

# Regional Integration

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In order for the world economy to progress, national markets must converge, pool their resources, and work together to solve market failures and other economic disasters. Robert Gilpin writes that the evolution of regional integration is moving toward larger and larger nation-states' convergence where historically only smaller nation-states had regionally integrated. Many trade agreements have been signed limiting tariffs, erecting external barriers, and enticing member-states to engage in international trade. A couple examples of these would include GATT (General Agreement on Tariffs and Trade) and NAFTA (North American Free Trade Agreement). Economic theories have been realized in order to explain regional integration and the economic importance of globalized regional integration. The two major economic theories that author Robert Gilpin discuss are neoinstitutionalism and new political economy. Political theories have also been created to explain more policy-driven regional integration. The dominant theories held are Federalism, Functionalism/Neofunctionalism, Neoinstitutionalism, Intergovernmentalism, and Realism. These theories attempt to explain reasoning behind the economic interest maintained by nation-states as motivating factors for integration.

### **Reason for Integration:**

The primary reason for regional integration is to unify nation-states. Political actors believe that by pooling economic resources and utilizing political power, geographically-close states could mutually benefit. Many firms perform studies on Research and Development (R&D) in order to increase productivity, reduce waste, and ultimately increase profit. By unifying themselves, nation-states can benefit from their neighbor's R&D and provide one another with a greater political leverage when it comes time for economic negotiations. In order to progress economically and politically, nations have signed treaties to protect one another from tariffs and other duties. These treaties have also been signed to promote trade within member-states themselves. One such treaty was GATT. The General Agreement on Tariffs and Trade was a multilateral agreement regulating international trade. The agreement was signed in 1947 during the UN conference, and was in effect until 1994. It was later replaced by the World Trade Organization (WTO) in 1995. NAFTA was another agreement which went into effect in January of 1994. The North American Free Trade Agreement is an accord among Canada, Mexico, and the United States which protects each from international tariffs, duties, and other taxes associated with

international trade among these three nation-states. It also promotes trade because of the taxation protection. Trade agreements like these have greatly assisted in regional integration, whether they be market-driven or policy-driven.

### **Economic Theories:**

Neoinstitutionalism holds that “international and regional institutions are established to overcome market failures, solve coordination problems, and/or eliminate other obstacles to economic cooperation” (Gilpin, 2001). The major motivating factor behind neoinstitutionalism is to promote cooperation between and among states in order to provide for more fluid economic relations. It creates incentives for nation-states to cooperate.

New Political Economy, on the other hand, emphasizes interest group politics and the distributive consequences of economic regionalism. It assumes that “customs unions and free trade agreements have significant redistributive consequences that are usually harmful to nonmembers and create both winners and losers among members themselves” (Gilpin, 2001).

Nation states in Pacific Asia are minimally institutionalized. Their economies are very market-driven. Regional integration in this area is concerned with productivity and capital gain rather than political interests. Regional integration in Western Europe, however, is highly institutionalized and policy-driven. The main reason for the unification of Western Europe (formation of the European Union) was to create policies which minimized the cost of international trade and maximized trade within its borders. In North America, regional integration has been a combination of market-driven and policy-driven motives. Although the major focus for integration in North America has been policy-driven, market forces have also influenced decisions to unify Canada, Mexico, and the U.S. through NAFTA. The main reason behind economic integration results from efforts of domestic interests to redistribute national income in their own favor.

One major consequence of regional integration is R&D spillovers. Many firms conduct Research and Development testing to enhance productivity and to increase profits. If the results from these tests were acquired by an undeserved third party, they would give them a greater leverage during economic negotiations. In order to protect against these spillovers, external barriers are instituted in order to protect

from competition of these firms outside the integrated region. These protections essentially maintain a competitive advantage for the members within the region in order to promote international trade.

### **Political Theories:**

“Federalism is based on persuasion, converting public opinion, and building institutions” (Gilpin, 2001). The federalist political theory is concerned with the integration of independent political entities and forcing politically weaker nations to yield their autonomy to politically stronger nation-states. In fact, history has shown that “integration of independent political entities has resulted from military conquest or dynastic union, and neither of these methods will necessarily lead to creation of an integrated economy” (Gilpin, 2001).

Functionalism and Neofunctionalism attempt to explain the political integration in general and European political integration in particular. This theory is concerned with the idea that “economic, technological, and other developments during the 20<sup>th</sup> century have driven peoples and nation-states toward peaceful economic and political integration at regional and global levels” (Gilpin, 2001).

Neofunctionalism focuses on the process of regional integration itself; it does not attempt to evaluate the economic welfare consequences of regional integration explicitly. The theory of neofunctionalism is primarily concerned with the political and economic motives behind integration; why nations choose to join with one another, and doesn't obfuscate this study with the consequences resulting from integration itself.

Neoinstitutionalism, as held by Robert Keohane, “emphasizes the role of institutions in solving economic and other problems; it maintains that institutions could help ameliorate [make better] market failures and solve collective action problems in economic and political integration” (Gilpin, 2001).

International institutionalism deals with market failures to reduce transportation costs and to alleviate other economic problems.

Intergovernmentalism puts “emphasis on economic interests as the principal driving forces of regional integration” (Gilpin, 2001). This theory places major focus on economic impetuses that promote regional integration.

Realism, as propagated by Hans Morgenthau, focuses on political power and the importance of government interests in the integration process. It “regards regional integration, especially political integration, as a political phenomenon pursued by states for national, political, and economic motives. It assumes that a successful process of economic and political integration must be championed by one or more core political entities that are willing to use their power and influence to promote the integration process” (Gilpin, 2001). According to the Realist approach, the regional integration of Western Europe will depend more on policy-driven forces than economic ones.

Based on the Realist theory of International Relations, “economic regionalism has spread because nation-states want the absolute benefits of a global economy at the same time they seek to increase their own relative gains and protect themselves against external threats to their economic welfare and national security” (Gilpin, 2001). The Realist approach suggests that states will do what is in their own self interest to protect and promote their progress and to proliferate their economic and political ideals. Nation-states integrate, according to Realists, because it is in their own best interest to utilize common resources, share firm R&B, and protect one another from tariffs while doing so; each is made better off with the integration.

### **Understanding the impact of Regional Integration:**

Charles Van Doren, author of the book, A History of Knowledge: Past, Present, and Future, proposes very catching ideas on the progress of technologies in the next 100 years. In his book, Van Doren talks about what he calls “warm and fuzzies” (Van Doren, 1991). These computerized devices, he suggests, will be like computerized assistants which will provide humans with reminders, warnings, and advice on how to improve efficiency. One can call up information on these devices, but the devices themselves can learn; as if they were small children. Van Doren calls these devices “companion computers” (Van Doren, 1991). Looking in history during the last one hundred years, the author notes that computers and other electronic devices have been created to provide greater efficiency in businesses and in people’s personal lives. The availability of technology is growing because of regional integration. As nation-states bond together and share knowledge, it becomes increasingly important for communication systems to be able to record messages and to convey them as well.

In conclusion, regional integration has many motivating factors. Some regions, such as Pacific Asia are market-driven. Others, such as Western Europe, are policy-driven. Regardless of the motive behind regional integration, the goal of such a merger is to increase economic and political strength. By integrating, nation-states pool resources and create trade agreements which protect members from high duties which would undermine their trading practices. Because nation-states are joining together, stronger nation-states are growing politically and economically and so are relatively weaker nation-states. As a result of regional integration, technologies have been created to expand communication, improve and enhance transportation, and even to assist in company decision making processes. Finally, because nation-states have integrated within their respective regions on the globe, each is creating a stronger region for global commerce.

## **Bibliography**

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