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METHODOLOGICAL BASES AND HISTORICAL BACKGROUND OF THE CUSTOMS UNIONS

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It is argued that the foreign trade at all times had been of great importance for the economic life of all countries, as its progress has large impact on the economic development. Based on the historical experience of developed countries in the article it is proved that it is impossible to create a prosperous economy in isolation from the rest of the world. International trade, economic integration, including the functioning of the customs union, introduce to the domestic economy a number of advantages and benefits that directly affect the activization of economic growth.

Turning to the history of the creation of customs unions in the most developed countries it is concluded in the work that active participation in them causes increase in production, prosperity and a high standard of living in participating countries. Today customs union is a quite logical complete form of economic integration, while at the same time conceals an inner contradiction, the development of which is inevitably creating the need for transition to more advanced forms of economic integration.

Thus, participation in various forms of economic integration, including customs unions, provides additional opportunities for the establishment and development of the economy, forming of the country budget, supporting the people's welfare.

Keywords: *integration, customs union, economic effects, foreign trade, economic associations.*

Аргументується, що зовнішня торгівля у всі часи мала важливе значення для економічного життя всіх країн, оскільки її успіхи серйозно впливають на економічний розвиток. На основі історичного досвіду розвинених країн у статті доводиться, що не можна створити благополучну економіку, перебуваючи в ізоляції від решти світу. Міжнародна торгівля, економічна інтеграція, у тому числі функціонування митних союзів, додають до вітчизняної економіки ряд переваг і вигод, які безпосередньо впливають на активізацію економічного зростання.

Звертаючись до історії створення митних союзів в найбільш розвинених країнах, автори дійшли до висновку, що активна участь у них приносить підйом виробництва, процвітання й високий рівень життя населення в країнах-учасниках. Сьогодні митний союз є досить логічно завершеною формою економічної інтеграції, яка у той же час вміщує у собі внутрішнє протиріччя, розвиток якого неминує породжує потребу в переході до ще більш удосконалених форм економічної інтеграції.

Таким чином, участь у різних формах економічної інтеграції, у тому числі у митних союзах, надає додаткові можливості для становлення й розвитку економіки, формування бюджету країни, підтримання добробуту народу.

Ключові слова: *інтеграція, митний союз, економічні ефекти, зовнішня торгівля, економічні об'єднання.*

Аргументируется, что внешняя торговля во все времена имела важное значение для экономической жизни всех стран, поскольку ее успехи серьезно влияют на экономическое развитие. На основе исторического опыта развитых стран в статье доказывается, что нельзя создать благополучную экономику, находясь в изоляции от остального мира. Международная торговля, экономическая интеграция, в том числе функционирование таможенных союзов, приносят в отечественную экономику ряд преимуществ и выгод, которые непосредственно влияют на активизацию экономического роста.

Обращаясь к истории создания таможенных союзов в наиболее развитых странах, авторы пришли к выводу, что активное участие в них приносит подъем производства, процветание и высокий уровень жизни населения в странах-участницах. Сегодня таможенный союз является достаточно логически завершенной формой экономической интеграции, которая в то же время таит в себе внутреннее противоречие, развитие которого неизбежно порождает потребность в переходе к еще более совершенным формам экономической интеграции.

Таким образом, участие в различных формах экономической интеграции, в том числе в таможенных союзах, предоставляет дополнительные возможности для становления и развития экономики, формирования бюджета страны, поддержания благосостояния народа.

Ключевые слова: интеграция, таможенный союз, экономические эффекты, внешняя торговля, экономические объединения.

The relevance of the research is connected with the increasing international activity in the world economy and in economic policy of the states that, in turn, stimulates their efforts in the direction of the international political and economic integration. Therefore, just today the question of the world experience in creating customs unions and the practical results of their functioning is arising.

Theories of international economic integration have been researched by a lot of economists, including: J. Viner, J. Meade, R. Lipsey, K. Lancaster, J. Tinbergen, C. Cooper, B. Messel, B. Balassa, and others [1-5].

All of them pay attention to the study of various aspects of the functioning of the customs unions established in specific historical conditions. In our opinion, the interest is caused by exactly the possibility of adapting the theoretical and practical historical experience of establishment and functioning of customs unions under conditions of modern Ukrainian economy and its integration into the world economy. This issue became the purpose of this work.

During last twenty years in the world economy the trend to constant and rapid increase in the number of regional trade agreements (RTAs) has shown up and has been strengthening. According to those RTAs their participants take off all or most of the barriers in mutual trade. The development of global economic process in recent years has been characterized by significant

increase in regional integration associations. The formation of the customs union is a concrete step towards deepening of economic integration. In turn, the integration as the deepening and improvement allows consecutive transmission of certain state functions to supranational bodies, that is partial denial of national sovereignty happens.

The term «integration» itself has been introduced to the public and scientific use relatively recently, however, uniting, integrative trends has not appeared in the world today. Throughout the history of the state development countries found common economic, political and military interests, but that did not mean their unification.

Customs unions first came into existence in Western Europe in the middle of the XVIII century from scratch. Before that, there had been non-governmental formations. So in medieval Europe there were quite often cases when the feudal lords made alliances with each other to facilitate the fee collection from those traders who entered their territories. Such associations were directed only at strengthening of the existing regimes. Charges for the right to trade in the city (or the market) and for the right to use roads, rivers and bridges were taken anywhere. In the opinion of researchers, they did not have the character of the boundary. It is natural that such conditions restrained trade and production. For capitalist industry, that was coming into being, and trade, that was developing, more favorable

fiscal regime with liquidation, at least partial, of internal customs barriers and the creation of large customs territories in future was necessary.

For some time, the number of internal customs was gradually decreasing, territories became united, but even then frontier and internal charges were still coexisting. One of the ways, with the help of which the national customs policy forces out the local one, was making agreements between cities within the freedoms and liberties granted or recognized by monarchs. They received large spreading in England, where in the XIII century intermunicipal trade agreements already appeared, according to which citizens of one city, arriving for commercial purposes in another city, were released from payment of customs duties. Contracts between French cities for facilitating the import of goods intensified in the XV century.

The associations of cities located in different states aimed at protection of their trade – hansas (from German – «union») are of particular interest. Among the famous hansas there is London's hansa, first mentioned in 1240, that brought together 17 cities in France and England, and the Cologne hansa, information on which was found in 1157, set up by German cities. The latter in the second half of the XIII century lost its importance and the cities, that had made it up, joined the more powerful union – Teutonic (Livonia) or the Great German hansa with the centre in Lübeck (1267). The beginning of the Great German hansa was the co-operation agreement between the guilds of Lübeck and Hamburg. One of the basic principles of cooperation was duty-free trade. The source of revenue to the city treasury became taxes on the members of the local hansa, that allowed to refuse from the collection of customs charges [6, p. 82].

The international exchange of goods, in turn, leads to increase in interdependence of states that causes the improvement of standards of interna-

tional agreements governing the customs control issues. Expanding international trade ties require the development of practical application of customs rules. In XVIII century scholars and practitioners realized that general customs rules may lead to the merge of the countries, which trade with each other, into one country that is common customs policy will contribute to political unions. This was confirmed in 1834, when the German Customs Union was created, and that became the basis for Germany unification, one of the most developed industrial countries in the world. German customs union is of interest, as it was the first time when such form of organization as a customs union was created and was tested in practice. It united sovereign states and created a single customs territory.

The meaning of «customs union» can be found in the Customs Union Agreement 1867, the French-Monegasque Agreement 1865, the Belgian-Luxembourg Agreement 1921, the Customs and Economic Union of Benelux 1958 (it was based on the Customs Convention 5, September, 1944). Of course, one can not mention the most successful European Economic Union, which is based on «The Roman treatise» 1957. Apart from it in the modern world there is the Central American Common Market and the Customs and Economic Union of Central Africa, and others [6, p. 110].

Among the regional integration associations the European Union is of the greatest interest. It is based on the principles of customs union. Apart from Europe, regional integration is actively carried out in other continents, in all the «centres of economic power.»

Today there are ten groups of countries that have formed or made a significant part of the way to creation of a customs union. Four of them operate in Latin America (Central American Common Market, Caribbean Community and Common Market, Andean Community of Na-

tions, South American Common Market), five in Africa (Economic Monetary Community of Central Africa, West African Economic and Monetary Union, Economic Community of West African States, East African Community, South African Customs Union) and one in the Middle East (Council on Cooperation for the Arab States of the Gulf) [7].

The member countries of the customs union are connected with the common customs area, which has a common external tariff, as a rule, there are no import duties and quantitative restrictions in mutual trade. A number of these inter-state groups is characterized with a larger scale of interaction: service industries is regulated, the general rules (such as protection of intellectual property rights, government procurement) work, economic policy in key areas is coordinated. Together with the common features customs unions vary by the time of creation and the process of formation, economic potential of the participants, the depth of their interaction, programs of integration. The highest level of integration is considered to be the union, which leads to the formation of a supranational power and administrative structure.

One of the founders of the theory of customs unions – J. Viner, who in his work «The Customs Union Issue» (1950) researched the effect of carrying out the formation of customs unions on trade between countries and identified the so-called effects of expansion and reallocation of trade flows [1, p. 42]. In the first case, the transition from using the opportunities of the internal market to partner countries as a source of resources for the production of certain goods takes place. In the other a similar transition from external sources to the union markets to resources market of the partner countries takes place.

The growth in trading activity increases the welfare of the country in such extent to which domestic production is replaced by a much more

low-cost import from partner countries. Relatively cheap import becomes as the result of the tariffs cancellation. However, the redirection of trade flows leads to decline in the welfare of the people, because the imposition of tariffs is aimed at discrimination against countries which do not participate in the customs union, and this leads to the substitution of low-cost import from these countries with more expensive one from partner countries. The extent of expansion (redirection) of trade flows and differences in production costs per unit of production affect the amount of the net effect of increase (decrease) in welfare as a result of the creation of a customs union. In the system of partial balance under the condition of fixed costs the increase (decrease) in welfare will take place, if the amount of trade expansion is multiplied by the difference between the expenditure between this country and its customs union partner, which will exceed the redirected foreign trade amount multiplied by the difference in costs between the partner country and the outside world.

J. Mead, considering the impact of customs union on the replacement of some goods with other ones, paid attention to the interrelation of the effect of production and consumption effects [2, p. 706-707]. Replacement of some resource with other one affects the structure of consumption through price changes, which the buyer pays. In turn, the replacement of some goods with other ones leads to changes in the structure of production as producers also face the changed prices.

R. Lipsey and K. Lancaster concluded that, not taking conditions into account, it is impossible to make an univocal conclusion as for the increase or decrease in the welfare of the country as a result of the creation of the customs union [8, p. 220-232]. However, taking defined factors into account, we can assume the direction in which these measures will impact on welfare.

Among them there are: the ratio of units of goods in the domestic consumption that are produced domestically and import from countries that are not the members of the union. Other things being equal, the greater the proportion of consumption of local products and the smaller the share of import from countries that are not the members of the union are, the more likely is the result of improving the welfare as the result of creating the customs union. This is due to the fact that the replacement of the goods produced in the country with the goods of the partner countries in the union will lead to the expansion of foreign trade flows, whereas the replacement of the goods imported from outside will lead to their redistribution.

J. Tinbergen concluded that considering the benefits of the extension of the customs union associated with the introduction of additional opportunities for the distribution of production, the expected positive effect of welfare depends on the size of the market of the participating countries. That is, the smaller the country is, the more she wins when entering the customs union [9, p. 428].

Researching the impact of cross-country differences in the structure of production on the effect of welfare growth, J. Viner suggested that the more competitive structure of the production of participating countries is, the higher the probability of welfare as a result of the creation of the customs union is [1, p. 125]. This thesis reflects the precondition that countries with similar production structures during the organization of the customs union are trying to replace domestic goods with competitive import from partner countries, whereas differences in the structure of production within the union lead to the abandonment of partners' production in favour of cheap import from outside (such precondition is wrong if the manufacturer of the goods with low costs is within the union). For achievement of the

effect of increasing welfare as a result of the creation of the customs union transport costs are also of great importance. Under the same conditions, the lower the transport costs in the member states of the union are, the greater the positive effect of integration is. Therefore, the neighboring countries which have more opportunities to expand trade with each other, have more opportunities in comparison with the participation of distant countries.

The potential benefits and costs as a result of the creation of a customs union are also influenced by the size of tariffs. Under the condition of the elimination of high tariffs, which had been before the merger, the greater opportunities for the trade development appear. This means the increase in the welfare of the participating countries, while relatively low tariffs for the other countries of the world will reduce the risk of redirection. However, such relationships are practically impossible if the most-favoured policy works, which is characterized by the establishment of the same tariffs even before the formation of the customs union.

J. Viner, J. Mead, and R. Lipsey see the country participation in customs unions, that helps the expansion of foreign trade, as reducing the impact of its own tariffs. Supporting this, C. Cooper and B. Massell, H. Jonson proved that participation in the customs union leads to a smaller effect compared to unilateral abolition of tariffs that stimulates the expansion of trade, without creating the redirection of external flows [3, p. 461-473; 9, p. 510]. In their opinion, the causes of creation of such unions are in the achievement of participating countries of non-economic objectives and benefits. These include, in particular, creation of favourable conditions for the development of the industry. Scientists have noticed that in the framework of the customs union achievement of a certain goal can be

provided at lower costs than in the domestic market of a particular country.

The organization of the customs union for industrial development, according to H. Jonson, provides that the sector of production of industrial goods of the participating countries is in relatively less favourable condition to other countries. W. Cooper and B. Massell referred these countries to those that develop, suggesting that the government, that is responsible for their economic development, donate part of national income in order to expand industrial production. Advantages in the industry, according to H. Johnson, reflect national plans of individual countries and their rivalry with other states, strengthening of the industrial enterprises and income-generating opportunities for them and their employees, as well as the hope that industrial production will create positive external effects.

Researching the benefits of a unilateral reduction of tariffs in the case of insufficient external effect or industry-favoured regime, P. and R. Wonnacott proved that this is not necessary if certain tariffs operated in the partner countries and other (foreign) countries before the formation of the customs union. The elimination of tariffs by partners has a positive effect on the economy of the country, as in the markets of the partners it will be able to sell their products at higher prices. The size of the effect will depend on the size of the tariffs of the member states before joining the union. Besides, it can also be affected by the rates in countries which are not the members of the union. This is due to the fact that by selling duty-free goods in the markets of the partners, manufacturers avoid the payment of duties also in other countries [4, p. 704-714].

Comparing the efficiency of the customs union with the so-called subsidies union, in which each participant is subsidizing its own industrial production, C. Cooper and B. Massell prefer the

latter [3, p. 467]. Their conclusion is that it is possible to prevent the negative impact of tariffs on consumption by maintaining prices of industrial products in the world market by subsidizing. However, each country can subsidize its own industry and on an individual basis receive appropriate benefits without joining the union.

Researching this on the example of one country, J. Vanek, M. Camp, H. Wang and others have paid special attention to the distribution of gains and losses in the customs union [9, p. 612-613]. They concluded that the improvement in the terms of trade created the preconditions for the emergence of customs unions, even if there is no external economic incentives and positive external effects. This makes the customs union more beneficial to the unilateral reduction of tariffs, which can affect the terms of trade for certain country. The scientists believe that, other things being equal: the bigger created union is, the more benefits there are when it is created, and the greater costs will have other countries due to the changes in the terms of trade. This is due to the fact that, other things being equal, the elasticity of mutual demand on the products of their union partners is directly proportional to the union size and the elasticity of mutual demand on their products from the outside world is inversely proportional to the union size. The extent of the impact of change in the terms of trade on the welfare also depends on the size of tariffs that existed before and after the formation of the customs union. As a result of the creation of a customs union there will not be any losses to the outside world and benefits for its members, if the tariffs established by the union in relation to other countries, are significantly smaller than those previously acted for the participating countries.

J. Mead was the first who analyzed the impact of full mobility of all factors of production on the welfare of the countries in the integration

area [2, p. 701]. His conclusion is that the freedom of movement of factors of production is profitable for the participating countries, as it reduces the relative degree of rarity (limited) of these factors. This suggests that the equalization of factor prices due to the development of trade does not take place. Under the conditions of limitation of mobility of factors of production between the member countries of the integration zone and the outside world the welfare decreases not due to increased change in the movement of factors on the internal market of the union, but it is the response to redirection of trade flows of finished products. However, in this case, effects similar to the effects of the expansion and redirection trade flows can also occur. This occurs when before the unification of the countries the movement of factors of production is taxed, and then it is canceled within the union.

According to B. Balassa, in any case, the indirect impact on the welfare of nations will be shown in the extent to which flows of factors of production replace the flow of goods [8, p. 220-232]. In particular, the losses for countries that are not included in the integration area are possible, as the newly created production determines the replacement of import. Economic integration may lead to a change in costs by increasing production volumes. For various types of equipment production costs are in a functional relation to the area occupied by them, and the production capacity to the production volume. Costs per unit of production decrease with the increase in production in the case of making major transactions, as well as for such disproportionate activities as design, research, collection and distribution of information, production planning. The stocks should not increase in proportion to the volume of output. The increase in output allows the use of technologies that require specialized equipment or conveyor lines.

In his studies, W. Corden proved that the traditional concepts of expansion and redirection of trade flows are relevant in the case of economies of scale at the level of the enterprise, but they should be supplemented by new, namely the effect of reducing costs and the effect of suppressing trading activity. The first is associated with a decrease in the average cost of production with the growth of domestic production as a result of the creation of integration zones, the second one with the replacement of low-cost import from countries which are not the members of the union, by domestic products that became cheaper due to economies of scale. As it was stated by W. Corden, the effect of reducing costs is bigger than the effect of gaining marketing activity, so this can be the net profit [5, p. 465-473].

The size of the enterprise and the amount of costs per unit of production for companies that produce several kinds of goods are not necessarily related. Diversification of production can reduce costs by narrowing the range of goods and specialization in niche products that will increase the size of production batches for each kind. W. Corden has identified the benefits of an increase in the trading parties and accordingly produced the duration of the production of each commodity:

- 1 improvement of the efficiency of industrial production, expressed in promoting the «learning curve» with the growth of total output;

- 2 reduction of the costs connected with the transition from one manufacturing operation to another, that requires a loading of the equipment, labour reallocation and reorganization of the reduction of costs, connected with the transition from one process step to another, requires loading equipment, labor reallocation and reorganization of the whole process;

- 3 use of specialized equipment instead of equipment of a more general purpose.

Equally important is the opportunity for vertical specialization, which is done by dividing the production cycle between several enterprises (units) operating within one integration zone. With the increase in sales of goods, the production of their components can be carried out at individual enterprises, each of which will have the advantages of economies of scale. As a result, costs will decrease.

Thus, today, the customs union is quite logically completed form. At the same time, limited to purely international trade area, it conceals an internal conflict, the development of which inevitably causes the need to move to more sophisticated forms of economic and trade unions.

Economists define a customs union as an economic association of the countries, which is based on: a single customs territory of the participating countries of the customs union. The forming of the single customs territory is carried out by:

- cancellation of customs duties, taxes and charges having equivalent effect and quantitative restrictions in trade between the countries of the contracting parties in products originated in their territories;

- establishment and using in relations with third countries the same trade regime, the common customs tariff and non-tariff regulation of foreign trade;

- formation of the mechanism of the relationship of the customs union with third countries;

- existence of consistent regulatory mechanism of the economy, based on market principles of management and unified legislation.

In general, participating countries while creating a customs union have the following objectives:

- ensuring by joint actions the social and economic progress of their countries by eliminating barriers between them, that are divided for

free economic interaction between business entities;

- ensuring sustainable development of the economy, the free exchange of goods and fair competition;

- strengthening the coordination of the economic policy of their countries and providing the full development of the national economy;

- creation of the conditions for the formation of a common economic space;

- creation of conditions for the active entrance of the member states of the customs union the world market [10, p. 112].

Foreign trade at all times has been of great importance for the economic life of all countries, as its progress has large impact on the economic development. The historical experience of developed countries shows that it is impossible to create a prosperous economy in isolation from the rest of the world. International trade, economic integration, including the functioning of the customs union, introduce to the domestic economy a number of advantages and benefits that directly affect the activization of economic growth.

Turning to the history of the creation of customs unions in the most developed countries we may come to a conclusion that active participation in world trade causes increase in production, prosperity and a high standard of living in these countries. Today customs union is a quite logical completed form of economic integration, while at the same time conceals an inner contradiction, the development of which is inevitably creating the need for transition to more advanced forms of economic integration.

Thus, participation in various forms of economic integration, including customs unions, provides additional opportunities for the establishment and development of the economy, forming of the country budget, supporting the people's welfare.

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