

## **ECONOMIC INTEGRATION (ECONOMIC COOPERATION)**

Refers to a situation where two or more countries in a given region agree to cooperate with each other for the sake of mutual (*economic, social and political*) benefit of all member states.

[Or Economic integration refers to the coming together of two or more countries in a given region for the sake of mutual (economic) benefit of all the member states]

This means that different countries in a given region agree to work together and form a 'bloc' through coordinated decision-making approach in economic activity. Economic integration is designed to abolish economic barriers to trade between and among more countries—to solve problems of limited trade and increasing benefits from international trade.

## **TYPES/FORMS/STAGES OF ECONOMIC INTEGRATION**

### **1) Preferential Trade Area (PTA)**

In this form of cooperation, the member countries give preferential treatment to each other in respect to import duties. There is a reduction in tariffs between or among member countries on selected commodities, but each member country retains its tariff structure on goods coming from non-member countries.

### **2) Free Trade Area**

In this stage, the member countries remove all tariffs between or among themselves but they continue charging different tariffs on imports from non-member countries. There is free movement of goods and services among the member countries.

### **3) Customs Union**

In this stage of cooperation there is free movement of goods and services among member countries but in addition all member countries adopt a common external trade tariff on goods coming from non—member countries.

#### 4) Common Market

This stage involves all the elements of a customs union and in addition there is free movement of factors of production such as labour.

#### 4) Economic Union/ Economic Community

This is the most comprehensive stage of cooperation which involves all the elements/ features of a common market but in addition there is joint ownership of enterprises. The member countries may also adopt a common currency; uniform fiscal and monetary policies; political and diplomatic policies.

#### ***Conditions necessary for successful economic integration***

1. All member countries should be relatively at the same level/stage of development , otherwise resources will flow from LDCs to MDCs where there is good infrastructure , investment climate etc. ( *should have approximately the same size of national income, almost same population size, almost same level of economic growth*)
2. All members must be geographically near each other to minimize transport costs and the barriers in between.( *countries should be in the same geographical region/ share common boundaries for easy coordination*)
3. All integrating/member countries should be having the same political and economic ideology such as all members having capitalism.
4. All countries in the region should have different resource endowment and hence a different structure of output and this will make it possible for these countries to depend on each other. ( *The comparative advantage should be different among the integrating countries*).
5. The integrating countries must believe that there are a number of benefits to enjoy as a result of their integration. ( *there should be political will and commitment by all member states to all resolutions and agreements and willingness to implement them—to avoid violation of the policies of cooperation*)

6. There must be good transport network connecting the countries within the region. This will facilitate easy movement of goods and services.
7. The administrators of the countries within the region must devise means or policies to distribute the benefits and costs arising out of integration fairly.

### **Arguments for economic integration**

1. **Trade creation affect.** (*Trade creation involves the shift of consumption from a high cost producer to a low cost producer*). There is shifting of trade from a high cost non-member country to a low cost member country due to economic integration.
2. **Creation of a wide market.** Member countries are in position to sell their goods and services across the borders without any hindrances/ restrictions. More so commodities are cheaper due to removal of trade tariffs among the countries of the union/integration.
3. **Integration promotes specialization and its advantages.** There is specialization in production arising out resource endowment and the economic policies agreed on by the member countries; which in turn increases efficiency in production and the volume of trade among the countries in the region.
4. **Leads to increased competition** among producers/firms of the different countries in the region. Many firms compete for the market without restrictions; which in turn forces them to improve the quality of goods and services produced, and also to set lower prices.
5. **Reduces duplication in resource use/of industries.** Once an industry has been established in one of the member countries (like *hydro-electric power project*), another member country does not need to establish a similar industry but a different one. As a result it increases the countries' benefit from trade.
6. **Leads to production of a variety of goods and services, hence widening consumer choices.** The removal of trade barriers among the member states enables consumers to have a variety of commodities from which to choose, which in turn improves people's standards of living.

7. ***Increases resource utilization hence avoiding wastages.*** Many resources are put to use in order to expand production for the large market and this in turn promotes economic growth.
8. ***Encourages joint research among the member countries.*** Economic integration enables member countries to collect information and carry out joint research at a relatively cheaper cost. This is by sharing costs of research—hence low average costs of joint research.  
*[Due to integration the countries are able to undertake very costly projects that they would not have managed individually such as developing better and modern infrastructures].*
9. ***Creation of more employment opportunities in the region.*** There is free movement of factors of production within the integrated region which leads to increased production and hence more employment created. This also leads to a more even distribution of income/wealth.
10. ***Promotes political cooperation and understanding among member states,*** and as a result peace and stability is enjoyed in the region. This is partly due to the free movement of factors of production and hence distribution of income. The countries exchange ideas for balanced regional development. *(More so a country finds it hard to wage war against a fellow member state yet there are also many structures aimed at resolving conflicts peacefully/amicably without resorting to war).*
11. ***Economic integration improves the bargaining power / position of the region in international markets.*** The members in the integration are in position to jointly advocate/demand for favourable trade policies with other countries (or trade blocs) and hence benefit more from international trade.
12. ***\*Stimulates industrial development.*** This is possible because of expanded market/ demand and economies of scale.
13. ***Attracts foreign resources/ foreign direct investment.*** The unified large market within the region attracts huge investments by foreign firms and hence increased output and economic growth.
14. ***Economies of scale are enjoyed by firms in the member countries.*** Economic integration enables the member countries to expand the scale of production

due to expanded market and hence enjoy advantages of large scale production.

15. ***Reduces the problems of exchange rates/Facilitates trade among the member countries due to the use of the same currency*** throughout the region. A common currency eliminates the need of converting currencies for cross border trade. (*Due to one currency acceptable throughout the region exchange of goods and services is made easier*).

## **Arguments against economic integration**

### **(Costs of economic integration)**

1. ***Trade diversion effect***. Trade creation involves the shifting of trade from a low cost non-member country to a high cost member country due to economic integration. The member countries have to buy from expensive sources within the region instead of buying from cheaper sources outside the union.
2. ***Leads to loss of revenue***. The reduction or removal of tariffs leads to a decline in the amount of revenue which would otherwise have been collected on the imported commodities from member countries. This negatively affects the government budget / programmes.
3. ***Threatens the survival of infant industries***. Economic integration opens up the domestic markets to foreign firms in the region, and yet the local infant industries may not be able to compete favourably and hence losing market.
4. ***Member countries are forced /compelled to consume poor quality goods from the integration*** instead of importing better quality goods outside the region. This negatively affects the standards of living of the people.
5. ***Unfair distribution of benefits arising out of integration***. This is because the free movement of goods, factor or services may move in one direction only such as from poorer to relatively better countries, which leads to breakdown of the cooperation. (*The country with more resources attracts numerous investment opportunities and hence gains more than the other member countries*).

6. ***Retaliation by other trade blocs.*** Other countries may also impose restrictions on the exports of the integration and hence leading to the formation of rival trade blocks.
7. ***Economic integration results into unemployment.*** Firms are relocated to more cost effective locations within the region and this leads to unemployment in those areas/countries from where the firms move.
8. ***Leads to loss of economic sovereignty.*** A country loses powers to make certain decisions such as by adopting a common tariff policy on commodities from other countries. Governments of the countries within the region may have to surrender some of their economic and political powers so as to make decisions jointly.
9. ***\*Leads to collective self-reliance instead of national self-reliance.*** Economic integration encourages dependence since there is specialization and yet factor mobility leads to brain drain.
10. ***Costly to undertake an economic cooperation.*** Extra costs like administrative and establishment of communication are incurred. There is also bureaucracy and hence delayed decision-making.
11. ***\*Due to interdependence any political instability/unrest in any member country affects the whole cooperation.***

### **Problems facing economic integration/ limitations/obstacles to economic integration**

1. ***Difference in political and economic ideologies/systems among member countries.*** Some countries are capitalists while others are have socialist tendencies.
2. ***Difference in the levels of development among member countries,*** and therefore the formulation and implementation of integration policies involves conflicts.
3. ***Political instabilities/unrest in some parts of the region.*** These interfere with the activities of the economic integration.
4. ***Foreign/external interference in the affairs of the cooperation.*** Foreign donors continuously interfere in the decisions and policies of the cooperation especially former colonial masters.

5. ***Changes in regimes/leadership affect policy and commitment to economic integration.*** Different leaders tend to have different political and economic programmes for their countries and this affects the smooth running of the cooperation due to poor working relations among leaders.
6. ***Lack of political will /support among some member countries leading to violation of policies and laws of cooperation.*** For example some member countries continue importing from non-member countries illegally. The EAC partly collapsed in the 1980S due to this.
7. ***Differences in currencies and exchange rates among member countries.*** Some countries form integration and usually have different currencies making transactions difficult
8. ***Countries have different goals of development.*** They have different long-term goals to be achieved in different periods of time and these are sometimes inconsistent with the goals of the economic integration.
9. ***The desire to promote independence and self-reliance.*** This leads to a problem of membership and double standards. For example it forces a country to establish its own local industries at the expense of those that are in the region.
10. ***Uneven distribution /sharing of the benefits of economic integration.*** Not all countries are equally endowed with productive resources and this complicates the distribution of benefits.
11. ***Duplication in production in the member countries (Production of almost similar products by most LDCs),*** hence benefiting less by trading with each other/Have little to export to each other. Therefore there is need to trade with the MDCs to get capital goods and spare parts.
12. \*Large geographical size of some countries makes trade between the member states difficult especially LDCs where the infrastructure is still poorly developed (Low level of infrastructural development in the region—hence difficult movement of goods and services in the region).
13. \*Existence of small economic cooperations within a given cooperation. Countries are not fully committed to all cooperations in which they are members (like Uganda being a member of EAC, COMESA).

14. Debt problems of most LDCs. This makes some projects established to fail since some member countries continue servicing the foreign debts/ continue taking the conditions given by the foreign lenders.
15. Administrative problems in the economic integrations. As many countries join the cooperation administration and coordination becomes hard.

### **Possible ways of minimizing the problems of economic integration**

1. Encourage specialization to reduce duplication.
2. Formation/ strengthen a common administrative organ involving all members states to formulate , coordinate and implement policies such as the East African legislative council/ Assembly (EALC).
3. Develop infrastructure in all member countries to improve transaction between and among them.
4. Adoption of the same currency for easy transactions between the member countries.
5. Ensure political stability in all the member countries. In the long run even a common military organization can be set up.
6. Promote industrialization in the region to avoid shortages of manufactured goods, so that the member countries do not import from outside the union.
7. Non-members should be convinced to join the cooperation to reduce membership problems. This can be done using conferences and workshops.
8. Encourage dependence on locally produced or available inputs/resources to avoid reliance on non-member states for these.
9. The cooperation should collectively bargain for debt rescheduling or even cancellation. However this comes with strings attached.
10. Countries with sound resources should try to sacrifice some of their resources to help member states with weak economies.
11. The cooperation should ensure that the benefits of integration are distributed fairly so that all member states remain contented and committed.

### **Examples of economic integration include:**

- EAC—East African Community
- COMESA-Common Market for Eastern and Southern Africa



- SADCC—Southern Africa Development Coordination Committee.
- ECOWAS—Economic Organization of West African States
- AU—African Union
- EU—European Union
- ASEAN—association of south East Asia Nations
- NAFTA—North American Free Trade Agreement.

### **EAST AFRICAN COMMUNITY (EAC)**

This is an economic grouping of the five East African countries of Kenya, Tanzania, Uganda, Rwanda and Burundi. It was first established in 1967 but dissolved in 1977. It was revived in 1993 with agreements being signed. Uganda, Kenya and Tanzania became full members in 2001, while Rwanda and Burundi became full members in 2007.

Research –objectives and achievements of the EAC

### **Guiding questions**

#### **SECTION A**

1. Differentiate between :
  - (a) Preferential trade area and Free trade area (2mks)
  - (b) Customs union and Common market (2mks)

#### **SECTION B**

- 1) (a) What is economic integration? (2 mks)  
(b) Explain the limitations to effective participation in economic integration of your country (18 mks)
- 2) (a) Differentiate between a customs union and an economic union (4 mks)  
(b) Why would you advocate for economic integration among developing countries? (16 mks)
- 3) (a) Explain the costs of economic integration likely to face LDCs.  
(b) In what ways can LDCs benefit more from economic integrations they join?
- 4) (a) Distinguish between a customs union and a common market

- (b) Explain the factors which limit economic integration among developing countries.
- 5) (a) Explain the conditions that are necessary for the successful integration of countries?  
(b) What are the arguments for and against economic integration?
- 6) (a) With relevant examples, explain why economic integration in form of a common market may fail.  
(b) Explain the possible ways of minimizing the obstacles to economic integration in developing countries.
- 7) (a) Outline the objectives of the East African Community.  
(b) What are the challenges of implementing economic integration?
- 8) (a) What do you understand by the term 'economic integration'?  
(b) Explain the necessary conditions for economic integration to be successful  
© In what ways may economic integration solve the problems of underdeveloped countries?
- 9) (a) Explain the forms of economic integration ( 8 mks)  
(b) What are the merits and demerits of economic integration in developing countries? (12 mks)
- 10) (a) Why should developing countries cooperate through economic integration?(10mks)  
(b) Explain the factors that have affected the success of economic integration in your country (10mks)