Asia-Pacific economies and today there are 21 members in this organization. The main objective of APEC is to develop and strengthen the open multilateral trading system in the interest of Asia-Pacific and all other economies. According to Brian and Langdon (1997), the politics of APEC" described the pressure and tension that exists among the members of the organization, the reason of which is the conflict of interests between developed and big countries and small and less developed countries. As a result, APEC does not function as it was planned expected to or as an economic, regional, security institution. Because of the reasons mentioned above, the initial goals and aims of APEC are deterred.

BSEC or Black Sea Economic Cooperation was established in 1992 and includes 11 countries of Black Sea Region states including Georgia. Mica (1997) stressed out that the aim of BSEC is not very different from the general aim of such organizations. As it was declared on the Istanbul Summit in 1992, the main objective of BSEC is to turn Black Sea region into peaceful, stable, rich area by strengthening and

improving relations with participating countries.

North American Free Trade Agreement consisted of 3 members: the USA, Canada and Mexico. With more than 462 million residents (by estimation of 2010), NAFTA continues to be one of the largest trade trade union in the world. What is special in this regional agreement is that it combines the members which are on the different level of the economic development. If we analyze the statistics published by The World Bank (2014), we will find out that by estimation of 2002, the average Canadian's income is about 64% of average US income and average Mexicans income is about 17% of average US citizens income. In 1994 GDP per capita of the USA exceeded GDP per Capita of Canada 1.4 times and exceeded GDP per Capita of Mexico approximately by 6 times, at the same time, GDP per capita in Canada was 4.3 times more than GDP per capita of Mexico. According to the statistics of World Bank 2012, GDP per capita of Canada exceeded GDP per Capita of the USA approximately by 1 time and, at the same time, the USA GDP per capita is 5 times more than Mexico's and Canadian is 5.3 times more than GDP per capita in Mexico. GDP per capita in the USA has increased by 88% since 1994, in Canada - by 169% and in Mexico - by 116%.

It is worth mentioning that Canada and Mexico depend on trade more than the USA. One way to measure dependence of a country on a trade is to calculate openness ration which is the ratio of the sum of export and import to the GDP of a country – (Export+import)/GDP. In the USA the trade was approximately 26% of the GDP in 2002, in Canada - approximately 87% and 65% in Mexico.

This ensures the general concept that relatively small countries should trade for economic development and for reaching some level of prosperity. Small countries are less resources to have economies of scale and are limited to have a variety of products in comparison with to large countries. Through trade these obstacles are overcome.

The USA and Canada trade more than any other countries in the world. Canada and the USA had free trade agreement 5 years earlier before signing the agreement of NAFTA. This agreement was called CUSTA or Canada-US Trade Agreement. The creation of free trade agreement was solution against growing US protectionism and increasing competitiveness of Asian companies in manufacturing industries.

Mexico's interests in signing the free trade agreement were not as clear as in the US and Canadian case and were more complex. Until 1980s, Mexico's economic policy and strategy was ISI or Import Substitution Industrialization, which means that domestic product was used for replacing imported goods. Mexico had difficult times in 1980s. Government had borrowed huge amount of money and in

1982 the government announced Debt Crisis. As a result, in 1980s the flow of foreign capital stopped, investment declined, budget was cut, the national currency of Mexico – Peso devaluated. It was clear that Mexico had to change its macroeconomic policy strategy and it should have given more important role to the market in order to encourage flow of capital which would result in investment growth and economic development.

There were explicit opponents of signing NAFTA. First of all labor unions were against of it because the competition with low wage countries would cause the decline in wage rate at home and cause job migration. Also it should be mentioned that wage rate in the USA is approximately 10 times more than in Mexico because of the difference in productiveness. Labor force in Mexico is less educated and skillful than labor in the USA, average labor in Mexico has less capital than labor in the USA and public infrastructure is less reliable and developed in Mexico than in the USA.

The success reached by NAFTA are is evident if we analyze some data. As it is indicated in “NAFTA: A Decade of Growth” (Business Roundtable, 2004) prepared by the Trade Partnership, in the period from 1993-2003, the economies of these countries have grown - in the USA by 38%, in Canada by 30.9%, in Mexico by 30%. Canada’s export’s value to the partner countries have increased by 104%, the value of US export to Canada and Mexico increased by 121%, value of export of Mexico to member countries increased by 227% in value. The productivity in 10 years period after the creation of the NAFTA has increased in the USA by 28%, in Mexico and Canada by 55% and 23% respectively. Wages in Mexico in export-oriented sectors are higher than in other sectors.

As it is explained in the publication “The European Union Explained: How the European Union works”, EU is one of the oldest and ambitious integration agreement in the world. It grew from 6 membered European Economic Community established in 1958 into 27 membered European Union established in 1993. European Union is the great example of the economic union, or the region with substantial coordination of macroeconomic policies, including a harmonization of many standards and regulations, establishment of the common currency Euro, which has made it easier to travel in Europe without dealing with uncertainties of foreign exchange rates in EURO zones. Despite the fact, that members are well integrated countries, they did not lose their culture. In order to become the member of EU, the countries should satisfy main criteria: a country should be democratic and should be stable, the economy of a country should be market based and a future member should be ready to adopt and accept the EU rules. EU is governed by 5 main institutions: the European Commission, the Council of the Euro-

pean Union, The European Parliament, the Court of Justice, the Court of Auditors and a number of smaller ones.

With free mobility of people, education abroad has become available, which increases the level of education. Due to free trade consumers can enjoy the greater range of goods and services. The common commercial policy initiated on the Member States’ Customs Union includes common arrangements for imports as well as a common external tariff uniformly applied to all member states. Also, it is worth mentioning that development of agriculture is one of the main priorities for the EU. For increasing productivity in agriculture Common Agricultural Policy has been established. The main aims of CAP besides the increase of productivity are: stabilizing market, ensuring reasonable prices for consumers, increasing standard of living for agricultural workers. These goals are set by taking into account such important issues as food safety and quality, environmental protection. Furthermore, payment of direct aid to farmers is determined and depends on the compliance with food safety, animal health and welfare standards.

As it is indicated in the “Five years of an enlarged EU, Economic achievements and challenges” (European Commission, 2009), the fifth enlargement in 2004 was the largest enlargement not only in terms of the number of countries and population, but also level of complexity meaning the huge differences in economic, social and political backgrounds among the countries. According to the Commission services (AMECO), IMF, in 2007, after the enlargement of EU, the share of EU’s export was 16.8% of world total export and the portion of import of EU reached 18%. Net inflows of foreign direct investment is of one of the main indicators for measuring the competitiveness. In 2007 the FDI inflows in the EU reached 46.4% of global investment which was almost 3.5 times more than the FDI inflows in the USA and 10 times more than in China. Also, as it is indicated in “Five years of an enlarged EU, Economic achievements and challenges” (European Commission, 2009), if EU was considered as a single economy and excluded intra EU flows, then EU’s share of global FDI inflows would be decreased to 19% while the same indicator would be increased to 20% and 9% in the USA and China respectively. In 2011 the EU share of world’s export and import was 17.2%, while EU share of FDI reached €3 807 billion. The biggest export partner (goods) of EU was the USA and the biggest import partner was China in 2012. According to the Eurostat of 2012, EU’s GDP count 23% of world GDP.

The liberalization of trade is significant first of all because it creates incentives for innovation and economic growth, supports spreading new ideas and innovation, new technologies and the best research, leading to improvements in the products and services that people and compa-

nies use. As it's outlined in the publication "The European Union explained: Trade" by European Commission (2013), experience shows that in EU countries 1 % increase in the openness of the economy results in 0.6 % rise in labor productivity the following year.

The Asia-Pacific region has consistently been the most economically dynamic region in the world. According to the Key Indicators Database and Bilateral Linkages Database November 2011 and APEC's Bogor Goals Progress Report, by 2011, APEC count 2.7 billion people which is approximately 40 percent of world population, \$16.8 trillion or 44% of global trade and \$35.8 trillion GDP or 53 percent of world real GDP in purchasing power parity. If we compare the region's real GDP in different periods, we would find out that it has doubled from \$17.7 trillion in 1989 to \$35.8 trillion in 2010. By comparison, real GDP (PPP) in the rest of the world has only grown by 3 percent per year, from \$17.2 trillion to \$31.9 trillion. This means that APEC's share of world real GDP has increased from 51 percent in 1989 to 53 percent in 2010. APEC mainly focuses on the 3 activities: trade and investment liberalization, business facilitation and economic and technical cooperation, which have encouraged economic growth and improved employment opportunities and standards of living for the citizens of the region. From the establishment of APEC in 1989 to 2010 the trade barrier in the APEC region has decreased almost 3 times, from 16.9 % to 5.8%. APEC's total trade (goods and services) has increased almost 5 times from \$3.1 trillion in 1989 to \$16.8 trillion in 2010 while total trade by the rest of the world has increased 4.6 times from \$4.6 trillion to \$21.1 trillion. The positive result of the APEC Trade Facilitation Action Plan (TFAP I) is the reduction of the cost of business transactions across the region by 5% in 4 years period between 2002 and 2006. A second trade facilitation action plan (TFAP II) reduced transaction costs by a further 5% in real terms in 3 years period between 2007 and 2010 and resulted into savings for business of \$58.7 billion. Economic and Technical Cooperation (ECOTECH) activities intended to enhance capacity and skills for member countries' economies at the individual and institutional level which would make them able to be fully engaged in the regional economy.

According to the official information of APEC web-site, since APEC first began to undertake capacity building work in 1993, around 1600 projects have been initiated. APEC provides funding for around 100-150 projects each year, with a total value of over \$23 million contributed by APEC to projects in 2010-2011.

Methods

The research was conducted using several different methods. The questionnaire was developed and distributed online: via email and social media. Such method has its advantages such as the speed of distribution, low costs, and quick responses. The participants of the survey had some background in economics and politics. The face to face interview was held with the political expert Beka Natsvlishvili and Economist Teimuraz Beridze. The responses of the questionnaire reached 76%. The results of survey were analyzed by using MS Excel and APSS for windows.

Findings

The questionnaire consisted of 5 closed questions. The aim of the questions was to analyze awareness of the participants about the regional integrations, the effectiveness of regional integrations, the participants' willingness and the possibility of Georgia to become a full member of EU, the effectiveness of Georgian government's policy to become a member of EU.

The survey showed that 96% of respondents or the majority had heard about the EU, while 60% had heard about APEC, 52% about NAFTA and just 48% about BSEC. There was no respondent which had not heard about any of the regional integration mentioned above (Figure 1).

The majority of respondents or 72% estimated EU as the most effective regional integration, while just 8% and 4% estimated NAFTA and APEC as effective organizations. There was no respondent who considered BSEC as an effective regional integration, while 16% of respondents couldn't answer the question because of the lack of information about these regional integrations (Figure 2).

The fact that Georgia wants to become a member of EU can't be neglected and the integration of Georgia in EU is really very popular issue. Policy of Georgia is directed to EU integration. That's why the answers to the next three questions are very important to analyze.

50% of respondents answered that Georgia has opportunity to become a member of EU, while 37% of respondents answered that Georgia doesn't have real opportunity to integrate into EU and the half of respondents could not give the answer (Figure 3).

The majority of respondents or 51% estimated the steps towards the integration of Georgia into EU taken by the government as fair, 33% as good and 16% as bad (Figure 4).

75% of respondents answered that Georgia would benefit from membership of EU, 17% answered negatively to this question while 8% didn't know the answer (Figure 5).

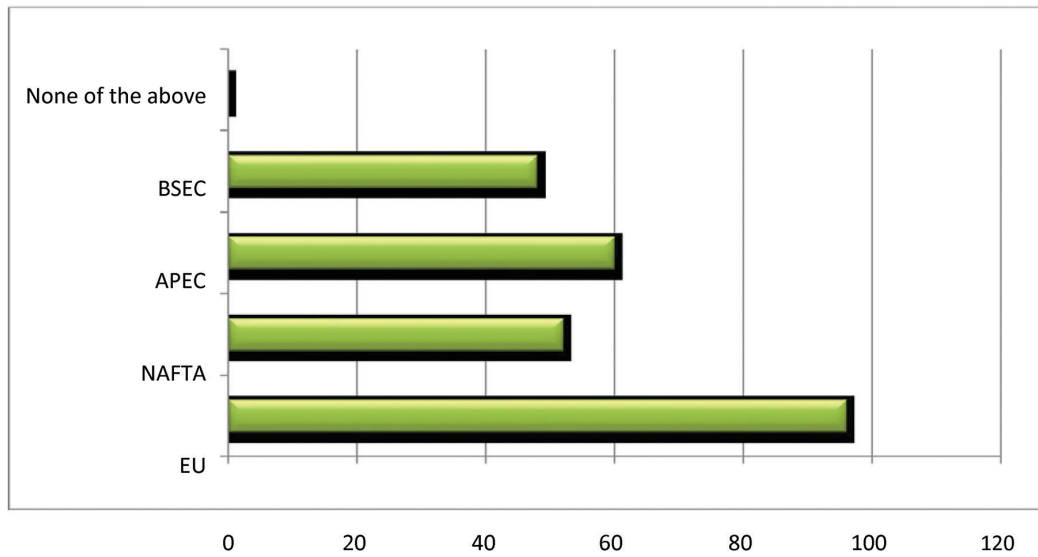


Figure 1. About which of the following regional integrations have you heard?

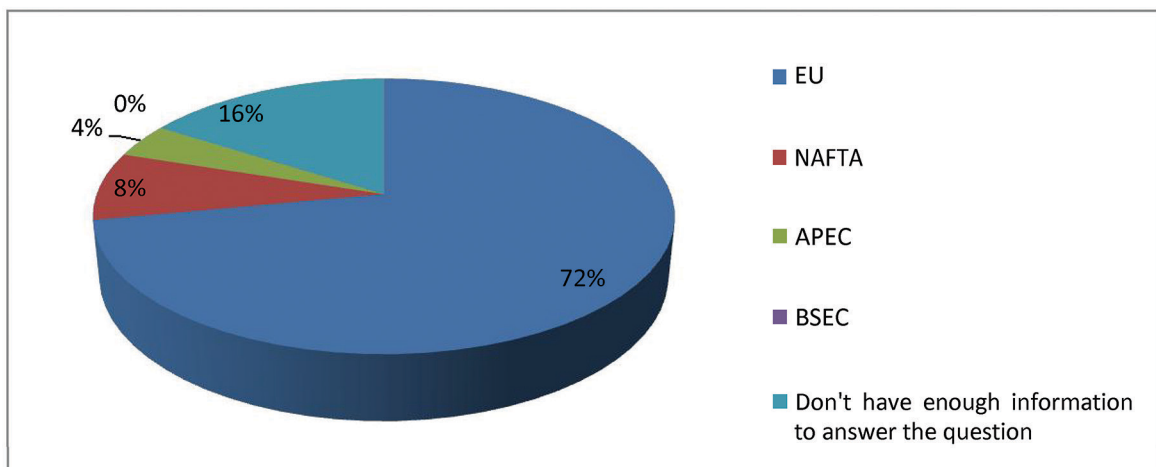


Figure 2. Which regional integration works most effectively?

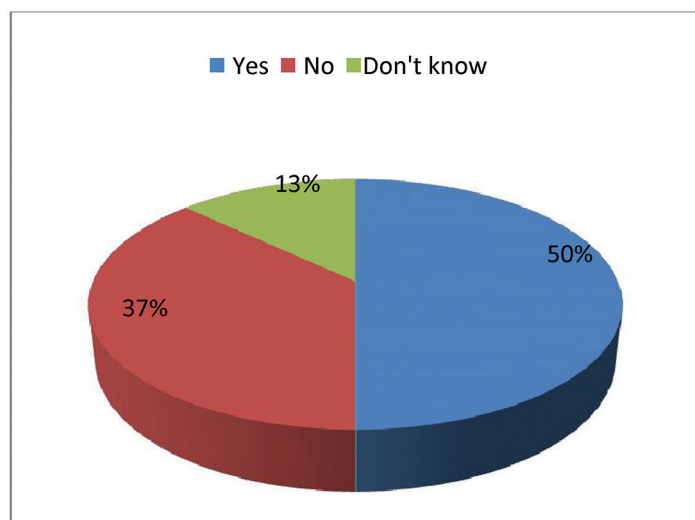


Figure 3. Do you think that Georgia has real opportunity to become member of EU?

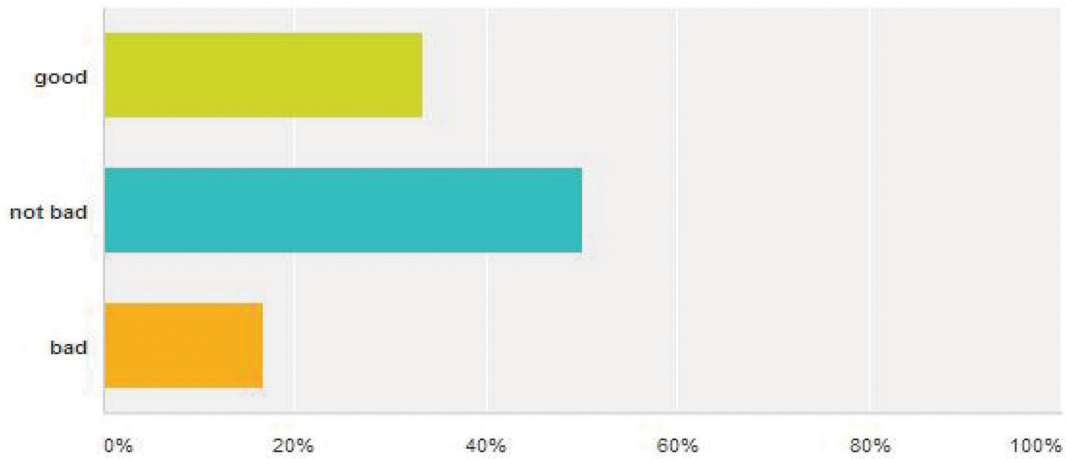


Figure 4. How will you evaluate the actions and steps taken by Georgian government for becoming member of EU?

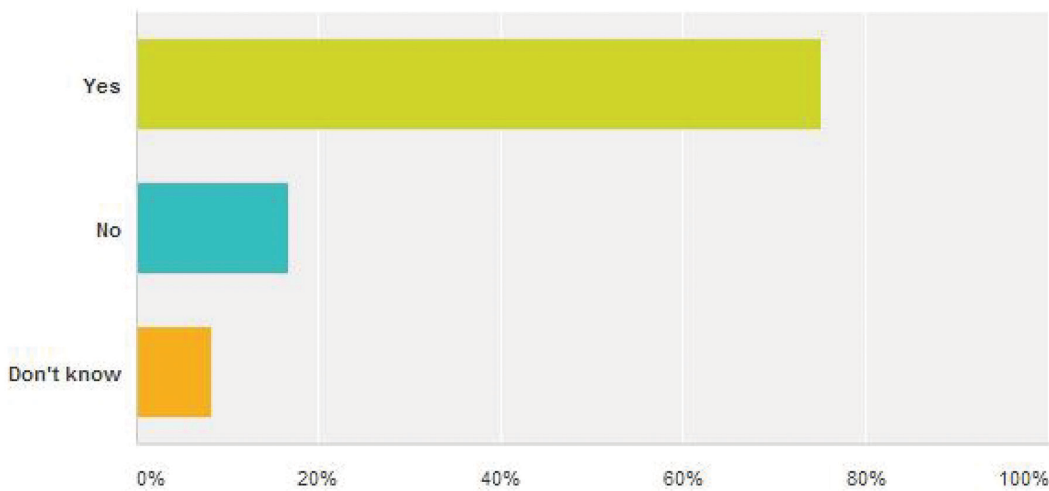


Figure 5. Do you think Georgia will benefit from membership of EU?

Interview was conducted with the political expert Beka Natsvlshvili. To the question what is his general opinion about the regional integrations and their functions, the answer was that there are several approaches and opinions about international organizations, one group thinks that in order to make cooperation effective, it needs some leading country which will precede other member countries and provide them with security, technology, capital and so on. EU operates more or less effectively because it has leading countries: Germany, France, and Great Britain. Also, Mr. Natsvlshvili pointed out that effective cooperation between countries takes place when they are relatively equal. Theoretically it would be good if all country developed equally and they had the same strength but the problem is that countries are not equal in the region. In reality, interdependence occurs between all countries and leading country uses its power and richness to influence on other member countries. The

example of it is how Germany uses its power affect other members of EU. But when a small country realizes that it is dependent on the leading country and its sovereignty is restricted, cooperation does not function properly anymore.

Prof. Teimuraz Beridze answered that there is no threat for Georgia if it becomes a member of EU. We are a small country comared with the countries of EU. For the country which has no regulations for food security, labor, monopoly, trade, construction and other economic activities, there is almost no threat. Beka Natvslshvili also agreed with this argument of Professor Beridze and stated that since Georgia does not have very developed agriculture, service sector, heavy industry, the adoption of EU regulations and rules will not be difficult and painful. But the case of Ukraine showed us that it is more difficult and hesitant for big countries to become a member of EU.

Also, Natsvlshvili pointed out that BSEC acts more as

a forum where countries can exchange their opinions. Also, according to the opinion of Natsvlshvili, in BSEC region the countries do not have the same goals and view of the future.

Conclusion

The fact that regional integrations are becoming more and more influential cannot be neglected. But behind the regional integrations stands politics, which is basically one of the most important reasons for establishing such organizations. We cannot close eyes on the benefits that country gets from membership of EU, NAFTA, APEC. The trade in these countries is free, free trade is the key to the economic development and success of the country. If there is a free trade, customers benefit because they have wide range of choice and price liberalizations, producers benefit because the market is larger, they also benefit from the economies of scale. The methods and technologies of productions increases; labor becomes more protected and safer. But on the other hand, when economies of countries' are so deeply integrated, they depend on each other. The failure in monetary or fiscal economic policies in one country would involve other partner countries which will accelerate the process of spread of crisis. What is the most important, politics plays the most significant role in the regional integrations. Countries sometimes have to give up something as a cost of membership of EU. Sometimes, they sacrifice the independence of making political and economic decisions, freedom of choice and so forth.

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