

# ECONOMIC INTEGRATION, A DYNAMIC AND CONTRADICTIONARY PROCESS

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## **Abstract:**

*European Union, a process that finds its roots in the immediate postwar period and subject to European states who are members or not, fundamental change. This paper is intended to represent an insight into the phenomenon of economic integration, focusing especially on regional economic integration in general and on European economic integration in particular. He made a brief review of the treaties and the steps that have marked the evolution of this integration, in order to highlight the dynamism of this process, but also contradictory moments within it. The dynamic nature of this type of integration reveals two significant effects are found in the European Union and the spillover effect cliquet and clear the contradictory nature of the phenomena within it, the deepening and widening the European Union. In support of the importance of such accreditation process was an econometric analysis of some of its determinants.*

**Key words:** economic integration, spillover, cliquet, dynamic, contradictory

**JEL classification:** F15

Because humanity today is moving increasingly impressive in all respects, regionalization and globalization phenomena have become as important to us as breathing air. In those two phenomena of the world economy there is a trend that is becoming increasingly clear objective, namely international economic integration.

For the first time this new concept has been used in economics to industrial organization and to describe more precisely the relationship between their components.

In today's economy there are two main understandings of the concept of economic integration, namely integration and vertical integration orizontală. Vertical integration expresses the kind of arrangements between firms to form cartels, corporations, trusts or seeking mergers as the direct relationship between suppliers and users. Analyzing the existing competition but market relations, especially agreements between competitors, we realize that we are dealing with another type of integration, horizontal integration.

If we accept that some individual national economies have chosen to combine, then you should look back and see that in this sense, the concept of integration is a woman, there are references to it only after 1940. In this case, the notion of integration taken *stricto sensu* means unification of separate parts to form a functional whole, which lead them to the same purpose. Exploring the international level this is done with the consent of the respective states, thus leading to international integration.

The concept of interstate economic integration means that the complex process of economic development based on increasing global interdependence between the economies of several countries, following the final formation of powerful economic blocs in a particular area of the world. The emergence of these interdependencies is due to factors such as international labor division and specialization and are consmîţite potential Member States of that group. In these circumstances, interstatatla integration

requires a certain degree of complementarity based on a degree of uniformity of development levels, so that the entity formed to be effective.

Thus, some experts appreciate this integration to the interstate from two angles: as a process and that state of affairs<sup>1</sup>. As process integration requires existnța a set of measures to help eliminate discrimination between economic units belonging to different national states. As a matter of fact, various forms of integration reflects the absence of discrimination between national economies.

Other specialists<sup>2</sup> that is considered that the concept of integration has a more comprehensive, differentiated three types: national integration, regional integration and global integration. It is hard to define by adjectives or brief explanations of different forms or aspects of their integration, but we can say quite easily that international economic integration can be achieved by any combination of the four freedoms of the Common Market.

Bella Balassa said that we must distinguish between trade integration, integration of production factors, political integration and full integration. It should also raise the question whether the integration of production factors refer to all types of factors and therefore to what extent can coexist a free movement of goods. The notion of market integration was launched by Vajda<sup>3</sup> who used it in parallel with the integration of production and development. Although this term has its own use, should be understood that the economic implications of integration of markets are very different conditions which are involved in the integration of certain markets only those conditions that is expected to integrate all markets. As evident from the written above, doubts were promoters of integration in terms of the extent to which countries are willing to raise the level of integration, if this process is uniform or has a variable geometry or go sequentially or present multiple objectives.

We must distinguish between the notion of market integration and the integration of economies. In this respect, many scholars of which Philips believes that Louis is created through the integration of competing behaviors, provides a competitive market while integrating economies is the process by which parties seek to achieve a sustained progress. This process can not be achieved if there is solidarity and reciprocity involved and if this process is not made of that type of forms that influence market behavior so that the results obtained on a short lead time in a long time in an appearance new behaviors and hence new forms of marketing.

Analysing all the above, we can say that the process of market integration is in the process of integration of economies, primarily involving the elimination of artificial barriers to trade barriers (negative integration) and later aimed at improving the functioning of that market (positive integration ).

These two terms of "negative integration" and "positive integration" mean basically two ways through which the economic integration. By &quot;negative integration&quot; is abolished all those obstacles to free movement that might exist within states or gradual elimination of restrictions and non tariff barriers to trade between countries with the aim of increasing the welfare of territory they protect. Eliminating all these barriers that triggers a process by which integration occurs precisely because of that automatic self-regulating capacity savings. On the other hand, positive integration that involves the least interference in the direction of economic policy coordination and harmonization with the stated aim of leading to an improvement

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<sup>1</sup> Bela Balassa - "Towards a Theory of Economic Integration, Homewood Illinois, Irwin, 1961

<sup>2</sup> Machup F. - „A History of thought on economic Integration”, Macmillan Press Ltd., London, 1977, p.17-18

<sup>3</sup> Vajda I. - "Integration, Economic Union and the National State", Foreign Trade in a Planned Economy, Cambridge University Press, 1971, p. 33, in D. Miron - European Union economy, "Morning Star Publishing, Bucharest, 2002

in market functioning. All that said the claim that a process can be triggered by negative integration and positive integration is regulated by a process of integration of economies.

For example, the economic integration of a dynamic process, Bella Balassa points out that this process has more than one form of integration of economies, taken piecemeal or more steps towards full integration, taken as a whole.

The first of these is the "free trade zone". At this stage both the participating countries eliminate customs duties and quantitative restrictions in mutual relations, which means the beginning of the free movement of goods. But these countries continue to provide individual and independent trade protection in their own countries, this being done by maintaining their own customs tariff and customs policy. Because the external customs tariff may be different from one member country to another, may be influenced by competition from within so that some businesses might be favored over others.

The second phase, "Customs Union", added to the liberalization of trade between partner countries establish a common customs tariff against countries outside the euro. It notes the fact that free trade areas only theoretical knowledge and specific elements of customs union. Thus, for example, members of the European Free Trade Association (EFTA), believes that nothing prevents the adoption of a free trade area of additional provisions (in respect of competition rules, harmonization of economic policies, etc.). EFTA experience demonstrates that achieving a free trade area involves more than simply abolishing internal barriers to mutual trade barriers, was a reconciliation of the rules concerning unfair competition was held and limited coordination of national policies, especially trade policy adopted from EU countries.

Next, the Common Market, is a more complex form of integration. It includes features of the Customs Union, plus the free movement of workers, by eliminating discrimination of nationality, wages or working conditions, free movement of capital, exchange control and suppression of freedom of establishment of enterprise anywhere in the Common Market. Interdependence significantly increase economic Common Market. Measures a government's economic policy can influence economic life, in other Member States. It appears, therefore, need closer integration prouņtate leading to coordinate national policies in common.

The fourth form of interstate integration are "economic and monetary union" which is the most advanced to date. This stage of integration is the harmonization of economic and monetary policies of the Member States to move towards the single currency<sup>4</sup>. At the same time, it seeks structural convergence of the economy of countries and regions in this area.

Differences between the common market and economic and monetary union are, in fact, it's hard to notice. Freedom of movement of goods and factors of production cannot be achieved without the existence of common politics and harmonization of economic policies. It can assess rather like the common market requires switching to a higher level of integration. National economies become already so interrelated that any measure of economic policy taken by one of the partners requires coordination. So to understand why there is talk of a logic cumulative integration after that, once started, the process continue naturally by determining economic until integration policy, of course if proof of political will necessary.

Initiatives for regional integration have occurred since the end the cold war. High policies during the Cold War have ignored the geographical. Near has not been defined in terms geographical, but in political terms and ideological, this being the man who has led economic relations. Naturally, the end of the war also meant to return to the geography, leading regionalization de facto through increased trade flows in several

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<sup>4</sup> Nita Ion Voicu Iulica, Sărlătescu Juliana, Isabella Sima - "Explanatory Dictionary of the European Union" unreasonable Publishing House, Bucharest, 2009, p.216

parts of the world. This trend has led initiatives to try to promote regional integration, sometimes as a response to results assuring obtained at multilateral level. The dynamic has generated much interest in political economy of European Integration, being an inspiration for other experiences.

Any discussion of regional integration in the world economic concerns as inevitably, explicitly or implicitly, to experience European integration. This must not perceive the way, since the Union represents entity with the highest degree of regional integration.

European integration was the product of very specific historical conditions. From the beginning, this integration has been driven by motivations that went far beyond economics. He put so much imprint on the role of regional institutions, as proposed by Monnet method involves interaction between the intergovernmental process and sharing sovereignty. This phenomenon must be regarded as a dynamic process, because it went through many phases and passes its completion is still far, but as a complex process.

The first step was made towards the modern type of integration was the creation in 1944 the Benelux<sup>5</sup>.

The first was the European Treaty that established the European Coal and Steel Community (ECSC), signed in Paris on 18 April 1951 and which entered into force on 25 July 1952, primarily based on political determinants. Under Article 3 of the ECSC Treaty objectives were:

- Ensure the regularity of supply;
- To ensure equality of access to sources of production;
- Ensure the fixing of prices at the lowest possible level;
- To improve production capacity and quality and to promote a policy of rational exploitation of natural resources;
- To improve working and living conditions of workers;
- To stimulate the development of mutual international trade.

The plan was very ambitious and require adjustment, even from an early stage of unification schemes, salaries, social security, taxation, harmonization of prices and conditions of carriage.

The ECSC is initiate an irreversible process of "federalization partial" or "working" based on "specific and limited progression of sectors, but which were decisive in the economic and political strategy of the founding states<sup>6</sup>.

This treaty envisaged the creation of institutions: a "High Authority" and a special council whose decisions are binding on Member States. Although they had a limited scope, the Treaty established a Parliament and a European Court of Justice. But the sectors covered by the treaty could not operate alone, and should be linked and other sectors such as energy and industry.

Thus, that on March 25, 1957, in Rome the following two treaties were signed which were built in steps to achieve the ultimate goal, the European Union today. Talking here about the formation of the European Atomic Energy Community (EURATOM) and European Economic Community.

The first treaty aimed at creating a common market for nuclear materials and equipment, establishing a common nuclear legislation, the establishment of a common supply of fissile material, a control system on the peaceful use of nuclear energy, as

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<sup>5</sup> A customs union between Belgium, Netherlands and Luxembourg, the EU became a model for no purpose but with the creation of the Internal Market. View Nita I, Voicu I, Sărlătescu I, Sima I, - "Explanatory Dictionary of the European Union, Irecson Publishing House, Bucharest, 2009, p.39

<sup>6</sup> ECSC founding countries are: France, Germany, Italy, Belgium, Netherlands and Luxembourg. Expired 50 years later, is designed for a specific period of time. View Nita I, I. Sima - "European Union - structure and legislation. Course application, "Economic Independence Publishing, Pitesti, 2010, p.12

well as common standards of security against ionizing radiation and to protect the health of workers in this sector. The key, however, was the formation of that joint research center, seeking to develop nuclear technology and boost production in Europe<sup>7</sup>.

The second Treaty establishing the European Economic Community came into force on 1 January 1958, often known simply as the "Treaty of Rome." This is by far the most important legal foundations of the Treaty because of economic integration, which represented a novelty in international law. By this treaty framework defined some objectives, powers of institutions (Parliamentary Assembly, Council of Ministers, Commission and Court), common rules and procedures<sup>8</sup>. By this treaty was given the mission of the Community institutions to form a common market and the gradual harmonization of economic policies of Member States, promoting the harmonious development of economic activities, the continuous increase balance and greater solidarity, raising living standards and closer ties between member states.

As mentioned before, the Treaties of Paris and Rome have set up each different executive. On April 8, 1965 they were unified to form a single Council and a single Commission of the European Communities.

An important change has occurred above treaties on 1 July 1987 with the entry into force of the Single European Act (signed in februarie 1986), which complements in particular establishing the European Economic Community. By this Act shall be had to the following:

- Suppression of Community inner border control;
- total liberalization of capital movements to be effective;
- more systematic recourse to qualified majority voting;
- Accelerating the achievement of economic and monetary union (EMU);
- The provision creating the single internal market on 1 January 1993.

Thus, by creating the Single European Act introduced the concept of "space without frontiers", which was a wider concept than "common market".

Treaty establishing the European Union, signed at Maastricht, 7 February 1992 and entered into force in 1993, marks a new stage in the process of creating an ever closer union among the peoples of Europe. This Treaty shall be assigned European Union following objectives:

- Promoting balanced economic and social progress and equitable, especially by creating an area without internal frontiers, through economic growth and social cohesion by establishing an economic and monetary union, single currency;
- affirmation of his identity on the international scene;
- Strengthening the protection of the rights and interests of citizens of Member States by establishing a citizenship of the Union;
- Development of closer cooperation in justice and home affairs;
- Maintain full the *acquis communautaire* and its development as to ensure efficiency that mechanisms and community institutions.

With this new treaty, European integration is based on three pillars namely:

- The main pillar, the European Communities;
- The second pillar relates to the Common Foreign and Security Policy (CFSP);
- The third pillar of the justice and home affairs.

None of the treaties establishing the European Community and then the European Union is not a classical international treaty, which creates rights and obligations only on states, but involves rights and obligations of both countries and their citizens.

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<sup>7</sup> Today, over 78 % of France's energy consumption is provided by the Nuclear power stations.

<sup>8</sup> Bibere O. - "The European Union between real and virtual" All Ed, 1999, p.37

Treaty of Amsterdam is the third major revision of the Treaty on European Community. Through this legislative co-decision<sup>9</sup> procedure is extended and the European decision-making has been a fundamental change in that, in adopting normative acts, the European Parliament received the status of equal partner of the European Council of Ministers. This treaty is an important step towards the development of the *acquis communautaire* better specifying the role and functions of European institutions.

The objectives of this treaty can include:

- Placing the issue of jobs and the rights of citizens at the heart of the European Union;
- Removing the last remaining barriers to freedom of movement and security of citizens;
- Bringing a stronger European voice in world affairs;
- Increase efficiency of the EU's institutional structure, in view of its enlargement.

Shortly after the Treaty of Amsterdam, European Council, "the architect of European construction", in Luxembourg (December 1997) adopted the Stability and Growth Pact, which was meant to ensure "good health of the European economy" by monitoring the national budget deficit. Through this pact, a first phase were monitored countries in difficulty, and in the second phase is resorting to sanctions.

In 2000, held in Nice, the IGC on institutional reform, which ended with the adoption of the "Treaty of Nice, the Treaty opens the way to enlargement of the European Union. It was signed on 26 February 2001 and have the following objectives:

- Establishing and maintaining the principle of subsidiary, a more precise delimitation of powers of EU institutions and Member States;
- Proclamation of the EU Charter of Fundamental Rights, under the Lisbon European Council in Cologne (June 1999)
- Simplification of the Treaties to make them more clear and concise, but without changing their meaning
- Increasing the role of national Parliaments in the European architecture.

This treaty, though strong criticism both in Parliament and the European Commission in the coming years would provide a foothold followers European idea in a very delicate moment, that the rejection in 2005 of the draft European Constitution by France and the Netherlands, which led to a profound crisis and the need to resume negotiations.

Following the resumption of those negotiations was the last major result, namely the Treaty on European Union Treaty of Lisbon or in another name, the European Union Reform Treaty. It was developed in 2007, but because of small or big inconvenience (the Irish rejection by referendum in 2008) came into force in 2009. I mentioned that it is a reform treaty, as it brings many news in various fields, some of which are the following:

- The introduction of double majority voting in the Council qualified according to which decisions by qualified majority requires the support of 55% of the Member States, representing 65% of the population. At the insistence of Poland the introduction of a new voting procedure was postponed for 2014;
- EU Charter of Fundamental Rights of Citizens received legal force which allowed the EU to accede to the European Convention on Human Rights;
- The European Union receives a single legal personality (except EURATOM Treaty);

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<sup>9</sup> Co-decision procedure was introduced by the Maastricht Treaty (now Art.251 Art.189B of TCE in the Treaty of Amsterdam) in order to increase the participation of the European Parliament on EU legislative process. This procedure gives Parliament the right to reject the proposed Community absolute majority vote of its members if it fails to reach an agreement with the EU Council in conciliation proceedings. Lisbon Treaty makes this case a rule and thus correlates with the situations in which qualified majority voting in the Council. See also Nita I, Voicu I, Sărlătescu I, Sima I, - "Explanatory Dictionary of the European Union, Irecson Publishing House, Bucharest, 2009, p.55

- It provides a better division and definition of EU competences in respect of Member States;
- Simplify the legislative and executive instruments of the Union and establish a hierarchy of European standards;
- It creates the office of President of the European Council for a term of 2.5 years, renewable once;
- Council Presidency U.E. to be performed by a team of 3 Member States for a period of 18 months (each team member presiding over a period of 6 months), but returned to the old formula;
- It established the post of High Representative of Foreign Affairs and Security Policy who will chair the Council of Foreign Ministers of member countries and implement EU policy in this area;
- European Commission in 2014 will have a number of 18 commissioners, including chairman will be elected;
- The new Treaty gives to the "pillars of the EU" introduced in 1993 by the Treaty of Maastricht;
- The same tools and legal procedures will be applied in a single institutional framework, regulations, directives and decisions remain the only instruments that the Union may adopt;
- Co decision Council of Ministers and European Parliament is right to take decisions and normative acts of the Community;
- A qualified majority is extended to new key areas;
- The decrease of the number of MEPs to 751, the minimum for a member country is 6, and the maximum of 96 MEPs;
- National Parliaments are included more in the European construction;
- Strengthen decision-making autonomy of states in the Euro and the European Commission's role in ensuring compliance with the Stability and Growth Pact;
- Treaty includes a clause which allows a Member State to leave the Union if it so desires;
- Other innovations introduced by the Treaty of Lisbon are: references to climate change, energy security, cooperation in matters of emigration, the single currency as a common objective of the EU, the fight against terrorism and organized crime, extending the powers of the European Court of Justice to conduct an area of freedom, security and justice in the EU, etc..

In addition to these major steps, forming the skeleton of integration, and smaller ones were like waves of accessions, because we know that the European Union started with six founding members came now encompass a total of twenty seven Member States. Also, the Maastricht Treaty is not considered to be only the birth of the European Union, but the birth certificate of the euro, which entered into service on the market but in 2002.

Integration arising from the dynamic nature of two major effects:

a) the spillover effect semi-automatic involving passage from one stage to another integration, sectorial integration tends to overall integration. Achieving a free trade zone is necessary to achieve the customs union should be avoided because diversion of freight traffic, the customs union common market achievement favoring the free movement of goods and factors of production stimulated by the elimination of tariff barriers involves the establishment of common rules, harmonization of national laws coordination of economic policies. In this case, has little political will to seek. Internal logic of integration is one that allows the gradual overcoming of each stage leading to political union (full integration). Progress towards integration is performed, however, against various manifestations of nationalism and economic protectionism strong trend.

b) cliquet effect means that the integration process is irreversible, that a return is unlikely, since economic and political cost of return is much higher than would result from going forward. More studies have shown that this would be an exorbitant cost: 1988 Cecchini Report of the Commission, Catherwood Report 1988 of Parliament. It is a delicate issue addressed here irreversibility of European construction. They know that any progress towards integration is irreversible, that any return is difficult, and therefore do not engage more on the way but after mature reflection.

This process of European regional integration would, however, a contradictory character that emerges from its two integrated processes: the deepening and widening the EU.

European constructions of both permanent hesitate. Often it was said that the two logics are irreconcilable. In fact it may be noted that the alternating periods of deepening of European history with periods of expansion, is completing the second trend and established itself on the European stage in succession. Deepening prevailed on a first-time broadening General de Gaulle gave a deadline of the negotiations on Britain in 1959 within the Common Market OECE to drown in a vast free trade area, then opposing twice consecutively in 1963 and 1967 British entry into the Community. Then broadening occurred after the Hague Summit of 1969 successive upon accession to the EEC of Denmark, Ireland and Great Britain on 22 January 1972. Disputes over the deepening and widening have been revived in the late 1980s, when the Berlin Wall collapse and implosion of the Soviet Empire.

Again, Britain, Denmark has supported the thesis in favor of widening precipitates. But under the influence of the Franco-German couple has decided that any request for accession will not be considered except in exceptional circumstances before the start of 1993 and in the meantime an agreement aimed at establishing a European Economic Area will be closed and seven EFTA countries and cooperation agreements, called "European" (do not exclude adherence) will be signed with the former "popular democracies" meeting certain conditions. The only exception was in profit voluntary East Germany (former GDR) since its merger with Germany on 3 October 1990 has resulted in agreement with European partners and its integration with the Community Parliament, increasing its population to 340 million.

After these steps have followed each other and others, always in the foreground showing the fight that takes place between deepening and enlarging European Union. Any compromise the effectiveness of EU enlargement unless it is accompanied by institutional reforms that would allow to avoid the extra quantity is not matched by a less quality, a paralysis of decision-making system or the institutional reforms are always difficult and results they are quite random.

But, like any process of regional integration such a degree and on European economic integration have acted different determinants. They can be grouped in a first phase into two broad categories:

- a) Based on the three levels are:
- Factors determining the state level;
  - Underlying factors internationally;
  - Factors determining the supranational level.
- b) By their nature they are:
- Economic;
  - De social;
  - Political.

Regarding the national level, the fundamental national interests and is the first important factor. Among those interests are actors desire to influence as much decision-making process and they take into account the economic needs of their own country or



position in relation to the international environment. Add to this the population's attitude and flexibility of governments.

Factors at the international level can only be summarized in two words: external challenges. Examples are the memory of war in the postwar period, fears of the early 1980s not to fall behind Japan and the U.S. and end the Cold War.

At the supranational level, the determinants arising from the conflicts that have occurred and now at the European territory, on the other hand with the evolution of the acquis and the activities of functional pressures supranational bodies.

The main types of conflicts in Europe originated in the character of homogeneous / heterogeneous Member States and can be grouped as follows:

- Conflict rich vs. poor;
- High vs. small;
- Supra vs. intergovernmental
- European vs. Atlantic;
- Old vs. new.

If we consider the second largest category, we can identify the following factors:

- Accelerated deployment of modern scientific and technical revolution has made possible the rapid increase in production in most developed countries, which led to the growing contradiction between the possibilities of increasing production and limited capacity of domestic markets to absorb such production, which required the widening of sales of production by economic integration;
- Fierce competition worldwide has led to increased production and capital concentration and seeking new markets hit by the limitations and restrictions imposed by national borders, so that movement of capital and labor became an objective necessity;
- Rapid development of U.S. and Japan which was a constant danger, and had a more obvious influence on the production made it clear that only European countries can jointly promote the newest achievements of science and technology and thereby defeat the competition;
- Emergence and growth of multinational companies, which through their work across national boundaries imposed to create a suitable space, much wider, allowing foreign penetration without restrictions or limits;
- Developed countries wish to maintain and expand relations with former colonial countries became independent;
- And not least policy makers, which in many circumstances are closely tied to economic ones.

As said, all these factors together have led to what we know today as an important center of economic power, a pole of reference for the global economy.

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