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THEORY AND PRACTICE OF REGIONAL ECONOMIC INTEGRATIONS

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Summary: Regional economic integrations are the fundament on which modern economic relations are based. They stem out of numerous interests of those countries whose desire is to transfer some part of their authority into a new national-legal framework. One of the decisive reasons for these changes is the economic interest. It is realized because by integrating singular economic markets, better economic effects are achieved for all members of the integration. These effects are achieved for better exploitation of natural resources, workforce, etc. Knowledge, technological development and other positive externalities are used within these integrations. For this reason the integrations are more and more present in modern socio-economic activities. They are based on relevant theoretical works which have in the past half a century provided the scientific confirmation of the existence of great economic benefits gained through these integrations. Theory-wise, each integration brings changes to the consumers and manuacturers of a country that enters it, while other changes take place as well. The most notable authors of the theories of customs union, economic and other integrations are Viner, Meade, Balassa, Lipsey and others. The EU is a typical example of a great and successful integration. It is still being enlarged. The new member states achieve faster growth through the advantages provided by the large market. The European Union has a rich history of its development while the ideas of European integrations are century-or even millenium-old ideas.

Key words: Integrations, regional, customs union, advantages, theory, large market, the EU.

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1. General and theoretical approach to regional integrations

1.1 Levels of regional integrations

Economic integrations are forms of fusions on a antional, regional or international level. Motives for integrating national economies are abolition of customs and non-tariff barriers and other limitations to the international trade. Integrations provide freedom of movement of people and assets and other factors of production. Such an integration is based on liberalization of relations between the members of the integration, while new barriers are being introduced or are already in existance towards third countries. Modern regional integrations are a specific form of integration of economic, political or geografical regions. This fact contributed to creating different hypotheses by federalists, confederalists, nationalists, functionalists, etc.[1] Strategical economic integrations are unfications of countries with the aim of protection against disloyal import while others can be related to integrations for the increase of trade exchange in relation to third countries. Federal forms of integrations are characterised by the existence of umbrella institutions. Political power is transferred from a nationa to the level above. Functionalists support the view that running of institutions is shared by member states. This requires a high level of community support, tolerance and the veto power. Nationalists prefer integrations that preserve high level of sovereignty and national identity of a member state.

There are several basic forms of economic integrations. In 1961, Balassa[2] introduced the concept of regional integrations in five stages. Today they may be seen as obsolete and yet they are topical because of studying doctrinal, historical and economic reasons.[3] Apart from Balassa, Meade and Timbergen (1953 and 1954) can be credited for the development of the integrations theory. The essence of their works can be expressed as follows:

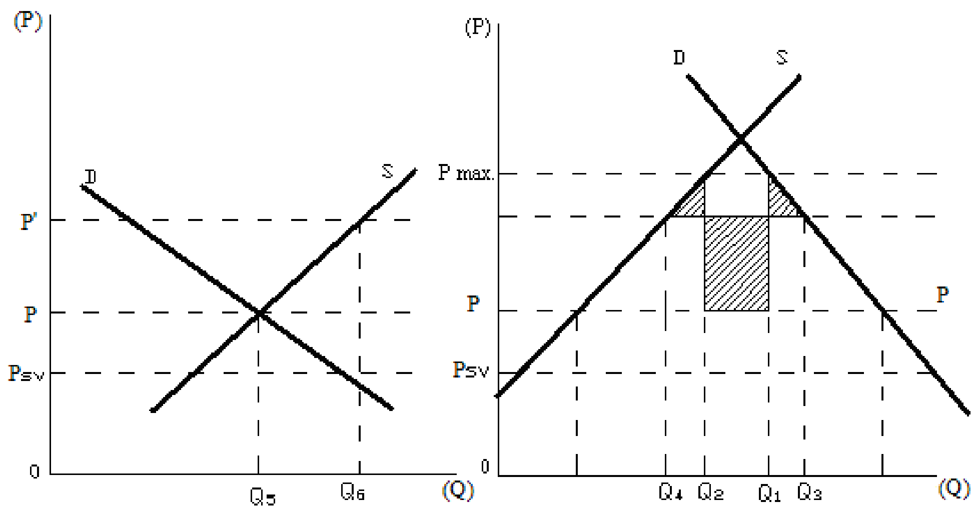
Free trade zone is a preferential agreement between countries, pertaining to elimination of customs and quantitative (non-tariff) trade limitations between the

[1] On European communism see Lenaerts, K., Constitutionalism and the Many Faces of Federalism, American Journal of Comparative Law 38, 1990, p. 205.; Coleman, J., The conscience of Europe, VEGA, Novi Sad, 2003; Mancini, F., The Making of a Constitution of the Europe, Common Market Law Review 26, 1989, p. 595 or Joerges, C. And Neyer, Multi-Level Governance, Deliberative Politics and the Role of Law, European University Institute, Working Paper RSC, 1997 and other.

[2] Balassa studied macroeconomic issues and the effects of integrations.

[3] On the liberalization of the market Balassa wrote in: Balassa B., Trade liberalization and "revealed" comparative advantage, Manchester Schol of Economics and Social Studies, 1965 and Balassa B., Trade liberalization among industrial countries, Mc. Graw-Hill, New York, 1967.

zone member states. This form of unification entails that each member country retains tariff towards non-member countries. The downside of this form of economic integration is the so-called trade deflection. The import of goods from non-member countries into the free trade zone based on market principles, is conducted through that one country whose customs duty traffic is of lowest frequency. Following the import, the zone member country defines autonomously the commodities' prices, which enables the country to achieve the most competitive position in the whole zone without the work productivity growth. This leads to assuming privileged status and affecting market realtions The key issue of the free trade zone is regulating rules of the origin of goods. The graph 1 indicates operating within the free trade zone. It analyzes the state of creating free trade zone between a host country and a partner country in the regional integration:



Graph 1: Free trade zone with two countries as examples (Note: vertical axis indicates Price (P), while the horizontal axis indicates Quantity (Q))

The member countries of the zone abolish customs towards one another, however, they can keep customs duty rates for foreign market. That establishes a new type of situation in which a country with higher prices OPmax imports goods without a duty being imposed by a partner country in the free trade zone, by the lower OP price. If the partner country is relatively smaller from the referent country, it will then be able to achieve additional growth generated by export growth. Prices in the referent country will be established at the global prices level multiplied by the sum of customs duty in the partner country. Trade-deflection effect appears. Total effects of establishing free trade zone among different countries depend on the ratio of offer and demand among them. After the fusion of such two markets, according to market law, it will lead into spillover effects in the prices sector.

Trade union is a more complex version of the free trade zone.[1] The difference is in the application of the customs policy where the participant countries form a common external tariff towards the countries outside of the union. One advantage of the customs union over the free trade zone is in the fact that there is no trade diversion, so the importers are barred from importing through a country with the lowest tariff rate. The other advantage is the size of the market and competitiveness. The main trait of the common market is its elimination of the remaining trade barriers in the trade among the participant countries. All trade participants on the common market have equal rights and obligations, regardless of the country of origin. There is free movement of factors of production. Economic and monetary union is the most complex integration in the modern world. Its members accept the common currency and the common monetary policy. This includes collaboration among the member countries in other policies as well. Thus, for instance, in the EU there are around twenty common policies. Bank institutions in such unions are responsible for the developments in the monetary area as well as for creating monetary policy. They also coordinate work with monetary authorities of the member states. Economic and political union is an all-encompasing integration of the federation and its members (e.g. the USA). Economic and political unions are the most complex forms of regional integrations. They regulate the union and solve the issue above the national level. The sovereignty of its members is marginal. Apart from the basic forms, there are other possible modified forms of international economic integrations, such as: Agreement on preferential tariff, which includes lower tariff rates in the mutual trade of the member states, in comparison with the rates towards other countries and a partial customs union which occurs in the early stages of the evoultion of customs or economic union (when member states retain their initial tariffs on the mutual trade and introduce the common tariff policy for the third countries.). Integration levels according to Balassa are shown in the table 1:

[1] See: John Mc Millan and Ewen McCann, Welfare Effects in Customs Unions, The Economic Journal, vol. 91, No. 363, 1981.

Table 1: Levels of economic integrations according to Balassa

Level	Description	Features	Examples
0	Regional autarchy	Bilateral trade agreement	Japan at its entering ASEAN
A	Free trade zone	Tariffs and import quotas eliminated but retained for third countries	NAFTA, EFTA
B	Customs union	Tariffs and import quotas eliminated internally but retained toward third countries	Mercosur[1]- integration attempt of South American countries
C	Common market	Free movement of factors of production goods and services	EU (ex-EMU)
D	Economic union	Harmonization of national policies and transfer of authority on the level above the national one	Common policies; e.g.: competition policy in EU
E	Monetary union	Common currency and central bank	EMU and ECB in EU
F	Fiscal union	Harmonizing taxation sector; fiscal sovereignty	Phases in EU development
G	Political union	Political and democratic Institutions on the above-national level	USA, Canada, Switzerland

Source: Patrick M, Croweley, Before and Beyond EMU, Rantledge, London, 2002.

1.2 Statistical and dynamic models of regional integrations

Statistical model of regional integrations. The theory of customs union is linked to Viner[2] (1950). His theory is based on two concepts: trade creation and trade diversion. The effect of trade creation is the postive effect of integrations on social welfare in the integrated area. The effect of trade diversion is related to the relocation of trade from the third countries to the countries of the customs union. Viner believes that the effect of trade creation boosts the level of welfare.[3] The

[1] The union of Latin American countries: Argentina, Brazil, Chile, Paraguay and Uruguay.

[2] On theoretical aspects of the customs union see: Viner, The Customs Union Issue, Steven and Sons, London, 1950.

[3] On the effects of Trade diversion and Trade creation see: Kandogan Yener, Trade creation and Diversion Effects of Europe's Regional Liberalisation Agreements, The William Davidson Institute of the Michigan Business School, Working Paper, Number 746, 2005.

trade diversion effects are the negative aftermath of integrations affecting the welfare in the integration zone, because the factors of production are then used with a dicreased efficiency compared to the one before the integration occurred. The effect exists when two member states do not purchase a product of the highest quality from the third countries but the cheapest one (without customs duty) from a country in the union, that was not produced in the most efficient of ways.

Viner supposed the lack of flexibility in demand and the constant production expenses and neglected the effects of the customs policy on the demand. The supply is fairly flexible and there are no substitute options. Therefore, the model contains limitations that do not dimish its credibility.[1] In his theory, Meade[2] introduces the analysis of the effects of customs union on consumption, which adds to its scientific significance. He measures the newly established trade with the drop in expenses by the production unit and the diversion of tradewith the growth of expenses by the production unit, which leads to the following conclusions: a) for the expenditure in country A, trade diversion can be more beneficial than trade creation that gives preferential treatment to the preferred suppliers; b) unless it boosts its export to partners, the member state of the integration wil not reap benefits from trade creation (compared to the situation prior to integration). From the viewpoint of a partner country, this situation is seen as trade diversion. Provided countries A and B form customs union, then the trade among countries A, B and C develops in the following way: a) in case where neither country A nor country B achieve good production, there is no trade diversion and the customs union supplies itself from the cheapest importer; b) if country A alone has a good production but it does it inefficiently, the choice between the local produce and export from country C depends on the customs union tariff; c) one of the customs union countries has the most efficient production. It delivers its produce to the market without the foreign trade protection; d) when both members of the customs union make products in an inefficient way, then the country with the lowest economic efficiency supplies the whole market of the union, which depends on the common foreign tariff. Other combinations are also possible. Therefore, factors of production can be relocated with the customs tariff, namely capital and workforce. With the aim of providing explanation of the static theory of customs union, the

[1] Apart from numerous Viner's works, see: Viner Jakob, The customs Union Issue, Carnegie Endowment for International Peace, 1950.

[2] Meade is one of the best known economists who studied the functioning of customs union: Meade, J.E., The Theory of Customs Union, North Holand, Amsterdam, 1955 or Meade, J.E., The Balance of Payments Problems of a European Free Trade Area, Economic Journal, vol. 67, 1957, p. 379-396.

example of European integrations is frequently used. Viner analyzes static aspects of the customs union. Beside him, the problem was treated by: Tinbergen (1962), Balassa (1986), Baldwin (1994), Egger (2000) and others. Apart from analyzing the customs union, Meade (1955) and Lipsey[1] (1957) preferred the research into the problems of trade diversion and trade creation.

The dynamic model of regional integrations. Dynamic effects of economic integrations are important for the integrations on the global level. The dynamic theory of the customs union in the European area is specific regarding the manifestation of the economic effects. The EU is faced with the erosion of its macroeconomic stability, recessions, oli shocks and world crises. It supports the preservation and the development of competitiveness. For this reason, the analyses of the effects of European integrations contain indicators of the real diversion and creation effects.[2] Integrations provide the market growth, and the greater the market. The greater the number of chances for it to become more efficient. Great markets enable companies to use comparative advantages, which fact inevitably leads into the growth of aggregate demand and investments. The economy of scale is closely related to the integration processes. For more than a century and particularly in Europe, economists have been researching the advantages of large market[3] and the advantages of large industrial plants. There is, undoubtedly, a causal relationship between integrations and the economy of scale. Integrations cause the growth in competition followed by the responsibility in prices policy, work productivity and technological advancements, active relation toward consumers, etc. The positive effects of strengthening the competition on large markets are felt by countries outside of integrations, due to the lowering of import

[1] Lipsey studies the system of general equilibrium and "Pareto optimum," especially in the paper by Lipsey R. G. and Lancester K., The General Theory of Second Best, Review of Economic Studies, vol. 24, 1956, p. 11-32.

[2] Sapir, for instance, (1992) uses the method of "triple source" and the theory of differentiated consumption of food, drinks and cigarettes. The import growth of the first group gives positive effects to the development of trade. Drinks and cigarettes did not have this trend.

[3] The more contemporary history of the European area is marked by wars based on expansionism whose ultimate goal was the creation of a large economic area, which were all dominated by Germany. Thus, during the WWI the German politician Friedrich Naumann put forth a program for the establishment of a great economic area. He called the Central European Economic Association "Mitteleuropa." See: Reinhard Opitz, Europastrategien des deutchen Kapitals, 1900-1945, Bonn, 1994.

prices. The advantages can be found in the close intranational cooperation, which all creates competitive advantage.

Table 2: Growth rates and GDP per kapita

	Average annual growth GDP per capita			GDP per capita for 2007 (EU27=100)
	1996-2001	2001-2006	2007	
Austria	2,4	1,3	3,0	127,7
Belgium	2,4	1,5	2,0	118,9
Bulgaria	3,1	6,3	6,2	37,9
Cyprus	3,0	1,3	2,4	91,6
Čzech Republic	1,4	4,4	5,9	81,0
Denmark	2,1	1,6	1,4	124,0
Estonia	7,5	9,3	7,3	71,4
Finland	4,3	2,7	4,0	118,3
France	2,4	1,1	1,6	110,6
Germany	1,9	0,9	2,6	114,0
Greece	3,4	3,9	3,8	98,2
Hungary	4,8	4,5	1,5	64,1
Ireland	7,7	3,4	3,1	145,9
Italy	2,0	0,2	0,8	101,3
Latvia	7,2	9,6	10,9	57,9
Lithuania	5,7	8,6	9,4	59,8
Luxembourg	5,1	3,0	2,8	279,2
Malta	2,7	1,2	3,1	77,1
Netherlands	3,1	1,1	3,3	131,2
Poland	4,4	4,2	6,6	54,4
Portugal	3,3	0,2	1,6	73,6
Romania	-0,7	6,4	6,4	40,2
Slovakia	2,7	5,9	10,3	68,3
Slovenia	4,2	4,0	5,5	90,1
Špain	3,7	1,7	2,0	104,1
Šweden	3,1	2,7	2,0	123,6
G. Britain	2,8	2,1	2,7	117,8
EU27	2,7	1,6	2,5	100,0
USA	2,4	1,8	1,2	154,3

Note: GDP per capita is measured according to the prices in the year 2000. The GDP level per capita compared to the EU (the last column) is calculated applying the pps (*purchasing power standard*).

Source: AMECO database (Annual Macro Economic Data) – European Commission, DG ECFIN.

Free trade agreements. Viner[1] points out differences before and after the free trade agreement. They relate to the members of the economic integration and the non-members of the integration that establish trade relations with them. He notes that the production is inevitably dislocated, from the area of higher production costs to the area of lower costs. The effect of trade creation then appears. For this reason, the supplies from the area of low production costs are growing then and are directed to the area of higher production costs. This theoretical view is compatible with the situation in the EU. Growth rates in new members are significantly higher than with the old member states. That is clear from table 2 which indicates the dynamics of GDP in specific periods and the relative development of the members (based on the pps method) for the year 2000.

Growth rates of the developed countries are stable, but not hte highest in the EU, while the growth rates of the less developed EU countries are lower than the EU average, which confirms the correctness of integrations processes as well as the implementation of common, particulary cohesive policies. This affects the work productivity growth. Table 3 presents the indicators of productivity:

Table 3: The growth of real productivity per employee, GDP levels per employee (ppe for 2007) and the hours of work GDP level (phw za 2007)

	Growth of average annual work productivity per employee			**GDP (ppe) 2007 (EU27=100)**	**GDP (phw) 2007 (EU25=100)**
	1996-2001	2001-2006	2007		
Austria	1,6	1,4	1,4	120,4	107,9
Belgium	1,3	1,4	1,1	131,2	133,8
Bulgaria	2,4	3,3	3,3	35,6	34,6
Cyprus	2,6	0,2	1,1	84,7	73,9
Čzech Rep.	2,0	4,1	4,6	73,1	59,7
Denmark	1,4	1,7	0,0	107,1	112,3
Estonia	8,5	6,9	6,6	67,5	54,2
Finland	2,2	2,0	2,1	113,4	107,1
France	1,2	1,2	0,8	123,6	129,4
Germany	2,0	1,6	1,0	106,6	119,3
Greece	3,1	2,5	2,7	105,4	77,9
Hungary	3,2	4,0	1,5	74,8	60,3
Ireland	3,2	2,2	1,6	135,4	115,9

[1] On Viner's views see: Viner, J., The Customs Union Issue New York, Carnegie Endowment for International Peace., 1950., (also published in Economic History Review, 1951), or Viner, J., International Trade and Economic Development Glencoe, Free Press., 1952.

Italy	0,9	0,0	0,5	108,0	94,9
Latvia	6,0	6,7	6,6	53,6	45,3
Lithuania	7,2	5,9	6,7	60,2	51,5
Luxembourg	1,5	1,6	0,2	182,3	180,8
Malta	2,6	1,1	1,1	90,1	85,0
Netherlands	1,4	1,6	1,1	113,1	130,4
Poland	5,5	3,6	1,9	61,4	49,7
Portugal	1,8	0,6	1,7	68,4	62,2
Romania	0,9	6,9	4,7	40,5	n/r
Slovakia	3,8	5,0	8,1	76,6	69,1
Slovenia	4,0	3,6	3,3	85,7	79,3
Špain	0,2	0,5	0,8	102,5	99,6
Šweden	1,8	3,0	0,5	113,0	112,2
G. Britain	1,9	1,6	2,3	110,8	107,4
EU25	1,7	1,4	1,3	103,9	100,0
EU27	1,7	1,4	1,3	100,0	n/r
USA	1,8	2,1	1,0	142,0	n/r

Note: Productivity data per hour of work in 2007 for the USA and Romania are not available; Relative GDP levels per employee and the hour of work were calculated according to pps (*purchasing power standard*).

Source: EUROSTAT, News release, Euroindicators, 50/2009, April 2009.

The data from the table indicate that the founding member states and the greatest European economies have the highest level of work productivity achieved (according to the two anaytical methods shown). Less developed economies have higher work productivity rates which can be explained by positive effects of economic integrations but also through the positive effects of the comon policies. Logically, Viner argues that lower production expenses affect the effects of creation of production and the effects of creation of trade. The European integrations should not be overlooked within the context of the given theories. They have a strong scientific and theoretical foundation. Great economists have contributed greatly within this area of science and the theories of integrations represented a great challenge for them. Practical assessment of the issue of integrations is still topical today, the fact which can be derived from the continuation of the EU's enlargement policy.

2. Chronology and practice of European integrations

European integrations occured in specific periods:

- The pre-First World War period.

- The up-to-1945 period.
- The post-Second World War period.
- Contemporary development of the EU and its global role.

2.1. The up-to-1945 period

The EU territory, once mostly belonged to the Roman Empire and Roman money can be found at many archeological sites on the territories of today's member countries. This is is an indicator that the ideas of European integrations are not a new occurrence and there are many proofs on the millenium-old attempts on the affirmation of the idea of Europe. They have been launched from Rome, Paris, Vienna, Berlin or Brussels. Motives for the European unification existed as early as at the times of the French revolution, the period of industrial revolution and further on. The industrial revolutions brought epochal technical inventions, job specializations and the enormous growth of working productivity. Great industrial capacities required fast spread of market and new sources of energy and raw materials which all could have been achieved only through economic integrations of countries or through wars. Therefore, such fundamental changes occurring in those days already called for the common use of factors of production on the international level. French revolution changed the image of the European unity tearing apart all known approaches to cooperation among countries and it tried to lead the way to better developed partnerships. Hence, post-revolutionary reforms influenced greater freedom of movement of people and commodities, accelerated infrastuctural development, etc. (which all unmistakably reminds of the current fundamental pillars of the EU). The post-revolutionary reforms influenced the development of new international businesses and professions.[1] Thus, Great Britain used the developments of the industrial revolution and as a centrifugal force in the economy of the era it strengthened its cooperation with other European economies, hence, its trade exchange with Germany, France and other countries rapidly grew. The Napoleonic wars, as much as they were European in spirit, they were not waged primarily for the economic emancipation. However, as noted earlier, they were followed by the economic stability, which was then followed currency stability in the most developed European countries. During 1860, an agreement on free trade in Europe was signed (the Cobden-Chevalier Treaty). According to this treaty, France was allowed to purchase the finest steel from Great Britain for standard prices. A treaty is a type of cooperation that can also be transformed into a specific economic integration.

[1] There were tragic examples of Europeanism as well, such as the one during the reign of Napoleon which recalls integrated continental system, characterized by the introduction of isolating the British trade.

The annexation of Bosnia-Herzegovina by Austria (The Congress of Berlin, 1878), while it had a conquering character it also was a sort of economic integration. During 1888, France attempted forming a customs union with Germany. Generally speaking, the history of Europe abounds with events relating to enlargments and integrations (proposals for integrations coming from Germany, Italy, Switzerland or Hungary, which, for instance, proposed the forming of Central-European union). At the fin de siecle, an idea of the need for forming a great economic area ripened in Germany. In 1904, the Central European Economic Association was formed[1] which promotes German economic and state interests. The ideas and motives for creating a large market and the necessity for comparative advantages of the European countries are similar to the contemporary ones. In them, a desire to build economic capacities on a large scale as well as the need for the specialization of the production and the augmentation of the working productivity. The movements in the world trade at that time already required the high degree of external competitiveness which could not have been achieved without the augmentation of the market as well as of other resources (natural wealth, capital and workforce).

During the First WorldWar, a famous German politician and the Reichstag member Friedrich Naumann builds the Program of forming Central European Association (Mitteleuropa).[2] Although the idea of integration was based on the economic criteria, it was collision with the British-French interests. After the First World War, many crises occurred, culminating in a very grave economic situation in Germany. In 1923, count Richard Nikolaus E. von Coudenhove-Kalergi, founded the Pan-Europa movement whose goal was creating European federal state. As a counterbalance to the more and more dynamic economy of the USA, Pan-European political organizations were being formed at the time, and they all fervently supported the idea of a political union of Europe.

The Pan-European Manifesto was the forerunner of the theory and practice of European integrations because in as early as 1923 it suggested the unification of the countries in Europe and forming a single customs and economic territory. In the Interbellum period in Europe, a number of pan-European ideas and movements appeared. German-French initiatives were the fundaments within the European ideas of the time. Thus, for instance, the Briand Plan, initiated by the French interbellum Minister of Foreign Affairs, Aristide Briand (who was also a member of the Pan-Europa Movement) was supported by the German politician Gustav

[1] See: Julius Wolf, Materialien betreffend einen mitteleuropischen Wirtchaftsverein, Berlin, 1903.

[2] On European strategy of the German capital, see again: Reinhard Opitz, Europastrategien des deutschen Kapitals 1900-1945, Bonn, 1994, or: Friedrich Naumann, Mitteleuropa, Berlin, 1915.

Stresemann (in 1929, Stresemann initiated the idea of the common European currency). That same year in the League of Nations, Briand advocated for the federal union of European countries and in the name of 27 European statesmen he creates a memorandum on organizing the system of the European federal union. These activities were supported by Stresemann and the leaders of smaller European countries, while Great Britain and Italy opposed them. However, the negative effects of the Great economic crisis curb the idea. Integrations were still primary for Germany but the economic idea is held down by the darkness of Nazi ideology. There is an interesting article by Werner Daitz, an industrial and the head of the Foreign Trade Department in the Ministry of Foreign Affairs of Germany (in 1936), who insisted on founding a Central body of European economy on the large area. Among those advocating for the European economic area in 1940 was another German, the member of the management in Deutsche Bank, Herman Josef Abs, who, speaking at the German Institute of banking and banking sciences (in 1940), argued that the European area gave great possibilities for lucrative business, that the rich German neighbours had great possibilities for the export of their capital and that all one needed to focus was building roads to meet the needs of that great economic area.[1] It is clear from this review that the issues and ideas of economic integrations until the WWII were mostly propelled by politicians. Only in the second decade of the 21st century do more ambitious theories appear that, based on the scientifically established facts, prove the positive effects of economic integrations.

2.2. The post-Second World War period

After the century of hesitating about the need for integrations, Europe is ready for common activities in this area.[2] By the end of the WWII (1944), The UN financial and monetary conference was held in Bretton-Woods and it saw the establishing of the global financial institutions, the International Monetary Fund (IMF) and the International bank for reconstruction and development, later World Bank. With the UN and the General Agreement on Tariffs and Trade (GATT) from

[1] See: Reinhard Opitz, Europastrategien des deutschen Kapitals 1900-1845, Bonn, 1994, p. 798.

[2] The processes of European integrations after the WWII the European congress held in 1948 in The Hague. Around 700 representatives gathered there. Germany had a delegation of 51 members headed by Konrad Adenauer (who later became the German Chancellor). The main protagonist of the Congress was Winston Churchill. Germany took a fair stance which directly influenced its future status in Europe. The Council of Europe that was established later emerged from the idea of a parliamentary meeting that appeared at the Congress.

1947 that was to be transformed into WTO (in 1995), the global infrastructure was completed and it could realize the new world policies throughout the whole planet. Bretton-Woods still determines world economic relations today and it was a success for the USA. During the recovery period, Western European countries indirectly benefited from money-debt system management because the realization of the Marshall plan and the Bretton-Woods agreement gave convertibility to the European currencies. The reconstruction of Europe begins on the previously set financial infrastructure, which was also a lucrative business for the USA that met its geostrategic as well as military and political interests. The Benelux countries formed the customs union in 1948. With the signing of the Treaty of Paris in 1951 when ECSC (European Coal and Steel Community) was established. It was the European integration of the highest level. It consisted of portions of economies of France, Germany, Italy and the Benelux countries. It was preceded by the Schuman plan[1] which offered Germany the first chance for integration. The French and the rest in this process see their own interests in a larger market for their respective industries. Soon ECSC evolves into the EC. As the first successful European integration after many failed attempt and unnecessary wars, the Community establishes its own institutions such as: European Council of Ministers, European Court of Justice and the European Commission. The fundamental aims of the EC were sublimed in the desire of its members to form the customs union by eliminating internal tariffs and quotas until 1970. Two main areas of agreement were agriculture and transportation through the customs union. Based on these, the initial policies of the EC were formulated. During the 1970s, the world was shaken by a recession and an economic crisis both of which seriously threatened to destabilize the global economy. Subsequently, the Delors' packages helped regain the faith in the European integrations and the idea of the common European market which was definitely established by the Maastricht Treaty in 1992. The development of the EU cannot be isolated from the globalization processes because the integrations provide the European countries with the growth of their economic and political power on the global scale.

The European Union was formed in 1957 as a customs union. Customs rates in it as well as quantitative limitations and other non-tariff barriers have been lessened and abolished in stages. As for the policy toward third countries, a common tariff policy (CET) was established. In 1992, the common European

[1] Robert Schuman, the french Minister of Foreign Affairs who, in 1950 devised a plan on the union of France and Germany in order to prevent potential conflicts and for the control over the military assests.

market was formed and non-tariff barriers were abolished. Regional economic integrations after the WWII became a pillar of globalization. In 1973, the EC along with the other members of the European free trade zone – EFTA,[1] formed the Free trade zone of FTA. Trade barriers between member states were abolished, although the EFTA members retained export customs rates toward third countries. FTA limits its trade liberalization to the products of its members due to the hinderance of exportation of goods into the EU via a country with the lowest tariff rate. The retention of tariff rates by EFTA hinders the full liberalization of foreign trade relations between the EC and the world. The diversity of the members is put forth because many of them are geografically distant and territorially different. The EEC is structurally more homogenous compared to the EFTA's (which was largely controlled by Great Britain). It was necessary for the Community to sign agreements with other members of EFTA when Great Britain, Ireland and Denmark applied for the accession. Based on this, in 1977, tariffs on industrial goods were abolished. Six years later, tariffs on agricultural goods were abolished which strengthened CAP. Two European megaintegrations spread the cooperation on infrastructure, new technologies, technical standards, etc. After the accession of Austria, Finland and Sweden (1995), remaining EFTA members are: Norway, Iceland, Switzerland and Lichtenstein.[2] Further development of EFTA is under the strong political and economic influence of the EU. The significant position within the European integrations belongs to the establishment of European economic area that spread relations between the Community and EFTA. Everyone could find their interests: both the EFTA countries wishing to join the Union as well as those not interested in joining it. The members of the Union no longer wishing to be in EFTA were satisfied as well. Free trade agreed best with the interests of the EFTA countries which did not wish to join the Union. The agreement was signed by twelve members of the Union and seven members of EFTA.[3]

[1] EFTA was founded in 1960. Its founders were Great Britain, Austria, Denmark, Norway, Portugal, Sweden and Switzerland. After a year Finland enters EFTA as well, while Iceland Island joins in 1970, and Lichtenstein in 1991. During the 1970s all EFTA members make agreements with EC on free trade, and in 1992, the Agreement on the European economic area. Many EC countries left EFTA. Today's remaining members of this integration are Norway, Switzerland, Iceland and Lichtenstein.

[2] 1994, Norway opted against joining EEC and remained in EFTA.

[3] The agreement had 129 members and was treated as an act of heterogeneous character. It consisted of nine parts with detailed regulations on the free movement of goods, people, services and capital, competition, etc.

3. In place of conclusion

The EU is the most complex and the most dynamic integration of the contemporary era. The advantages of the EU on the interior and global levels can be systematized as follows:

- If a regional integration comprises of several countries, htere is a greater possibility that manufacturers will manufacture goods by lower prices and the chances are better for trade creation rather than trade diversion. Other advantages pertain to the vicinity of the integrated countries which influences lower transportation expenses, that leads to more competitive production prices.
- Economic structure of country members affect the industrial profile which contributes to the economic progress and differentiation of industry compared to the global level. Thus, the EU, for instance has specialized for commercial aircrafts and cars production, etc.
- The vicinity of country members that had had an economic cooperation before the integration affected the strengthening of these ties and the welfare growth in the integration. The growth of intra-industrial exchange created comparative advantage of the members of the integration.
- If the members of the integration are countries with strong economies whose integration processes additionally strenghten their own economies, they strengthen parallely and have a strong presence on the international scene as well.

Apart from the integrations occurring in the European area, there are various types of regional economic integrations in the rest of the world as well.[1] Economic integrations formed outside the European territory have been dynamic. Some of them lasted for a brief period of time, while others remained, although their real power diminished. Alongside the globalization, regional integrations are a

[1] Integrations occur in the Americas as well. North American regional integrationa of the USA and Canada was founded in 1965 when free trade zone in the car industry was formed and in 1988 the agreement was broadened by including all trade with CUSFTA.[1] This was the forerunner of forming North American free trade zone in 1994. Beside the United States and Canada it was entered by Mexico. In this way NAFTA was formed. Namely, the USA was not satisfied with the way GATT and WTO developed and there were other global and political reasons because the strengthening of the EU presented problems for the American export into the EU, and thus NAFTA represented the answer to the growing power of the European integrations. LAFTA too is an economic integration, that is, a free trade zone of Latin American countries.

paradigm of the world economy since the Second World War. The EU is, nevertheless, the most developed regional integration that contributes to the global, as well as to the progress of its members. There is a technogical and collective unity of member countries in the EU that is becoming more and more a political unity. Regional integrations are pillars of globalism, world economic and political relations.

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ТЕОРИЈА И ПРАКСА РЕГИОНАЛНИХ ЕКОНОМСКИХ ИНТЕГРАЦИЈА

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Резиме

Регионалне економске интеграције представљају темељ функционисања савремених економских односа у свијету. Оне су произашле из бројних интререса земаља које желе пренијети дио свога суверенитета у неки нови државно-правни оквир. Један од пресудних интереса за ове промјене је економски интерес. Он се остварује због тога што се удруживањем појединачних економских тржишта постижу повољнији економски ефекти за све чланице интеграције. Ефекти се постижу и због ефикаснијег коришћења природних богатстава, радне снаге итд. У оквиру интеграција, користе се знање, техничко-технолошки развој и друге позитивне екстерналије. Зато су интеграције све присутније у савременим друштвено-економским токовима. Оне су засноване на релевантној теоријској грађи, која у последњих пола вијека, научно потврђује постојање великих економских користи од интеграција. Теоријски, свака интеграција доноси промјене за потрошаче и произвођаче земље која у њу улази, али долази и до других промјена. Најзначајнији аутори теорија царинске или трговинске уније, економских и других интеграција су Винер, Меаде, Баласса, Липсеу и други. ЕУ је репрезентативан примјер велике, и успјешне интеграције. Она се и даље проширује. Нове чланице Заједнице остварују бржи темпо раста, захваљујући и предностима које им пружа велико тржиште.

Кључне ријечи: Интеграције, регионални, царинска унија, предности, теорија, велико тржиште, ЕУ.

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