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## **ECONOMIC INTEGRATION PROCESSES WITHIN THE FRAME OF THE EUROPEAN UNION: THEORETICAL-CONCEPTUAL BASIS AND HISTORICAL APPROACH**

**ABSTRACT.** This article is devoted to analysis of the economic integration processes from theoretical-conceptual and historical points-of-view of economic integration processes within the frame of the European Union (EU). Main concepts on economic integration were briefly analyzed and their approach to the integration processes in the European scale presented. Besides, some light was shed on the historic development path of the EU and it was characterized as a perfect economic integration block. The position held by the EU, integrating 27 countries of the Europe in the world economy, was presented with comparison of proper macroeconomic world indices.

**KEY WORDS:** EU, economic integration, theory (concept), EU economy.

АНОТАЦІЯ. Стаття присвячена аналізу економічних інтеграційних процесів з точки зору теоретично-концептуального і історичного погляду на економічні інтеграційні процеси в межах Європейського Союзу (ЄС). У статті представлені і коротко аналізовані основні концепції економічної інтеграції та їх підхід до інтеграційних процесів на європейській арені. Одночасно розглянута історія розвитку ЄС і підкреслено, що ця структура є найдосконалішим економічним інтеграційним блоком. За допомогою макроекономічних показників показано позицію ЄС, яка включає 27 європейських держав, у світовій економіці.

КЛЮЧОВІ СЛОВА: ЄС, економічна інтеграція, теорія (концепція), економіка ЄС.

АННОТАЦИЯ. Статья посвящена анализу экономических интеграционных процессов с точки зрения теоретически-концептуального и исторического взгляда на экономические интеграционные процессы в рамках Европейского Союза (ЕС). В статье представлены и кратко анализированы основные концепции экономической интеграции и их подход к интеграционным процессам на европейской арене. Одновременно, рассмотрена история развития ЕС и подчеркнуто, что эта структура является самой совершенным экономическим интеграционным блоком. С помощью макроэкономических показателей, показана позиция ЕС, включающей 27 европейских стран, в мировой экономике.

КЛЮЧЕВЫЕ СЛОВА: ЕС, экономическая интеграция, теория (концепция), экономика ЕС.

## Introduction

It is well known that most of the economic literatures address economic integration processes within the European Union (EU) as a model in order to explain the essence of economic integration. Realization of the idea of unity and integration in Europe has evolved through complex and contrasting historical processes. Those seeing the way to the union through battlefields and creation of empires fighting were predominant at early stages. As a union of democratic and free countries, Europe plays a crucial role in international relationships with its unified economic system as a major investment center of the world and balanced social policy at the moment.

### Main concepts on economic integration

Current integration concepts may be put in three following major groups:

➤ Generic concepts (*market concept* — C.Vayner, R.Lipsey, V.Repke et al, *institutional concept* — K.Telen, S.Steynmo, K.Blank, L.Houg et al, *dirigist concept* — Y.Tinbergen, R.Kuper, A.Marshall, G.Murdal et al, *structrucal concept* — R.Hansen, E.Moravchik, A.Milvord et al, *Marxist concept* — K.Marx et al);

➤ Political-legal concepts (*functionalist concept* — D.Mitrani et al, *neo-functional concept* — E.Haas, L.Lindberg, A.Etsioni et al, *pluralist concept* — K.Doych et al, *federalist concept*— A.Spinelli et al);

➤ Functional special concepts (*trade or customs union concept* — C.Vayner et al, *currency integration concept* — J.Delor et al).

The author of the *federalist model* of integration was A.Spinelli, leader of the European federalist movement. In his opinion, only this model may ensure successful unity of the whole Europe.[1] According to this theory with federalism as a foundation of it, integration enables to create a union without attempting to join a state or union of states. Generally, the nation states remaining autonomous delegate some of their authorities to general entities [2].

Quite differently, «*functionalism*» theory proposes alternative model of renewal and transformation of the international relations system. Its author D.Mitrani sees the main goal of the»functional alternative» as a»world union» [3]. According to functional approach, only supranational institutions could lead fragmented Europe to peace and progress [4].

At the stage when integration in Europe was marked by grand successes (60—70th of XX century)»*neo-functionalism*» evolved. Neo-functionalists (E.Haas, L.Lindberg and A.Etsioni) emphasized their interests to transfer part of the responsibilities to supranational institutions on voluntary basis as integration was already seen as an obvious and irreversible process. They explained their approach with the fact that economic cooperation necessitates creation of political regulation institutions.

Neo-functionalism attempted to suggest the following practical tools of integration process:

— integration must begin with the top priority issues of policy and cover all the leading areas of economy;

— proper management body shall be set independent of national states that may turn into active participant of further integration process;

— rapid integration also influences adjacent areas thus facilitating even greater expansion of it;

— expansion and deepening of integration processes leads to creation of general institutions and thus political integration acts as a result of the economic cooperation.

«*Pluralist concept*» (also referred to as»communicative concept» or»transactionalist concept») holds a vital place among integration theories. In his concept, K.Doych, the US politician, considers impossible existence of absolute and universal integration law that

may be unanimously adopted by the world union. He emphasizes interactive communication factor necessitating the role of national states as participants of integration process. Every nation has specific communicative potential [5].

According to **«dirigism» theory** (Yan Tinbergen) analyzing integration as processes with «negative» and «positive» aspects, negative integration anticipates elimination of all the barriers precluding creation of a unified economic zone, while positive integration is directed to creation of unified entities of regulating political-economic processes [6].

**«Constructivist» integration theory** stresses social aspect of intergovernmental cooperation as a vital factor. Social interests of countries are a sphere where clash of ideas is at the minimum level. This theory accepts integration as a global process and considers regional integration part of it.

In terms of practical analysis of integration processes, **«incremental five step development concept»** as a theoretical generalization of the EU model is also widespread. According to five-step scheme (free trade zone, customs union, common market, economic union, political integration), each next step emerges as a logical continuation of the previous step. Direction of the integration is from economic to political union.

National statehood and its functions in new reality cross as a red line through all of the integration theories. Even the interpretations given on the role of a sovereign state have conditioned evolution and main differences of these theories. In this regard, **«structural (interstate) approach» theory** reflects a picture close to reality by transitioning this problem to a more concrete plane. This theory criticizes neo-functionalism by asserting the role of a state in integration processes as close to reality. The approach points out avoidance to transfer of any responsibilities of a state to any institution in this matter as an absolute principle. According to this approach, a state's role in integration processes has no alternative [7].

According to **institutional approach**, structural imperatives may be effective only at the initial stage of post war organization, where further integration processes were largely determined by followed path and current situation (path-dependent). So after establishment of European Coal and Steel Union, projects were developed on their further expansion and so, EEU and EU created as a result of this spill-over [8].

**«New institutionalism»** concept move the main stress on the institutions as epicenters of political, economic, legal, cultural and etc activity within mutual cooperative relations. According to its authors

K.Telen and S.Steynmo, apart from being integration tools, they also play paramount role as subjects of integration mission.

«**Multilevel management concept**» may be noted as an approach on theoretical analysis of integration processes that emerged over the last few years. Main founders of multilevel management concept are K.Blank, G.Marx and L.Houg. According to this concept, integration processes lead to emergence of grand socio-political systems and in such systems no subject may adopt decisions independently or have necessary responsibilities on this scale.

### **EU integration model**

Main aspect integrating the integration theories enumerated above is that their subject matter of analysis is made up of creation of a union system basing on peaceful and economically and technologically general foundations of sovereign states. There are different approaches to its implementation in what real models. Most of theories base on study of concrete integration models existing in the world. The most developed model now is EU model.

The most optimal model for the present time is EU model. In this regard, it is known that economic integration has reached its advanced level and there is unified opinion about it. Further, it should be noted that the matter of preference of integration models basing on negative or positive approach has caused serious debates during the integration processes within the EU frame. When analyzing the development path of the EU, we come to conclusion that there is a practice made up of synthesis of two models.

Integration experience within EU frame wasn't a single type and has evolved to its present form as a result of competition of dissenting views. Roots of the modern integration processes in Europe are mainly explained by the situation emerged after the Second World War, Europe is a geographic area having lived through both integration and disintegration periods. While disintegration and fragmentation are mainly explained by the wars that took place in Europe, as an example of integration before EU, we may exemplify German Customs Union established by German speaking countries under the leadership of Prussia in 1834. It is quite natural that as compared to present day EU, German Coal Union anticipated even narrower and superficial integration. When this union was set up, it was initially planned to coordinate the currency, and then set up monetary policy union and political union as a strategic goal. Though the Netherlands (1839), Great Britain (1841) and Belgium (1844) have also signed agreements, the war breaking out between Prussia and Hapsbourg empire brought about the end of the German Coal Union.

Europe experience political union between Italy and Germany as from the second part of the XIX century. Two subsequent world wars prevented realization of integration ideas covering the whole continent. Integration ideas in Europe in this period mainly based on USA federation model and those ideas were presented as «European federation» [9].

Integration ideas were virtually postponed during the reign of Hitler Germany. In this regard, the following statement made by Valter Funk, Hitler's Minister of Economy, clearly shows Hitler's disagreement with the integration processes:»It is absurd to talk about a unified (single) economy in the European scale and following this logic, use of slogans such as «currency and coal union» assuming they will solve all the problems is erroneous» [10].

End of the II world war and beginning of the»cold war« changed the situation and a lot of factors emerged necessitating integration processes in Europe. Support to European countries by the USA, targeting struggle with socialism and preventing expansion of the Soviet Union, played a major role in realization of the European integration plan. To put it more correctly, 1947 Marshal Plan targeting to revive Europe from economic point of view in strengthening integration process is of special importance [11].

«Shuman Plan» (called to honor Robert Shuman, French minister of foreign affairs) authored by Jean Monnet anticipating 50 years joint management in steel and coal industry constitutes start of the modern European integration process. Initially announced in May 1950 this Plan yielded results in 1952 and European Coal and Steel Union (ECSU) was established under the Paris treaty signed in June of the same year. Apart from ensuring integration of coal and steel markets ECSU also anticipated joint management of iron ore markets of six European countries (France, Germany, Italy, Belgium, Netherlands and Luxembourg). The main goal here was to curb price discrimination in the markets and stimulate competition.[12] Consequently, the process was started to eliminate import and export fees on trade with coal, steel, and iron and lift some restrictions in this field within ECSU. Unified import and export fees were fixed on the products given above for the countries not included in the common coal and steel markets.

With Rome treaty signed by leading ECSU countries in 1957, European Economic Union (EEU) and European Atomic and Energy Union (EAEU) were created. EAEU had the same areal nature as ECSU and envisioned implementation of scientific-research, experimental-construction works and joint production cooperation on atomic energy.

The customs union proposed under the Roman treaty was finalized in 1968. As per the provisions of the customs union the mutual trade restriction on industrial product was eliminated and single customs rates were set for third countries. Another significant step in this period was an agreement on a Common Agricultural Policy. Though 70th of the XX century was marked by stagnation, some new members joined in EEU at that time. So, Great Britain, Denmark and Ireland joined this union as from January 1973.

A single internal market created with adoption of a Single European Act (SEA) anticipated creation of a borderless area between member countries and provision of commodities, services, capital, and labor force in this area. Apart from all these, the geographical scope of the union kept on expanding. So Greece joined the Union in 1981 and Portugal and Spain became EEU members in 1986.

Close coordination of internal policies, implementation of coordinated foreign policy, and improvement of legal systems and promotion of the role of EU Parliament occurred following the Maastricht treaty enforced in November 1 1993. Beginning from January 1 1999, issue of Euro, a single EU currency, is considered to be peak point of integration processes in the currency field.

Finland, Sweden and Austria became EU members in 1995. As a result of further expansions in the years 2004 to 2007, Poland, Hungary, Latvia, Lithuania, Estonia, Czech Republic, Slovakia, Slovenia, Malta, Cyprus, Bulgaria, and Rumania joined EU thus reaching the number of EU members to 27.

### **EU as a global power**

EU plays a leading role in the world economy now. According to data from 2009, 16.0 trillion USD (11.8 trillion EURO) GDP was produced in EU where approximately 7 % of the world population lives. Thus share of the Union in the world made up 26.0 %. In EU per capita GDP makes up 32.0 thousands USD where average indicator in the world makes up 8500 USD. With 1.5 trillion USD (1.1 trillion Euro) export volume, the share of the Union in the world index is 10.2 % and import volume is 1.7 trillion USD (1.2 trillion euro) thus making up 13.4 % in the overall world indicator.

Apart from high quantitative indicators the EU has competitive economic structure typical of post industrial society. So services sector accounts for 70.5 %, industry 27.3 % and agriculture 2.1 % of the added value respectively.

Export of EU countries comprises the following: machinery, equipment and transport means 41.5%, chemical products 17.9 %, food products 5.7 %, mineral fuels and lubricating materials 5.2 %, and

other industrial products 23.6 %, raw materials 2.5 %, and 3.4 % works and services. In the import of the EU countries, machinery, equipments and transport means account for 28.5 %, mineral fuel products and lubricants 24.2 %, chemical products 9.4 %, food products 6.1 %, other industrial products 24.6%, raw materials 3.8 % and works and services 3.2 %.

So, as a result of successful integration processes, the emerging EU may be characterized as an economic power and development center of the world.

### **Conclusion**

The research shows that the different concepts on economic integration explain it differently and the European Union is considered the best sample of regional economic integration. In this regard, the European Union integrating 27 European countries has become the biggest market in the world economy and the main economic and political power as well.

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