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# Economic Integrations and Economic Policy

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***Abstract:*** In fact, the Bretton Woods institutions did launch the process of real economic integration ensuring the so called four liberties. Developed countries with large internal markets, concious of the advantages of economic integration have aimed at the convergence of economic system and economic policy. This paper explores some of the involved question in this area.

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## Integration Process and Economic Policy

Global and regional integration processes began with the creation of international institutions in Bretton Woods in mid of the last century. Developing economic relations and common objectives among countries as well as regional integrative process involves restructuring of the economic functions and places the state and economic integration itself within the transition process. While dynamic economic changes transforms the functions of the state, the development of forms and contents of integration require additional restructuring in transmission of partial powers from the state to the level of integration.

Economic functions of the state are undergoing permanently through the centuries. These have been market-led as well as resulted from bilateral and multilateral arrangements within the nations. The closed economies with their 'classical functions' from the times of Adam Smith were fairly enlarged in the XIX century. In the 1930s the same were further expanded and with the Bretton Woods began the real process of international economic integration, the so called globalisation[1].

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The direct and indirect genesis of today's global and regional institutions and integrative associations can be written to the Bretton Woods and to the creation of International Monetary Fund, the World Bank and to the United Nations itself. The GATT and WTO have finally compensated the lost cause of International Trade Organisation, which because of the significance of the international trade, and of the common solutions to economic issues have significantly influenced the global relations. This has brought about and influenced upon economic, legal, and political positions of individual countries. Global, regional institutions and so the integrative associations have established new economic and political positions of partner countries.

Integrative legacies emerge through voluntary transfer of their powers by the member countries to the associative body with the aim of attaining the objective of common interest. In this context, frequently asked key questions are: To what limit can partial interests be reduced in the name of collective interests? What happens to the economic sovereignty of the member countries - evidently economic, to some extent political and legal?

Economic sovereignty means autonomy in creation of one's economic policy, which increasingly is under the influence of global economic institutions. Generally speaking, the rule that governs the functioning of the global institutions is one dollar one vote (and not one country one vote). Although at some regional integrative levels e.g. EU there exits a built-in mechanism of protection from domination, it is difficult to devise a system that can provide an absolute protection and stimulate relinquishing some of its sovereign powers in economic domain. It can be assumed that transfer of powers from the state to the integrative body is likely to create tensions that could rise to levels of economic disturbances and even crisis.

In the classical sense the role of the state and its functions[2] and the sovereignty is slowly passing to history. One sees a restructuring process of economic functions of the state underway, resulting into independent growth (ecology) and democratisation (social phenomena). Accordingly, the rise of the ideal of a 'social state' entails changes in the role of the state in economic spheres. These changes emerge because of two contradictions i.e. state's desire to create collective values that involves various kinds interventions, and state interventions and rise in public expenditure leaving little space for autonomy of the individual subjects for organising production and consumption. It can be said that modern state, as against the classical, practically determines everything from birth to death.

The question of subjectivity in economic field includes the social sphere as well. It implies that the position of an individual is economically and socially determined in the integrative process. A closed model implies isolation from the environment through protection systems. Such models have led to the poverty of nations and ultimately to the destruction of the models themselves. Evidently, economic choice is that of opening up and intensive co-operation with others i.e. economic integration.
Models of integration that developed after the Second World War under the influence of global multinational institutions, as well as regional bodies have succeeded in reducing volatility in world trade, promoting economic growth, which everybody

hopes will not be a lost period (Singer, 1993). Alternatives are: economic disorder, increased volatility in the markets, frequent crises, economic isolation of nations and new forms of autarky (Stiglitz, 2003).

At the moment we are far away from any ideal model of integrated market of goods, services, and factors at global or regional level. This is valid even for countries that have many common cohesive elements from language to historical, economic and political factors (e.g. Canada and the US). Considered from a regional aspects, in a country with expressed regional differences in the level of development, flow of goods, services and factors is far from ideal (e.g. Russia, China, India, Brazil and so on). Evidently, differences in the level of development, that being a result of economic structure generates differences in economic policy. The key question remains as how to harmonise economic motivation with intervention in the market. Differences in the regional structure create local barriers, monetary, fiscal and other constraints that hinder the free flow of economic agents. The question is can the regional or international market be integrated, if the determinant policy remains at the local level? Or, can the global policy take into account the differences in regional characteristics? These questions do deserve answers both in theoretical and applied sense. Naturally, these concerns efficiency of a new emerging system, while at the same time at stake is the functioning of are interstate economic integrations based on the proclaimed principles of free flow of goods, services and factors.

Creation of new systems and new policies for an integrated market implies convergence within relevant factors. In other words, in emerging inter-state economic associations, the various aspects must have criteria that would allow convergence to take place at different levels of development. This builds up positive expectations and stimulates the process of voluntary surrender of relevant functions of the member states to the newly created integrated entities.

Bilateral and multilateral co-operation, particularly in the economic field is making the interstate border barriers much relaxed making mobility of labour, capital, and services. Intensive spatial mobility and interaction between different value systems affect the changes and adaptation of economic policy. Economic realities create permanent pressures for making changes in the system and thus on sovereignty.

It follows that various economic activities make any bilateral and multilateral system. All the countries of the world universally accept some solutions. This is particularly valid for trade of goods, services and capital, financial transactions. But does not hold good for free mobility of people. This has led to illegal flow of people. Thus the arguments in favour of liberalisation of labour market loose ground. So as to avoid mechanical movement of the people, the solutions need to be looked in economic growth, reduction of unemployment, and balanced regional development.

Ordinarily, by economic sovereignty we mean autonomous role of the state in creating its macroeconomic system and policy. But, the policy implementation depends upon other sectors particularly firm and population. It is therefore there is an increased role for firms and local communities. Because of the interregional relations and such economic relations are getting beyond national control or pressure is being built all over the countries to make needed changes in macroeconomic climate. Similar is the case with population, the physical mobility of which under current conditions is on permanent increase not only internationally but nationally as well.

The on going processes on global and regional level have brought in a certain degree rationalisations to individual interests thereby enabling various benefits of an integrated market. A presupposition to internationally integrated market is in monetary and money policy sphere. New developing international relations are having its impact on local policies that would in turn affect the global economic trends.

Developing countries use global institutions, as well as partial measures for fulfilment of their objectives. This is done through various state agencies, economic and political units and companies. Of particular mention is the implanting of multinationals, which have expressed external economies and create multiplicator effect in the national economy. Such forms of "co-operation" leave very little place for autonomous manuvering and following independent macroeconomic policies in small and less developed countries (Sharma, 1990).

It is logical to assume that such "co-operation" leads to the reduction of autonomy in leading of national economic policy. Namely, economic co-operation is manifested by direct links between the production and trading companies, financial institutions and the similar. This is also valid for telecommunication, media, infrastructure, and energy, technological and other sectors that have an edge in external economies.

Economic integration takes place in various forms, but in essence it ends up in reduction in autonomous national economic activities. This "reduction" is more or less visible in case of smaller and weaker economies. Although economic co-operation grows through companies but classical beginning is through resource mobility, merger, and take-overs of financial institutions. This is also valid in case of multinational corporations.

Evidently, in the modern times, the role of the state in the field of economic policy is supposed to mean the determination of global assumptions and conditions of economic growth, development and business, i.e. conditions free market and competition. Adaptation of the country's economic system to the process of liberalisation of the world trading system necessarily changes the classical role of the state in economics. Naturally, in this 'game' the developed countries attempt to ensure "as free as possible" flow of capital, increase supplies, and vigorously protect their own less developed segments of economy. The practice so far lead us to conclude that only freedom left to the less developed economies is in the domain of "national folklore", or seen from the international trade point of view, or role of GATT, and even WTO, the message could be read as 'in your local market, dance to your own tunes, but remove all trade barriers and restrictions towards your neighbouring partners' (Rodrik, 2000).

It must be stated that although the concept of "self-sufficiency" of nations is a thing of the past, still some softer solutions need to be found for correcting the "disproportions" and "infiriorities" of the less developed economies, as only then linear solutions would work successfully.

The new global economic system that is emerging must acknowledge the fact that international economic relations are multidimensional which need to take into account. Partial interest can only be locally sustained.

Economic integration changes the economic assumptions of member countries. Changes reflect a concentration of economic functions at the level of integrative body and elimination of the same at national level. This means that we have thought some new role for the states, new measures of intervention in macro- and microeconomic policy. For example, government's fiscal measures must avoid measures that are discriminative, protect monopolies, favour certain groups in comparison to others in the common market.

In any economic union, measures directed towards one economy are as much a national question as is of the other states. The spillovers of positive and negative effects among members involve serious preparations and solution testing. This rules out the so-called "rational" partial interests (that usually create insecurity), and "quick" problem solving. Interaction within the integrated economies excludes the "useful piecemeal "mis-utilisations", which could jeopardise economic, political and legal relationships among nations. This for these reasons that in certain segments of monetary, trade, and fiscal policy a real internationalisation has taken place, which is evident from the role played by international and regional institutions.

Banking is an important economic activity. In transition economies, the monopolistic role of the state banking institutions has been put to severe test of competition. Measures safeguarding "national interests" and "channelling" are well known. However, banking operations must respect the principle of universality and should not discriminate among residents and non-residents.

Integration process among nations takes various forms - joint ownership, take-over, establishing sister companies etc. This is most common in financial sector and increasingly supported by technological and IT systems eliminating the spatial and 'traditional' dimension.

Travelling by increased number of people has helped change the attitude of the people towards various economic and social issues. This has speeded the 'flows' and reduced the 'time' factor. Mingling of people over a certain space has induced the states to promote institutional changes (e.g. religious, moral and ethical norms).

Every form of regional economic integration involves reduction of barriers and re-formulation of legal solutions. This does eliminate the hindrances in the process of economic integration and co-operation between nations. But, this also leads to some dislocations in state's competence and power structure.

European economic integration, now a full-fledged legal entity as EU, illustrates a success story of economic functions of the union particularly in the area of monetary, fiscal, regional development, social and sectional policy. The common European policy has the task of promoting convergence in the level of development and conditions of living across the nations. Enlargement of EU is likely to lead to a number of heterogenities. Under these conditions the EU is required to implement a common policy ensuring progress and development. Any interventionist measure ever applied will have only one objective i.e. to ensure the functioning of a unified market and its function (information, allocation, and distribution) through competition and free flows.

The EU introduces and implements solutions based on the reality that is heterogeneous in economic sphere. Transition countries have until recently suffered with an isolation from the rest of the world. Acceptance of new ideas was subjected to easing restrictions and often hiding the national 'homogeneity', political elitism and economic poverty.

When it comes to economic policy, it is important to mention that it is a dynamic process open to resolution of variety of issues. It follows that, by definition, there is neither a conflict nor exclusiveness between the state's economic policies and the union. This is even more so because the latter is built by the will of the former, and both are to have a support as long as they can meet positive expectations of citizens, through growth and prosperity.

Transferring economic functions from the state to the integration level implies major changes that can bring greater efficiency and development to member states. From the efficiency perspective, restructuring of economic functions, by definition, does not threaten or reduces national economic sovereignty. Similarly, it does not imply an automatic congruence with the increase in efficiency and prosperity.

Introduction of changes and restructuring of the original functions within a country implies changing the relations between national authorities' jurisdiction and the integration. It must be noted that defining the relations and distinguishing between functions, instruments and measures of economic policy does not mean a strict hierarchical classification, but rather building of a model that envelops all the participants in accordance with their possible role in increasing the overall efficiency.

## Market and Competition

Regardless of the size, countries or specifics firms are directly and indirectly predestined to the exposure to global market competition. It is hard to envision, even in a "flex planning" mechanism to dream of development without competition. In such a case, planning is done with the purpose of choosing a global strategy, searching most efficient solutions, rationalising the use of available resources, and finding best suited economic policy measures and instruments. All this is done along with preservation of inevitable functions of the market and competition. This is valid to all countries regardless to their classification (usually done by population, area and similar physical characteristics). While considering the size of the internal market, the level of economic development, technological strength, and a degree of self-sufficiency should be taken into account (Streeten, 1993).

Economic self-sufficiency, tested through history, regardless of the size of a country, is unlikely to secure high degrees of development in a contemporary world. Large and highly developed countries spend a significant amount of money on research and development to secure a satisfactory level of employment, which poor countries can not afford. In order to reduce the technological gap, innovations and technologies need to be traded. Small countries are compelled to such transactions and co-operation with their surrounding nations due to natural, technological and other constraints of economies of scale.

These days it is hard to imagine a country that is capable of developing through autarky. Sometimes, relative trade shares of a country (export and import with the rest of the world) could lead to wrong conclusions. It is a characteristic of small countries to have large trade shares and vice versa. This can be seen through structural changes and relative importance of a country in any particular field of global production.

Integration process by rule enlarges the fold of an economic area and reduces barriers. Uniform market conditions imply the presence of an intense competition that usually eliminates the weaker economic players. Inferiority is caused by differences in technologies and established market positions. Since, the uniformity of conditions in under state of dis-equilibrium favours the developed countries, the question arises: How to establish equilibrium?

The answer to the posed question, in context of a decreasing economic gap, can be found in the interaction of market and competition on one, and instruments and measures of economic policy on the other hand. The aim is to speed up the development of all member countries, with special attention of economic policy focusing on the less developed. Development policy models that are sometimes offered cannot be characterised as 'social or equalisation' models, but rather of 'needs to activate the use of available scarce resources and depreciation funds'. From a regional policy point of view, developmental differences need to be respected, and even stimulated. As long as such model create growth and avoids stagnation or legging behind, they do make a difference.

In order to eliminate inferiorities, interventions and competition should go hand in hand. Sometimes interventionist policy measures have a developmental rather distributional (allocation) role. By increasing growth dynamics and raising the level of development of a region, growth of local (national) and integrated market is secured, and equilibrium is ensured by free play of supply and demand.

It is clear that the issue involves targeted economic policy measures aimed at concrete structural contents. This implies monitoring by the state, a clear target, precise and appropriate measure(s) for resolving the existing imbalances. Insensitivity of economic policy to the integrated member country's problems would imply an ignorance of reality, and even the widening of the structural gaps. Ultimately, it would be reflected in a fall in partial and global efficiency, and would question the very economic purpose of the existence of integration.

Economic policy at the integration level as well as at the member country level has a complex task extending to two seemingly contradictory points. The first one concerns stimulation and development of market competition within which the chances for survival of the weaker ones would be minor, and the other related to hedging against the 'inferiorities' and activating regional resources. Still, these at first sight distinct contradictions can be turned into 'complementarities' in development process, especially if we are to follow open economy model.

Due to the fact that any economic union is an integrated economic area, economic policy measures need to be examined in the light of free movement of resources. The fact that allocation of resources is not determined by price and the availability of a specific factor, but by a complex system of global productivity. This is another issue that needs to be considered simultaneously. It follows that in given market conditions mobility and allocation depend on numerous growth presumptions, creating space for seeking solutions for economic policy structuring. Due to structural differences, the need for intervention should be looked upon in a dynamic environment.

From national and external authorities point of view, reformulation of economic policy, intervention measures are tied with the issue of motivation. Namely, every measure has to have positive and stimulative development motive. For example, passivity of population and unrealistic expectations from external interventions can have negative effects.

It follows that the instruments and policy measures undertaken by countries and integration bodies need to converge and lead toward the fulfilment of identical economic goals. This implies that functions of government in the economic life will be increasingly manifested through the quality of management of institutional condition framework and core structural contents. Also, these are the presumptions for expected commercial projects for the internal and external partners in development process.

Convergence in the area of economic policy measures and instruments between internal and external structures should be understood as a continuing creative contest. This involves evasion (which often is the case) of direct involvement, and blocking the role of market and competition. The strengthening of the so called distribution function of a state and/or integration destroys value systems, blocks market, and leads to mismanagement in factor allocation and in drop of efficiency, and even in a destruction of motive of development.

## Sectoral Policies in a Partner Country

The actors influencing economic policy at national and integration level create new organisational forms to restructure it. For example, European Union enables an assessment of member country's or a potential member country's interests. Increased communication and the availability of information at all level influence institutional growth and co-operation. To this end liberalisation of relations certainly does contributes and the same is reflected in a diminishing of economic barriers and in improvement in the flow of goods and production factors.

Each participant in this process, regardless whether it is in the public or private sector has identical or specific interests, and even organisational forms. These interests are then construed into institutional forms. In case of economic ties, it is of important to emphasise that the same are not neutral and very hard to be separated from political, legal and similar ends. Political relations require legal forms through which overall relations, including economic ones are regulated.

The EU area can hardly be considered as perfect as it is still far from an ideal concept of economic freedom and social justice. Yet, it is safe to conclude that in practice EU represents a significant positive step forward towards the known forms of co-operation among countries.

Developing ties between a country and any integration implies that the existing institutional forms need to regulate the future relations. Institutional adjustments also include changes in the economic system and policies, which significantly shape the terms and dimensions of co-operation of all the participants. The development of bilateral and multilateral economic relations and especially those between the integration and countries themselves condition changes. Convergence in the area of economic systems directed towards harmonisation of solutions and relations are increasingly being emphasised. It is, therefore, natural to assume that this process will be intensified and so will be the process of eliminating economic disproportions.

Expansion of the common ground shapes new forms of co-operation. In the beginning, this is only restricted to the areas, respecting the differences among states, in which it is possible to determine common standpoints and common policies. Today, these are the areas where the creation of variety of solutions of global type are available e.g. monetary, credit control, fiscal, currency regulations, trade, ecology are some of the few areas. Some of these areas are already regulated universally through global solutions within world institutions (e.g. IMF, World Bank, and WTO).

Compared to global world institutions, the common ground built at the base of regional integration appear to be more stable, which is a commonly used argument for the development of political, legal, and especially, economic relations in European Union. Based on institutional solutions within the framework of the EU common policies have been implemented. Common policies in monetary, fiscal, trade, agricultural, traffic, scientific, research and technology and other fields have helped significantly change economic policy functions of the member countries and of the EU.

Co-operation between legal institutions and population too is an important form of bilateral and multilateral economic relations between countries. Direct economic relations enrich institutional frameworks and very often influences the development of new institutional forms and their contents. Different forms of relations range from physical integrations, adopting structural contents, joint activities and investments, common initiatives etc. It is important to emphasise that it is through this type of co-operation and relations that the economic geography is changing. What is taking place is a change of value systems, change in attitude towards work and leisure, progress in entrepreneurship and management, etc. Ultimately, all these changes are influencing upon the location of economic activities and the market integration.

Different forms of co-operation create new contents and involve new subjects. It is important to mention that according to the intensity of co-operation and its influence on national economy it is possible to look at the relations as either primary or secondary. Primary relations are the ones that directly change the economic policy functions, as well as the role that the states and the integration play. Secondary relations use the space opened up by the latter and through practical implementation of projects that raise the level of sectoral and global development, expand the spatial ability if market absorption, change the consumer habits and advance technologies. This is how, both physically and in content, common areas are being conquered and expanded.

Organisational and technological integration of economies seeks linkages in other areas as well. This type of joint programming of development becomes now an imperative of economic survival. It is clear that it will be increasingly difficult to contemplate partial approaches and solutions at integration levels. It follows that the expansion of integration models to new levels and countries will put a pressure on integration institutions and need for changes. Does a certain partial interest motive endanger national structure and values and/or integration itself? This is certainly not excluded possibility. However, such solutions are likely to be short-lived, and even if well affirmed, would lead to distortions.

The development of private sector in the so-called transition economies is of recent origin. Numerous deformations have been observed in the process of change of ownership structure. Privatisation process established normative code that suited the inflow of capital. This took place in most countries, of course with different intensity, in countries entering the EU in the first round. The real union is taking place through the financial sector (banks and insurance companies), but it is not insignificant through large infrastructure systems.

The influence of the financial sector on government's economic policy is usually significant. The problem could arise if they are not led by economic, but rather non-economic motives and short-term speculations. Still, it would be wrong to conclude that due to the limits in independent determination of economic policy of 'national' interests, interregional processes should be limited. Even more so since the lack of autonomy could create an economic advantage. The advantage is manifested in rational use of scarce resources like capital, technology, organisation, market and competition, decreasing the possibility of investment failures. Such lack of independence is markedly visible at regional levels. In this context, the position of local authorities to influence the development of these systems through economic policy is weakened at first sight, but the role of firms themselves is very significant, since they are capable of hedging against the external shocks and overcoming numerous development limitations through co-operation and interactions with developed systems from their surrounding.

Looking by sectors interregional co-operation is usually established in areas of financial and human capital and in production and trade of goods and services. This leads to relations in the field of security and insurance. Most important are the changes that directly or indirectly take place in changing the roles of the state and the public sector. Especially significant is the diverse system of government guaranties provided to transform private sector. Mentioned co-operation then influences the shaping of methods, models and the intensity of the economic policy itself. It follows that the solutions in the area of economic policy are created under the influence of concrete endogenous and exogenous conditions.

It is said that while dealing with the transition and restructuring processes often organisational forms, and not contents and goals are put into the focus. Thus numerous ownership forms, and even privatisation, are not the goal, but rather an instrument for efficient growth and prosperity. Based on experiences in developed market economies it is safe to claim that private sector is more efficient and vital than the public sector. Still, it need not be taken as an axiom in all cases. However, if the primary goals are economic, then efficiency must be the crux of the goals. It is obvious that economic, political and social differences do exist and these create differences in directions and dynamics of unfolding of certain processes. Processes directed toward the elimination of economic disproportions seek complementary economic policy both at country and integration level.

## Conclusion

Economic policy implies activities necessary to be undertaken due to the specific circumstances that take place, or that are likely to take place in due course of time. Efficiency is a key criterion for the determination of the level at which it is necessary to act and devise solutions. Not surprisingly, it is also a criterion for restructuring and transition on one hand and on the other a measure of distinction of economic functions between among member countries and the integration. Economic policies of member countries and of the integration system must conform both to common and partial interests.

NOTES

1. In the eraly years of twentieth century, Keynes had his own vision of an integrated world (1919), which he further elaborated in 1942 and the same found their way in thecreation of Bretton Woods institutions in 1944 (See Meier, 1984, pp 17-19; and Singer 1993).

2. Classical functions of the state as defined by Adam smith are restricted only to defence and security, legal system, education, health, culture, public infrastructure. The state should bears all the costs of the mentioned and costs of its own functioning (See Smith,1776). In modern times, the functions of the state have expanded to a great length, particularly under the impact of Keynesian and Neo-keynesian philosophy. No less has been the influence of 'welfare society', and 'socialist' philosophies on the functions of state in the post-war years.

3. According to the population, small countries are those with less than 10 million inhabitants, and extremely small are those fewer than 5 million inhabitants. (See: Streeten, 1993, pp. 197-202).

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