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CUSTOMS UNION AS A FORM OF INTERNATIONAL INTEGRATION OF COUNTRIES

The essence of economic integration and its main stages is revealed. The reasons that motivate countries with different levels of economic development to integrate are founded. The evolution of integrative forms is investigated and the features of each stage are revealed. The role of the customs union as a prerequisite for the further development of integration in the long term is substantiated.

Keywords: economic integration, dynamic effect, customs union, global economy, the static effect, forms of integration.

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МИТНИЙ СОЮЗ ЯК ФОРМА МІЖНАРОДНОЇ ІНТЕГРАЦІЇ КРАЇН

Розкрито економічну сутність інтеграції та її основних етапів. Виявлено мотиви, що спонукають країни з різним рівнем економічного розвитку до інтеграційних процесів. Досліджено еволюцію форм інтеграції та розкрито особливості кожного етапу. Обґрунтовано роль митного союзу як необхідної передумови для подальшого розвитку інтеграційних процесів в довгостроковій перспективі.

Ключові слова: економічна інтеграція, динамічний ефект, митний союз, світова економіка, статичний ефект, форми інтеграції.

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ТАМОЖЕННЫЙ СОЮЗ КАК ФОРМА МЕЖДУНАРОДНОЙ ИНТЕГРАЦИИ СТРАН

Раскрыта экономическая сущность интеграции и ее основных этапов. Выведены мотивы, побуждающие страны с разным уровнем экономического развития в интеграционных процессах. Исследована эволюция форм интеграции и раскрыты особенности каждого этапа. Обоснована роль таможенного союза как необходимой предпосылки для дальнейшего развития интеграционных процессов в долгосрочной перспективе.

Ключевые слова: экономическая интеграция, динамический эффект, таможенный союз, мировая экономика, статический эффект, формы интеграции.

Introduction. The processes in the global economy are reflected in the economic policy of states and are characterized by increasing activity of the international economic entities at different levels in all spheres. Wherein enhancing international cooperation increases the international political and economic integration. In terms of states interdependence growth the degree of their engagement in the integration processes becomes the main factor of their economies competitiveness, as this is the fact of possible import of new knowledge and technologies, increase in manufacturing of products and growth in exports of finished products, as well as attraction of foreign investments, etc.

The relevance of this topic is determined of the current economic conditions specifics and necessity of clear and coordinated integration policy aimed at stabilization of economic situation of the countries included in this process. The leverage effectiveness of such integration policy is mostly determined by the degree of elaboration of integration theoretical principles, particularly in the form of a customs union.

The analysis of recent research of current issue. Integration in the world economy has extensively been studied by scientific and expert community and is discussed in the national and foreign literature. The theoretical and practical aspects of integration within the world economic space are reflected in the works of I. Burakovskiy, I. Wallerstein, A. Voronkov, Y. Glazyev, N. Hruschynska, T. Levitt, A. Lyhachov, L. Mikhailova, V. Movchan, K. Omaye, V. Onishchenko, V. Pyatnitskiy, A. Filippenko, F. Fukuyama and others.

Purpose of this article is to study the theoretical foundations of customs union creation as a form of the international integration.

Results. Integration processes have become crucial in world development for last decades, as well they influence on Ukraine's search of its place in the international labour division.

Integration does not only favour to resolve modern problems, but also specifies the new ways of economic, political and legal development of the state. The term "integration" is derived from the Latin *integratio* - filling, recovery, and *integer* - the whole [5, p. 508] and is a process of mutual accommodation and association of national economies of two or more states with uniform social systems.

The reasons of association of developing countries differ from the reasons according to which developed countries are included in this process. The integration of the developed countries is the necessity, defined by the achieved level of productive forces. Commitment to improve the economy, desire to maximize the benefits from international cooperation and strengthen position on the international stage leads to unification of developing countries [8].

The formation of interstate integration associations created to stimulate the growth of production and trade between countries, is the specifics of the world economy. There are various forms of economic integration of countries aimed to combine their efforts to expand the boundaries of economic cooperation. The most common forms of integration are: free trade area, customs union, common markets and economic unions (Fig. 1).

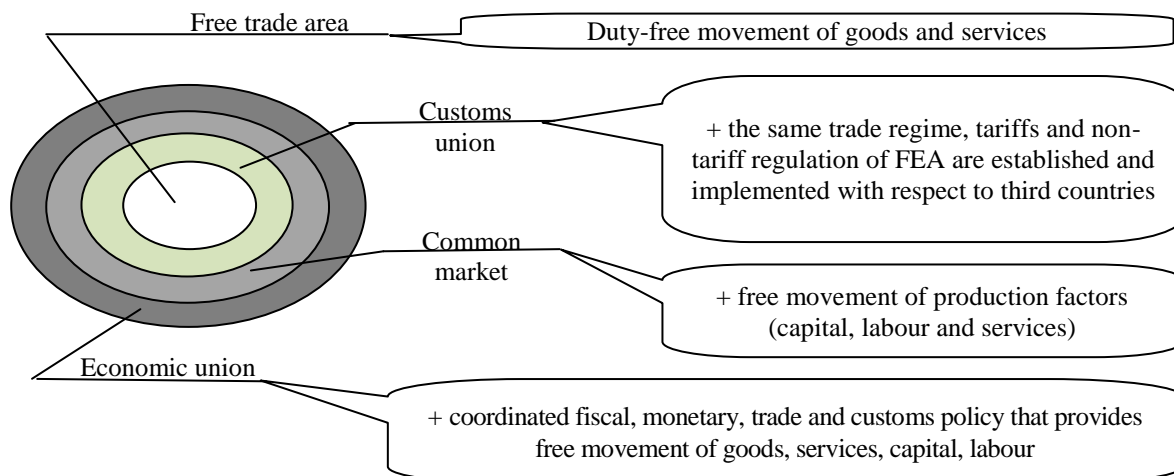


Fig. 1. Countries integration forms
Source: author's interpretation.

Free trade area implies that participating countries eliminate all trade barriers within integration area, but each country keeps them in relation to third countries. Each participating country is free to perform FEA in this area along with prevention the territory penetration of third countries, while maintaining a significant share of autonomy in taxation, customs and administrative regulation of goods movement. This form derives its implementation through the creation in 1967 European Free Trade Association (EFTA) by Austria, Britain, Denmark, Norway, Sweden and Portugal. Creation of free trade areas increases competition in the domestic market between national and foreign manufacturers of goods, on the one hand, increases the risk of bankruptcy, and, on the other hand, is an incentive to improve production and innovation. The elimination of customs duties and non-tariff barriers concerns usually

manufactured goods; concerning agricultural products liberalization of imports is limited. Today such areas include Association of Southeast Asian Nations (ASEAN) [2], the European Free Trade Association (EFTA), Organization of Asia-Pacific Economic Cooperation (APEC) and the North American Free Trade Association (NAFTA) [3].

While setting customs union participating countries not only eliminate all trade barriers among themselves, but also carry out common customs policy, creating a single customs system, the structure of customs legislation. So, with these measures participating countries facilitate customs control in territory of each member. In this case, the importance of customs controls increases at the external customs border of a single customs territory. The example of this form is the Customs Union of Russia, Belarus and Kazakhstan (Customs Union) [7], the Benelux countries, the Arab common market.

The complex forms of integration may be represented as the common markets within framework of free trade as well as free circulation of all production factors of the participating countries. While the common market functioning there are formed the common funds to promote social and regional development, supranational management and control bodies are created, legal system is improved, that is the creation of common economic, legal and information space. An example of a common market is the Caribbean Common Market (CARICOM), South Common Market (MERCOSUR) [1]. It should be noticed that this association deals with number of difficulties connected with the implementation of the freedom of labour migration and provision of services by participating countries.

The Economic Union in which participating countries are almost entirely (including not only customs and taxation, but also monetary system) unify its own economic base, is the highest form of interstate economic integration. It combines all mentioned forms of integration for total economic and monetary policy. An example of such form implementation is the EU, the Eurasian Economic Union [6], the Arab Maghreb Union, the West African Economic and Monetary Union (WAEMU).

The first and second stages of regional integration are called formal integration, and the third and fourth – real according to the global economic literature.

Depending on the form of integration the objectives of international economic integration are specified. While formation of free trade area and customs union (these forms of integration are the most common) participating countries tend to expand the market and provide the favourable environment for trade among themselves, as well as simultaneously prevent the competitors promotion of markets from the third countries.

Development of economic integration undoubtedly has as its positive as negative effects on the parties. The formation of integration blocs considerably strengthens their economic potential, promotes commodity turnover, cooperation and industrial relations. In addition, the economic convergence of countries creates favourable conditions for businesses of integrated countries, to certain extent protecting them from competition of companies from third countries; allows to its participants solve social problems in a single manner. However, there may arise some contradictions and interests of the participants in groups. For example, the introduction of the EU single currency (euro) divided member countries into supporters and opponents.

The evaluation criterias of the integration grouping in terms of correspondence to the interests of the international economy in general are:

- the regional trade agreements should cover all sectors of the economy without exception;
- the transition period can not exceed 10 years and the liberalization of trade in selected industries must take place under a clear schedule;
- the trade liberalization on the most favoured nation treatment must precede or accompany the creation of any new integration grouping;
- the common customs tariff, introduced under the customs union can not be lower than the lowest tariff that existed in the country with the lowest tariff in the relevant field, or even the lowest tariff under the most favoured nation regime;

- rules for the admission of new members to the integration associations must be liberal and not prevent their expansion;
 - rules of determining the country of origin must be transparent and must not be an instrument of protectionism within the grouping;
 - rapid transition to the most advanced forms of integration that are more favourable, as they provide a more rational distribution and using of production factors;
- after the establishment of the integration antidumping regulations must not be applied among its members.

International integration is a special sphere of foreign economic policy, which is usually considered separately from other trade policy measures. As the integration is multidimensional process that extends beyond trade frameworks, theories about the reasons, functions and conditions of its forms are lagging behind the practice [9]. Among the approaches to each stage of the integration only the customs union theory has received appropriate theoretical development. This theory is narrowly focused only on the effect of reduction or elimination of duties in the merchandise trade, while the liberalization of non-tariff barriers, trade in services and the movement of production factors are overlooked.

The theory of economic integration and in particular customs unions, was developed by Canadian scientist Jacob Weiner [4]. According to this theory, in a result of the customs union agreement between countries, which eliminates tariffs in mutual trade between them, there are two types of effects in the economy:

- static effects - economic consequences that occur immediately after the formation of a customs union as its immanent result;
- dynamic effects - economic effects, manifested in the long term operation of the customs union.

Creation of the customs union means provision of mutual trade preferences of its members to each other and the unification of tariff and non-tariff trade regulations with regard to third countries. In a result of mutual removal of duties two types of static mutually opposing effects may arise:

- trade creation effect is an inversion of domestic consumer demand for efficient external supply source of the goods (imports), which became possible due to the elimination of import duties within the Customs union;
- effect of trade rejection is the reorientation of domestic consumer demand for the purchase of goods in the effective not integration supply source for a less effective source of intrainTEGRATIONAL supply source that took place as a result of elimination of import tariffs within the Customs union.

If after formation of the customs union there is the effect of trade rejection then the welfare will get worse in countries that do not take part in it as the limited resources of all kinds are used less efficiently than under free trade. From the other point of view, the same influence of the participating countries welfare may take place if the effect of trade rejection by its trade volume costs is less than the effect of trade creation. Generally, the result of customs union establishment may be represented by two effects, but the effect of trade creation is greater than effect of trade rejection. Thus, inherently coherent effects of integration increase the welfare of the participating countries in general.

Besides effects of trade creation and rejection the administrative cost reduction of the customs and border authorities refers to the static effects of integration. Following the imports aggregate demand reduction from countries outside the customs union, the terms of trade may be improved in countries it includes.

Dynamic effects may also have both favourable and unfavourable effects on the national economy. The favourable effects of the customs union formation are the as following:

- increasing competition between producers from different countries, which stimulates the growth of prices, creation and implementation of new technology, improves quality of products, etc.;

- participating countries take advantage from economies of scale, which makes it possible to increase production and cut costs;

- increasing foreign investment as the corporations from countries outside the customs union tend to keep a certain segment of market with closed tariff barriers due to creation of enterprises within framework of countries that integrate;

position of each country that participates in integration during trade and economic negotiations has more advantages than position of individual country outside the union, and it may provide beneficial trading terms or other advantages to participating country.

The main adverse effects which may occur while country accession the customs union are:

- in certain circumstances resources may move from less economically developed countries of the customs union to more developed ones, or towards the geographical centre of the customs union to reduce transport costs;

- if a close integration ties between individual enterprises of participating countries are established, there may occur oligopolistic collusion, which leads to higher prices for relevant products;

- the losses effect may occur due to increase of production scale. This effect is related to the formation of very large companies that become ineffective through extra bureaucracy and other factors;

- under certain circumstances expenses of the customs union operation may be extremely high, especially on condition of absence of proper control over them. These problems become more significant with the growth of intervention of the customs union administrative authorities in the affairs of individual states. For example, if some costs are beneficial for a particular country, it will insist on their increase as they are financed by contributions of all participating countries.

To determine how many benefits the country receives from accession to union it is necessary to consider that some consequences as favourable as unfavourable have long-term nature, and they depend on the general condition of the global economy and sometimes have pure political nature and so they are beyond the economic analysis.

Agreement about customs union involves the following formalities:

- to remove internal customs borders between member countries of the Union;
- to transfer the customs control on the external perimeter of the Union;
- to remove the customs procedures in mutual merchandise trade of national production;

- to unify the forms and methods of collection of foreign trade statistics;

- to harmony forms and methods of benefits provision to participants of foreign economic activity;

- to establish the common customs union system of tariff and non-tariff regulation in trade with third countries for all the participating countries;

- to create general system of preferences.

In addition, countries agree to create international coordinating bodies of a coherent foreign policy. They usually take the form of regular meetings of ministers that control the relevant agencies that base their work on the permanent intergovernmental secretariat.

The global economic crisis was a serious test of the effectiveness of integration associations. Association of states in the different forms strengthen national economies of allies, allow participants to present a united integrated unit in the international relations, increase the political and economic strength of countries globally, and open up big prospects for legal entities and individuals of participating countries.

The history of world economic integration convincingly demonstrates that the most promising form for the agreed union of independent states is a customs union. Although the

customs union is only a special stage of full economic integration, it contains the necessary, fundamental platform for a further movement in this area.

Conclusions. The dynamism of processes in the world economic system strengthens international political and economic integration. This integration helps to solve urgent problems and gives a new way of economic, political and legal development of the state. Despite the plurality of motives for integration of countries with different levels of economic development, at the present stage of the international economic relations development it is crucial form the trend of international integration associations. Depending on the real influence on the economic policies of the participating countries, integration associations are usually divided into formal (free trade area, customs union) and real (common markets and economic unions). According to degree of theoretical development, despite the existing gaps, the most systematized is the theory of a customs union, which involves the elimination of tariff barriers in mutual trade between the participating countries and creation of dualistic effects of trade. After the customs union creation, welfare of the participating countries increases and creates a basis for further development of integration processes in general.

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