THE ROLE OF ECONOMIC INTEGRATION IN ECONOMIC DEVELOPMENT AND THE PROBLEMS INVOLVED

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ÖZET

Az gelişmiş ülkeler arasındaki iktisadî birleşmeler gelişmiş ülkeler arasındakilerden farklıdır. Birincisi sanayileşmeyi ve iktisadî kalkınmanın hızlandırılmasını amaçlar, ikincisi ise ticaretten doğan kazanç üzerinde durur.

Azgelişmiş ülkelerin çoğu küçük olduğu için iktisadî kalkınma ve sanayileşmenin gerektirdiği temelden yoksundur. Dolayısıyla iktisatcıların önemli bir kısmı iktisadî birleşmelerin kalkınmayı hızlandıracağı görüşündedirler. Fakat bu tür birleşmelerin pek çok güçlükleri vardır. Bu güçleri yenmek asgarî teknik, politik, ideolojik, tarihî ve kültürel şartların birlikte tahakkukunu gerektirir. Bu yüzden, az gelişmiş ülkeler arasında başarılı iktisadî birleşmelere ender rastlanmaktadır.

Introduction

Majority of less developed countries (LDCs) are small and the smallness by itself is an important hindrance for economic development. Therefore economic integration among LDCs has been considered as strenghtening their development efforts and their position against developed countries.

Integration among developing countries is basically different than the integration among developed countries in that the basic aim of the former is to promote economic development while of the later is to increase the gains from trade. Therefore traditional theory of economic integration which is designed for the case of developed countries is irrelevant for the special case of LDCs (For a brief discussion see : Şahin). But on the other hand there is not

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an apropriate body of analysis dealing with economic integration among LDCs. Such a theory must focus on economies of scale, changes in the terms of trade, balance of payments problems, externalities, capital imports unemployment and underemployment. These have been received isolated treatment in the literature but have not been successfully woven, into an integrated analytical framework (Cooper and Massell, p. 461). In this paper we will leave aside the theory, and study the possible benefits of, and the problems that are likely to arise from economic integration.

There are several different types of economic integration. But the one most common and also most appropriate for joint development efforts is «customs union». In this paper economic integration will imply customs union.

Expected Benefits of Economic Integration

It does not matter very much if an underdeveloped country which is producing agricultural or mineral goods for a world - wide export market is itself small; but smallness can be an overwhelming handicap for industrialization which in the great majority of cases must rely finally on supplying a home market. Smallness of the national market prohibits the expansion of the firms from achieving the optimum scale and the fruits of the large scale production can ont bee reaped, and such a scale may require sales area of the much langer union market.

For several reasons the internal markets of LDCs are in fact smaller than suggested by the area, population, income and income per head figures. In the first place, in many countries income is extremely unequally distributed. Thus there may be some demand for a few luxury goods but very little demand for the more basic products whose production is important for widespread development and predominates in industrialized countries. And secondly, the internal market of a counry is determined not only by population and income but also by the ease of transportation within that country. In the third place, the density of the population also effects the internal market as the accessibility of customers to producers of manufactured goods depends both on the transportation system and on the density of population. (Sutcliffe, p. 229).

A customs union among LDCs which aims industrialization may in the essence mean import substitution, but has the advantage of eliminating most, if not all, of the limiting factors of this strategy. Moreover, LDCs will be saved from competing against each other to penetrate into the well protected markets of developed countries whith the aim of breaking the bottlenecks of import substitution.

An ecnomic integration, by enlarging the market, enables the participating countries to reap the advantages of international specialisation and division of labor among the member countries, and to exploit internal economies of scale. External economies of scale and forward and backward linkages between industries can also be more fully developed (Nixson, p. 2).

Economic integration can create opportunities for the development of new sectors which are not feasible for the individual countries. By remowing the barries to trade and enabling the coordination of the development plans, integration helps the rational allocation of new industries and specialization among the participating countries.

Another possible advantage of the integration is that the intensity of competition may increase within the union. For example, national monopolies become community oligopolies and the established oligopolies become more fluid, with a reduction of oligopolistic collusion and mutual awareness (Swann, p. 38).

The expansion of the market and the production, and the coordination of economic activities may also anable the participating countries and the firms within them to increase research and development efforts which are necessary to compete successfully with the developed countries. This also strenghtens the possibility of creating new technolgy which is more appropriate for the factor endowments of LDCs.

The existing tarnsportation systems of the LDCs are established usually to serve the interests of the colonizing powers, and there is no link even between the most adjacent countries. The coordination in the field of infrastructure may greatly help particularly to develop the tarnsportation and communication systems between the member countries.

Moreover, if the union permits factor movements besides the movements of goods, the productivity of factors may increase, knowledge may spread faster, negative cultural barriers to development may become easier to remove, and consequently economic development may accelerate.

Multinational corporations may welcome or try to hinder economic integration, depending on their investment and trade structures within the integrating region. But in any case the union can deal better with these corporations by dictating the terms of investments, and when necessary by restricting or prohibiting the deep penetration of multinational firms into their industrial sector, these nations can provide a better base for their long - run development efforts (Todaro, p. 336).

Finally, economic integeration between LDCs makes them more powerful in international institutions such as IMF and the World Bank and puts them in a better position when they trade with, and import capital or technology from developed countries, and also enables them to extract better terms as they bargain together in international negotiations such as the Kennedy and Tokyo Rounds.

Difficulties and Problems of Economic Integration

Despite of the anticipated benefits, integrating arrangements are very difficult to organize, since the benefits are seldom divided equally between the participating countries. Now we will discuss some of the major problems that are likely to arise during the integration process.

At the beginning we can say that the integrating countries at the earlier stage of their industrialization are, the easier is the integration. Once all countries have begun major individual programmes of industrialization, based on small industrial markets and incurring therefore the diseconomies of small scale, then vested interests will have been established and any moves towards economic integration will become difficult (Sutcliffe, p. 232).

Additionally, if one or more countries in the union have developed to a far greater extent than the other member states, and if measures are not taken to counteract this, the union may face the possibility of failure or of the unilateral imposition of measures that will nullify the beneficial development effects of the arrangement (Nixson, p. 3). A country less advanced than its partners, by opening its market to the industries of its neigbours, may be set back in its development rather than helped. The historical example of this is the political unification of Italy in 1880 which increased the income differantial between the north and the south more than that previously existed (Kindleberger and Herrick, p. 328).

The reason for this phenomenon is that there is a tendency in an unregulated economic union towards more developed partners to obtain a disproportionate share of the increase in industrial output which the enlarged market stimulates. This tendency can partly be attributed to the external economies which develop within an industrially advanced region and which become a further determinant of the location of new industries (Sutcliffe, p. 230). This is known as «polarisation» of economic activity. The areas that are most advanced at the beginning may dominate the entire customs union, and the other areas do not gain equal shares from the benefits of the integration. To cope with this problem, several customs unions (East African Common Market can be cited as an example) have adopted a scheme of allocating new industries among the nations that make up the union, in the hope of ensuring equitable distribution of the gain (Kreinin, p. 375). For the success of integration, therefore, deliberate interference in market forces is required. In this sense integration always requires some planning. Joint planning should be restricted to the key elements of the integration effort. As a result of integration the chances of major cost reductions in existing trade of commodities are limited, because developing countries generaly do not trade with each other but trade mostly with developed countries. Therefore, for joint planning none is more suitable than the new industries (Salgado, p. 172).

But these schemes and the joint planning are very difficult to implement. In new goods that might be produced in the area and that are likely to be the most fruitful outcome of the union, there can be disagrement about who should produce what are common. Every country wants to produce the most advanced products, which are generally the most capital intensive, have the great economies of scale, and possess the highest income elasticities. Additionally, countries with a slight head start in an industry will want rapid tariff reduction, while those behind will seek delays untill their chances of competing effectively improve (Kindleberger and Herrick, p. 327). These will slow down or even stop the process of trade liberalization.

Therefore, planning implies the fulfilment of a minimum of political and technical conditions. All other things being equal, the more homogeneous those countries are, the more feasible the operation of a community industrial program will be and, ultimately the more viable the integration formula.

It should be clear from what has been mentioned so far that a «stable» economic integration cannot be created, unless the integration formula includes elements sufficient to induce the participation of all member countries in the regional industrialization process. Even more, this participation mus be «fair» in terms of not only the volume of investment and of trade but also in terms of the economic and technological «quality» of the resulting specialisation (Salgado, p. 169). So the impact of a customs union will depend on the precise rules under which it is formed the rules governing the location of industry, intraunion trade, and compensation. In general, the greater the flexibility of these rules, the larger are the potential gains (Cooper and Massell, p. 476).

Another difficulty of integration is the lack of enough communication and transportation facilities between LDCs. As mentioned, this is the heritage of the colonial past. The economic integration of even contiguous underdeveloped countries may itself be no answer to enlarging the market unless immediate improvements are made to the transportation and communication systems between those countries. Concerning the money and time that will be spend, these will delay welfare effects of the union for which the people are anxious.

Tariff reductions also present problems to countries that are weak in balance of payments, because such reductions make imports more attractive without authomatically increasing exports (Kindleberger and Herrick, p. 327). And the reduction of regional tariffs increases the importance of nontariff barriers as a tool of both easing the balance of payments problem and national development policies. This creates disagreement among the countries and diverse ploitical and pressure groups, thus creating enemies of the integration process.

Another problem involves the exchange restriction with which the goverments of developing countries are faced and that are often left intact when trade restrictions are removed. Meaningful integration cannot take place untill exchange transactions are freed (Kreinin, p. 375).

Difficulties which may come from the developed countries and transnational corporations should also be mentioned. Goverments of developed countries have a definite interest and therefore play a part in shaping the process of economic integration in LDCs. In many cases they tried to prevent effective regional economic cooperation, in other cases, they attempted to formally integrate less developed economies in customs unions and free trade zones with certain hegemonic powers. They influence or even dictate the terms of economic integration among LDCs so that duch regional cooperation will serve the interest of the non - member yet intervening foreign powers. This contradicts the objective of economic integration (Vaitsos, p. 727). In short, such efforts had the dual objective of both increasing the dependence of the LDCs on the developed countries as well as excluding other powers from interfering in their established zones of influence (RDC between Turkey, Iran and Pakistan can be mentioned as the typical example).

Transnational enterprises, as already mentioned, are not also neutral with respect to the process of economic integration among developing countries. They may become one of the strongest actors in economic cooperation. They influence policies, participate in or even dominate policy implementation, and can become critical integrating or disintegrating forces in the pursuit of their corporate objectives (Vaitsos, p. 729). For Example, if such an enterprise has parallel (competing) investments in integrating countries its interest will most probably be against the integration. On the other hand, if it does not have parallel investments in integrating countries or if the market of the individual country in which it has investment is very small, then it may strongly promote integration. So the success of the integration may depend on how strong the interests of the transnational corporations are.

The last point to note is that, the process of economic integration is a social phenomenon, produced in concrete situations and consequently benefitting or damaging specific economic and political interests. The results of economic integration are not value free. Its social legitimacy will depend on the socio - economic and political outcomes it creates. The mechanism and instruments of integration processes correspond to the interest, ideology and conception that is attributed to economic development by the social groups which stand to drive the major advantages from that process. The evaluation of integration becomes modified as new classes and groups participate in the system of economic integration (Vaitsos, p. 721 - 22). Therefore the succes of economic integration requires minimum historical, culcural and ideological conditions.

Conclusion

Most of the Less Developed Countries are small and lack the necessary base for rapid economic development. Majority of development economists share the view that economic integration may strenghten development efforts. Most important areas of anticipated gains are : the enlargement of the market enables achieving the minimum economic scale and developing new sectors; the intensity of competition may foster; reseach and development efforts and the chances of creating appropriate technology may increase; infrastructure becomes easier to improve; integrating countries can deal better with multinational corporations and with developed countries and extract better terms in international negotiations.

But there are many problems of integration. It is very difficult to equally distribute the gains that are likely to arise and to stand against the pressures put on by social and political groups, by foreign powers and by multinational corporations as in the most cases the vested interests of them will be damaged. These problems of economic integration among LDCs are not temporary ones but rather are rooted in some of the most basic structures and relationships.

The necessary joint planning and compensation schemes for equal distribution of the gains, and the resistance against vested interests require minimum technical, political, ideological, historical and cultural conditions. As the world of LDCs is shattered in all these respects, in reality these conditions are seldom to be met and consequently, despite of all the anticipated benefits, successful economic integrations among Less Developed Countries are very rare.

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