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I. CONCEPTS AND DEFINITIONS

In the Western economic literature, discussions of the types of economic integration of national states have customarily focused on the various stages of integration. From its lowest to its highest forms, integration has been said to progress through the freeing of barriers to trade ('trade integration'), the liberalisation of factor movements ('factor integration'), the harmonisation of national economic policies ('policy integration') and the complete unification of these policies ('total integration').[1]

These definitions have been criticised on the grounds that they conform to the principles of classical economic doctrines but do not apply to present-day market economies, which are characterised by a considerable degree of state intervention, and apply even less to developing and to socialist economies. As regards developing countries, the relevance of the proposed sequencing from the 'negative' measures of removing barriers to the 'positive' measures of policy co-ordination has been questioned by Kitamura, in whose opinion 'the attempt to co-ordinate and harmonise national economic policies will be an important instrument even in the earlier stages of the integration process' (1966, p. 45). Kitamura further claimed that 'in certain circumstances . . . integration may be accomplished to a considerable extent without lifting the existing trade barriers' (ibid.).

Pinder expressed the view that the co-ordination of policies is an important element of integration also in present-day developed market economies. He proposed to 'define economic integration as both the removal of discrimination as between the economic agents of the member countries, and the formation and application of co-ordinated and common policies on a sufficient scale to ensure that major economic and welfare objectives are fulfilled' (1968, p. 90).

While emphasising the need to consider policy co-ordination, the prominent Hungarian economist, Imre Vajda, criticised the definition put forward by

[1] For an early survey of proposed definitions of economic integration and the introduction of the described classification scheme, see Balassa, 1961.

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Pinder for its excessive generality. Limiting himself, in the first place, to trade integration, Vajda introduced the distinction between 'market integration' and 'production and development integration'. The former is defined as 'the guarantee of unhindered sale of each other's products within the framework of the social system of participating countries', while the latter is said to involve 'raising to an international level and programming the production of those branches of industry which . . . cannot be developed to an optimum size within national boundaries' (Vajda, 1971, p. 35).[2]

Vajda's distinction between trade integration through the removal of barriers to trade and integration through industrial programming on the regional (plurinational) level is meant to apply to developed market, to socialist, and to developing economies as well. It will be used in the following discussion to evaluate the results of integration schemes in the three types of countries. Subsequently, the question of the optimal degree of market, production and development integration will be examined. In the final section, the relationship between economic integration and national sovereignty will be discussed.

II. INTEGRATION IN DEVELOPED MARKET ECONOMIES

The European Common Market or European Economic Community (EEC) is the dominant integration scheme in developed market economies. It has absorbed the United Kingdom, the major participant in its would-be competitor organisation, the European Free Trade Association, and now accounts for over four-fifths of the gross national product of Western Europe. Following the creation of the EEC, the existent quantitative restrictions on intra-area trade were soon abolished; tariffs on intra-area trade were reduced and, ahead of schedule, eliminated (1968); and a common tariff on extra-area imports was established.

The freeing of barriers to trade was accompanied by the rapid expansion of trade among the partner countries. Between 1959 and 1971, trade among the original member countries of the EEC (Belgium, France, Germany, Italy, Luxembourg, and the Netherlands) increased nearly sixfold, as against a fourfold increase in their total imports and exports. As a result, the share of intra-EEC trade in the total rose from one-third in 1959 to one-half in 1971.

The question arises of whether, and to what extent, the expansion of intra-EEC trade represents trade creation (the replacement of domestic by partner-country sources of supply) or trade diversion (the replacement of foreign by partner-country sources) and how these changes in trade flows affect the welfare of member and nonmember countries. Trade creation is considered beneficial as the elimination of protection for domestic production *vis-à-vis* pro-

[2] The definition of market integration is qualified by the clause 'as long as this is not obstructed by social-political interests or excluded by common production agreements'. In turn, the full statement on production and development integration refers to industries 'which, in view of their technological development, vertical integration, the size of their investments, and the shorter-than-average life of their capital equipment, cannot be developed to an optimum size within national boundaries without upsetting the internal equilibrium of the national economy' (Vajda, 1971, p. 35).

ducers in the partner countries permits the replacement of higher-cost domestic products with lower-cost partner-country products. In turn, trade diversion may be detrimental both to member and to nonmember countries. The elimination of barriers to intra-area trade entails discrimination against imports from nonmember countries that continue to pay a duty, thus providing inducements to replace the lower-cost products of nonmember countries by higher-cost products of the partner countries.[3]

In order to separate trade creation and trade diversion, one has to select a benchmark for evaluating changes in trade flows. Under the assumption that the historical relationship of imports to the gross national product would have remained unchanged in the absence of integration, the present author suggested that a rise in the ratio of the growth rate of total (intra-area and extra-area) imports to that of GNP be taken to represent trade creation, and a decrease in the corresponding ratio for extra-area imports to represent trade diversion (Balassa, 1963).[4]

The application of this method to the 1959–70 period shows the preponderance of trade creation in the EEC (Balassa, 1974). With growth rates of GNP increasing only slightly (5·5 per cent in 1959–70 as against 5·4 per cent in 1953–9), the growth of imports accelerated; the volume of total imports into the EEC countries rose at an average annual rate of 11·3 per cent, compared with 9·6 per cent in the pre-Common Market period. By 1970, total imports exceeded imports projected on the basis of the relationships observed in the preceding period by $11·3 billion. This increase accounts for over one-fifth of the imports of manufactured goods, where trade creation was concentrated.

While trade diversion has occurred in the case of foodstuffs, chemicals, and simple manufactured goods, it has been offset by increased imports of machinery and equipment, which nave been associated with the expansion of investment activity and the trend towards the purchase of more sophisticated machinery in the EEC. Thus, the volume of extra-area imports rose at a rate of 8·9 per cent a year between 1959 and 1970, exceeding the rate of increase of 8·3 per cent in 1953–9.

It should, however, be added that the effects of the EEC on various groups of nonmember countries have been rather uneven. The main beneficiary has been the United States, which is the principal supplier of the sophisticated machinery and equipment demanded in the EEC countries. By contrast, developing and socialist countries have been adversely affected by trade diversion in food and in simple manufactured goods (Balassa, 1974). In particular,

[3] The decrease in demand for the imports of the nonmember countries may also lead to a deterioration in their terms of trade *vis-à-vis* the member countries. The latter may benefit, however, if integration permits the establishment of infant industries that eventually become competitive in the world market.

[4] The suggested method assumes that trade diversion would tend to depress imports from nonmember countries, as compared to their historical relationship with GNP in the importing countries. In turn, total imports, over and above the amount corresponding to their historical relationship with GNP, would indicate that purchases from partner countries have replaced domestic sources of supply. In the calculations, GNP as well as imports are expressed in constant prices.

by increasing barriers to food imports, the common agricultural policy has penalised foreign suppliers as well as domestic consumers. This contrasts with reductions in tariffs on the imports of industrial materials and manufactured goods in the framework of multilateral trade liberalisation that has proceeded since the Second World War.

Higher growth rates associated with the establishment of the EEC have also had beneficial effects on nonmember countries by increasing demand for their exports. These favourable effects, then, have counteracted the adverse repercussions due to trade diversion that some of these countries have experienced.

The described method is open to objections on the grounds that influences other than the creation of the EEC may have affected imports. However, the findings of other studies, which have used different methods, confirm the results. Although there is some evidence of trade diversion in manufactured goods, this is shown to be exceeded four to ten times by trade creation. At the same time, according to the various estimates, trade creation accounts for 15 to 30 per cent of the imports of manufactured goods by the EEC countries (Balassa, 1974).

Rapid increases of trade in manufactured goods indicate that firms in the member countries have made use of the possibilities offered by the abolition of tariffs and of quantitative restrictions. Increased trade has, in turn, contributed to the acceleration of economic growth in the EEC countries by permitting the exploitation of economies of scale and greater competition.[5] Economies of scale have been appropriated as increased specialisation has led to the construction of larger plants, the lengthening of production runs in the manufacture of particular products, and the use of specialised machinery and equipment. Gains have also been obtained through the rationalisation of production that has resulted from increased competition, especially in the previously highly protected economies of France and Italy.

Increased investment undertaken to exploit the possibilities for economies of scale has given a further boost to economic growth in the member countries, enabling them to maintain the rates of growth attained during the period of post-war reconstruction. Growth has been most rapid in Italy, with the result that differences in income levels among the individual countries have narrowed. Furthermore, all but one of the twenty-two regions that had income levels below four-fifths of the Community average have experienced higher-than-average growth rates. The most rapid increases have occurred in Southern Italian regions, where incomes per capita were the lowest (European Communities, Commission, 1971, pp. 312–14).

Rapid economic growth has also had beneficial effects on nonmember countries through higher extra-area imports. This should not disguise the fact, however, that the effects of the Common Market on various groups of nonmember countries have been rather uneven. The main beneficiary has been the

[5] In most industries, there has been no conflict between the exploitation of economies of scale and increased competition, as the integration of national markets has permitted both to occur simultaneously in the EEC. Thus, the predictions of those who feared the strengthening of monopolies have not been realised.

United States, which is the principal supplier of sophisticated machinery and equipment demanded in the EEC countries. By contrast, developing and socialist countries have been adversely affected by trade diversion in food and in simple manufactured goods (Balassa, 1974). In particular, the common agricultural policy has penalised foreign suppliers as well as domestic consumers by increasing barriers to food imports. This contrasts with reductions in tariffs on the imports of industrial materials and manufactured goods in the framework of multilateral trade liberalisation that has proceeded since the Second World War.

While the beneficial effects of integration on economic growth in the Common Market stem from 'market integration' in manufactured goods following the elimination of barriers to intra-area trade, little progress has been made with regard to 'production and development integration'. In technologically sophisticated industries, such as the aircraft, space, computer and electronics industries, where efficient operations are limited by the size of national markets, there is as yet no common policy at the EEC level. Rather, decisions on research and development and on public procurement are taken in the national framework,[6] thereby contributing to the establishment and the expansion of national firms that serve largely the country's own market.

As a result, certain agreements among national firms notwithstanding, production and research in these industries take place at less than optimum scale. This fact has retarded the development of technologically sophisticated industries in the EEC as compared with the United States, where firms have benefited from the existence of a large market and from governmental policies of research and development in particular industries (Balassa, 1973).

III. INTEGRATION IN SOCIALIST COUNTRIES

The Council for Mutual Economic Assistance (CMEA) was established in 1949, with the participation of the Soviet Union, Bulgaria, Czechoslovakia, Hungary, Poland and Romania, to provide a framework for the economic co-operation of these countries. Albania and the German Democratic Republic (GDR) joined shortly thereafter; subsequently, Mongolia and Cuba became full members, while Albania has ceased to participate in CMEA activities.

The following discussion will deal with the experience of the European member countries of the CMEA. In 1959 these countries signed the formal charter of the CMEA, which added to the original purpose of economic co-operation (as stated in the Founding Declaration of 1949) the objectives of 'speeding up economic and technical progress in [the member] countries' and 'raising the level of industrialization in industrially less developed countries' (Article 1).

In turn, the resolution on 'Basic Principles of the International Socialist Division of Labour', adopted in 1962, called for the rational division of labour

[6] It has been reported that, while 15 to 35 per cent of purchases by private industry are provided by the member countries, this share rarely exceeds 5 per cent in public purchases (European Communities, Commission, 1973, p. 4).

within the CMEA in the framework of long-term agreements based on the co-ordination of national plans. Reference was further made to the need for the increased multilateral co-ordination of plans, the working out of consolidated economic balances, and 'the future creation of a Communist world economy, directed according to a uniform plan' (1965, p. 379). The co-ordination of national plans remained one of the key objectives in the Comprehensive Programme, adopted in 1971. However, the document emphasised the primacy of national planning bodies in the process of co-operation and that of national interests in intra-CMEA specialisation; it made no mention of a common plan.[7]

To date, the main achievements of the CMEA include the exchange of technical information, the establishment of a multinational pipeline and electricity grid, and the creation of a common freight-car pool. Furthermore, differences in income levels have been reduced, as growth has been more rapid in countries at lower levels of development (for instance, Bulgaria and Romania). Finally, long-term bilateral trade agreements between CMEA member countries have provided assured markets for the products of the partner countries.

With the availability of assured market outlets, the trade of the CMEA countries has continued to grow. However, the rate of expansion has slowed down, and the share of intra-area trade has declined since the CMEA charter was signed. The average annual rate of growth of imports by the CMEA countries, taken together, was 8·5 per cent in the period 1959–71 as against 10·7 per cent in 1953–9.[8] The differences become larger if calculations are made in terms of constant prices and they cannot be fully accounted for by reference to the slowdown in the rate of economic growth. Thus, while the annual average rate of growth of the combined net material product of the CMEA countries fell from 10·3 per cent in 1953–9 to 7·2 per cent in 1959–70, the rate of growth on the volume of total imports declined from 12·3 to 8·2 per cent.[9]

It would appear, then, that by comparison with the EEC there has been a decline in the extent to which the CMEA countries have utilised their trade potential. This result represents a continuation of trends observed in the period following the Second World War. On the basis of trade, GNP and population figures, Pryor concluded that in the years 1956 and 1962 the volume of trade

[7] This apparent change reflects the rejection of Khrushchev's proposal (*Kommunist*, Aug 1962) for 'establishing a unified planning organ' and of the idea of planning on the CMEA level. Thus, in reporting on a symposium of CMEA specialists held in January 1969, Jozef Pajestka, Deputy Chairman of the Polish Planning Commission, noted that 'the symposium assessed as unjustified concepts involving the introduction of planning on the scale of the entire socialist community — that is supranational planning' (*Zycie Warszawy*, Jan 12–13 1969, cited in Shaefer, 1972, p. 21).

[8] Parallel developments are observed in the Soviet Union as well as in the other CMEA countries, although increases in imports were somewhat greater in the latter case. The relevant data for 1953–9 and 1959–71 are: Soviet Union 10·1 and 7·8 per cent; other CMEA countries, 11·2 and 9·0 per cent.

[9] Growth rates of net material product for the individual countries were averaged, using 1971 values estimated by the International Bank for Reconstruction and Development (1973); current values of trade were deflated by the use of price indices computed by Marer (1972).

of the CMEA countries was only 50–60 per cent of that of comparable West European countries, while such differences had not been observed in the inter-war period (1968, p. 164).

Also, the share of intra-area trade in the CMEA has decreased since 1959. Excluding trade with China, which fell precipitously during the 1960s, we find that the share of intra-CMEA trade in the total declined from 71 per cent in 1959 to 63 per cent in 1971, involving mainly a shift to trade with developed market economies. Whereas, in the period 1953–9, developed market economies accounted for 21 per cent of CMEA imports (excluding imports from China), their share in the total reached 27 per cent in 1971.[10] In turn, the rate of expansion of imports from developing countries slowed down during the 1960s. The share of these countries in CMEA imports increased from 3·6 per cent in 1953 to 7·4 per cent in 1959 and reached 8·7 per cent in 1971.

Various factors account for the lack of full utilisation of the trade potential of the CMEA countries and for the trend towards increased imports from developed market economies. To begin with, the centralisation of economic decision making, reflected in the planners' desire to lessen the uncertainty associated with foreign trade, as well as in the absence of direct trade relationships between firms, tends to limit the volume of trade.

Opportunities for trade may also be foregone because of the lack of appropriate price signals. Despite improvements in pricing with the introduction of charges for capital, domestic prices in the CMEA countries do not adequately express resource scarcities and are divorced from prices in foreign trade. In turn, foreign-trade prices show considerable variations in bilateral relationships,[11] while exchange rates do not appropriately reflect inter-country differences in commodity values. Under these circumstances, there is a risk that trade in particular commodities may involve a loss, rather than a gain, for the countries concerned, and this risk tends to discourage trade among them.[12]

Although several of these factors discourage trade with developed market

[10] In this connection, note that in the 1953–9 period the effects of relaxing the embargo that had been applied by the NATO countries on the export of a variety of products to the CMEA were already observable.

[11] It has been shown that 'in the framework of bilateral clearings which regulate the trade between CMEA countries, the differences in the prices of identical products sold to various partners are much greater than those having ever occurred in the history of clearing agreements' (Ausch, 1972, p. 79). Also, despite the fact that the prices in intra-CMEA trade are supposed to be based on world market prices, considerable differences have been observed between the two sets of prices. In 1962, the only year for which detailed information is available, average prices in intra-CMEA trade exceeded prices in the world market by 25·9 per cent in the case of machinery, 15·4 per cent for raw materials, and 1·7 per cent for agricultural products (Ausch and Bartha, 1959, p. 109). The authors of the calculations note that the differences are even greater if one takes into account the lower quality of machinery in intra-CMEA trade and the considerable dispersion that is shown within particular commodity groups (ibid.).

[12] It has been reported that in some instances the foreign-exchange value of imported inputs exceeded that of exports in Hungary during the 1950s (Balazsy, 1957). While such cases can be detected by the use of efficiency coefficients in foreign trade that compare domestic labour and capital costs to foreign exchange (Shagalov, 1965, p. 58), the lack of appropriate scarcity prices for labour and capital reduces the practical usefulness

economies as well, the prices used in trade with them tend to reflect scarcity relationships in the world market. Furthermore, the need for sophisticated machinery, materials and other intermediate products that are not available, or are available in limited quantities, in CMEA countries has given a boost to imports from developed market economies. These imports are paid for largely through exports of food, raw materials, fuel, and simple processed goods. With regard to Hungary, Vajda speaks of a duality of trade, as the 'intermediary goods imported from the West are absorbed in the production of finished goods, which are not sufficiently competitive in Western markets' (Vajda, 1971, p. 53). Such products, sold within the CMEA, are regarded as 'soft goods', while food, raw materials, and fuels that find ready markets in the developed market economies are considered 'hard goods'.

At the same time, in bilateral relationships between CMEA countries there is the attempt to attain trade balance for individual commodity groups, in particular for 'hard goods' and for 'soft goods'.[13] Moreover, countries at lower levels of industrial development increasingly demand that CMEA partner countries accept their machinery products in exchange for imported machinery (Montias, 1967, p. 168).

These developments have reinforced the practice of bilateralism, which tends to restrict the volume of trade and to reduce its efficiency. This is mainly because the requirements of bilateral balancing of trade induce countries to limit imports and to purchase from nations with which the country has an export surplus, rather than from the lowest-cost source.

The practice of bilateralism is reflected in estimates of the extent of multilateral balancing of trade. In 1954–8, the years preceding the signature of the CMEA Charter, the five CMEA countries for which data are available had the lowest index of multilateral balancing among sixty-five countries studied by Michaely (1962). The relevant values for the 1954–8 period were: Soviet Union, 12·7; Hungary, 11·5; Poland, 9·8; Czechoslovakia, 7·3; and Bulgaria, 6·4. This compares with an average of 29·2 for all other countries taken together.[14]

The tendency towards bilateralism has not been offset by the operation of the International Bank for Economic Co-operation (IBEC), which has been

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of these coefficients. Thus, despite their formal identity, they are not equivalent to the domestic resource cost of foreign exchange introduced in the Western economic literature by Michael Bruno (1967). It should be added that some authors speak of 'commodity inconvertibility' in reference to the fact that the CMEA countries tend to discourage trade outside of quota arrangements, in particular purchases by tourists, partially because such purchases reduce the availability of goods in domestic markets and partially because they may entail losses to the national economy due to distortions in price relationships (Holzman, 1966).

[13] Tibor Kiss notes that 'the practice of distinguishing "hard" and "soft" commodities has become general, "hard" commodities would be exchanged only for "hard" ones and "soft" commodities only for "soft" ones' (1971, p. 223).

[14] The index of multilateral balancing for a particular country is derived as the sum of the absolute differences between each trading partner's export and import shares, expressed in percentage terms, so that the index assumes values from zero to 100 (Michaely, 1962, p. 688).

established for the purpose of carrying out clearing operations and providing credit in intra-CMEA trade. Available data indicate that the weighted average of the index of multilateral balancing in intra-CMEA trade was highest in 1963 (5·5), the year of IBEC's establishment, and declined to 4·2 by 1970 (McMillan, 1973, p. 32).

The limited impact of IBEC is explained by the lack of automatic clearing of bilateral balances and the low level of credits.[15] With creditor and debtor countries having different interest rates, the practice of bilateral negotiations on yearly settlements has not been conducive to multilateral balancing within the CMEA. By contrast, the use of convertible currencies in much CMEA trade with other countries allows for compensating surpluses and deficits among them.

This explains why the degree of bilateralism is far greater in trade among the CMEA countries than in their trade with other nations. For the Soviet Union in 1970, the index of multilateral balancing was 4·7 in trade with the CMEA partner countries and averaged 22·2 in trade with market economies (McMillan, 1973, p. 21). Given the restrictive effects of bilateral balancing, this difference in the *modus operandi* of trade has contributed to an increase in the share of CMEA trade with developed countries where convertible currencies are in general use.

In turn, efforts have been made in intra-CMEA trade to exploit the advantages provided by economies of scale in the framework of specialisation agreements that correspond to 'production and development integration', in Vajda's terminology. The report on the first twenty years of the operation of the CMEA provides information on progress made with regard to specialisation agreements in various industries. It is added, however, that 'so far only the first steps have been made in this complex and important field and the advantages of socialist division of labour have not yet been fully utilized' (1969, p. 54). Moreover, according to one author, 'these agreements did not induce substantial changes in export patterns since they were based on the existing division of labour' (Simai, p. 117). The same author further notes that in 1964 the share of products traded under specialisation agreements in the total exports of machinery and equipment to other CMEA countries ranged between 4·5 per cent in Czechoslovakia and 20·7 per cent in the GDR.[16]

While specialisation agreements have assumed importance with regard to products such as machine tools, ball-bearings, and trucks, their growth has be been limited by much the same factors as have restricted the expansion of intra-CMEA trade in general. The lack of direct contact among firms in the

[15] According to the *Bulletin* of the IBEC, credit transactions in 1970 accounted for 6 per cent of the total transactions on clearing-rouble accounts.

[16] The validity of higher figures reported for 1967 has been questioned on the grounds that the sudden increases shown may be due to a reclassification of trade and may conflict with the figures used in projections for 1970 5 (Brabant, 1974, p. 274). Also, specialisation agreements are often disregarded in practice. Thus, it has been reported that Poland exported 22 out of 29 items subject to such agreements in 1963; 24 out of 40 in 1964; 15 out of 34 in 1966; 48 out of 68 in 1967; and none out of 79 in 1969 (Gora and Knyziak, 1971, p. 55).

CMEA countries reduces information flows, and tends to exclude some promising forms of co-operation. Thus, there are few agreements on the division of the production process through the exchange of parts, components and accessories, or through common ventures by industrial firms in the CMEA countries. Considerations of the availability of goods according to appropriate specifications and at the desired time also have a restraining influence, as does the fact that in the absence of scarcity prices it is difficult to evaluate the gains from specialisation. According to one author, actual or perceived conflicts in national interests manifest themselves 'in an insufficient specialization and inadequate international co-operation of the engineering industries' (Kiss, 1971, p. 169).[17]

IV. INTEGRATION IN DEVELOPING COUNTRIES

During the post-war period, various attempts have been made at economic integration among developing countries. Integration schemes in the individual regions include the Latin American Free Trade Association (LAFTA), the Central American Common Market (CACM), the Andean Common Market (ACM), the Caribbean Community (CARICOM), the East African Community (EAC), the Central African Customs and Economic Union (Union Douanière et Economique de l'Afrique Centrale, or UDEAC), the West African Economic Community (Communauté Economique de l'Afrique de l'Ouest, or CEAO), the Regional Co-operation for Development (RCD), the Maghreb, and the Arab Common Market.[18]

These integration schemes have generally not lived up to expectations.[19] The CACM provides the only case where tariffs on intra-area trade were abolished and a common external tariff was adopted. As a result, trade among these countries increased rapidly, with the average annual rate of growth exceeding 30 per cent between 1961 and 1968. However, following the unilateral introduction of fiscal incentives by member countries and the withdrawal of Honduras from the CACM, the rate of increase of intra-area trade among the remaining member countries declined also.

[17] The same author offers some general remarks on the factors adversely affecting intra-CMEA trade. In his opinion, 'exaggerated centralization of export and import activities, adherence to a strict licence system even in the trade between CMEA countries, and the great divergences between domestic and foreign-trade prices, together with an excessive protectionism, have resulted in so high a degree of isolation of the national markets as to nearly frustrate the projects of economic integration' (p. 170).

[18] The member countries of the various integration schemes are as follows: LAFTA: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela. CACM: Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. ACM: Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela. CARICOM: Antigua, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St Kitts–Nevis Anguilla, St Lucia, St Vincent, and Trinidad and Tobago. EAC: Kenya, Tanzania and Uganda. UDEAC: Cameroon, Central African Republic, Congo-Brazzaville and Gabon. CEAO: Ivory Coast, Mali, Mauretania, Niger, Senegal and Upper Volta. RCD: Iran, Pakistan and Turkey. Maghreb: Algeria, Morocco and Tunisia. Arab Common Market: Egypt, Iraq and Jordan.

[19] For a detailed discussion, see Balassa and Stoutjesdijk (1974).

In LAFTA, the target date for completely freeing trade was repeatedly postponed and the annual negotiations on tariff reductions, carried out on an item-by-item basis, slowed down after a few years and have made practically no progress in recent years. In the ACM, tariff reductions are proceeding according to schedule but quantitative restrictions on intra-area trade have been largely retained and the establishment of the common tariff has been postponed. Finally, in CARICOM, duties on much intra-area trade have been eliminated, but, given similarities in production patterns and high transportation costs among the small islands participating in it, the prospects for the expansion of intra-area trade are not very favourable.

In Africa south of the Sahara there has been disintegration rather than integration in recent years. With the establishment of independent states, free-trade relations existing in colonial times have not been continued. In the EAC, the common tariff has been preserved although member countries follow different policies with regard to duty drawbacks on machinery and equipment. Also, the EAC Treaty of 1967 permits countries with a deficit in intra-area trade in manufactures to impose transfer taxes on such trade, and quantitative restrictions have also been applied.

The UDEAC has a common external tariff, but additional taxes may be imposed by the individual member countries, and differences in tax rates provide a protective element in intra-area trade. In the CEAO, agricultural trade has been freed, but tariff reductions on manufactured goods will be subject to future negotiations on an item-by-item basis.

The RCD group did not envisage general trade liberalisation, but only the freeing of trade on items produced by common enterprises. Among the Maghreb countries, economic co-operation is limited to a few fields, including standardisation, telecommunications and transport. Finally, while there is free trade in agricultural products in the Arab Common Market, the proposed preferential agreements in industry have not yet materialized.

Various factors account for the limited progress made in efforts at 'market integration' in developing countries. First, item-by-item negotiations on tariff reductions encounter considerable difficulties because of the power of special interests. Second, differences in the level of industrial development have made agreements on trade liberalisation difficult. Third, in view of the distortions in relative prices due to protection, it has been difficult to determine the benefits to be derived from integration and there has been a tendency to consider changes in the trade balance as a sign of gains or losses. Last but not least, the governments of the individual countries have been reluctant to proceed with integration because they are anxious to safeguard their sovereignty.

Considerations of national sovereignty, the difficulties of estimating benefits and costs, uncertainty as regards future changes in prices and costs, and the problems encountered in intergovernmental negotiations also explain the virtual lack of success in 'production and development integration' in the manufacturing sector. While several agreements have been reached with regard to transportation, communications and water resources, where benefits are relatively easily quantifiable, there are few cases of so-called 'integration industries' in the developing countries.

In LAFTA, there are twenty agreements on product specialisation among private firms, none of which are in basic industries such as metals and metal transformation, petrochemicals and fertilisers, pulp and paper, and heavy equipment. In the ACM, a sectoral programme has been established in the metal transformation industries but technical obstacles have so far impeded the establishment of firms in the branches allocated to several of the countries. There are no integration industries in CARICOM, while in the CACM only three plants are operating under the integration-industry regime that provides exclusive rights to the CACM market.

In East Africa, proposals made for the allocation of industries among the member countries have not been put into effect and duplication in new industries continues. Duplication of facilities is also observed in the UDEAC and the CEAO. Finally, among fifty-six joint-purpose enterprises identified in the RCD only three have been set up and only one of these (a plant producing banknotes) has free access to the regional market.

V. TRADE INTEGRATION: AN EVALUATION

The preceding review of the experience of developed market, socialist, and developing economies suggests certain conclusions regarding the possibilities for, and the preconditions of, 'market integration' and 'production and development integration'. First of all, the use of prices reflecting resource scarcities will clarify the available choices and reduce uncertainty with regard to possible gains and losses from integration. As a result, there will be less resistance to the elimination of barriers on intra-area trade and decisions on production and trade can be decentralised.

These conclusions apply irrespective of social system. As the experience of Hungary since 1968 indicates, markets and prices can be used to advantage in socialist countries too.[20] At the same time, the experience of that country points to the fact that decision making at the firm level will give desirable results only in the absence of monopoly positions, since otherwise the interests of the firm and those of the national economy would differ. In such instances, and where infant-industry considerations limit the reliance that can be placed on foreign competition as an anti-monopoly device, intervention by central authorities would be required in order to avoid possible distortions.

It further appears that the optimal degree of market, as against production and development, integration will depend on the size of the market of the integrated area: the larger this market, the fewer will be the industries where

[20] In summarising the conclusion of the conference on the establishment of a system of prices in intra-CMEA trade, held with the participation of economists from the member countries, Béla Csikós-Nagy noted that 'it has been accepted, almost unequivocally, that co-operation has to be developed in the direction of activating the commodity and money relationships' (1971, p. 204) in the CMEA. Djachenko also noted that 'socially necessary expenditures of labor cannot be established administratively; they are developing and taking shape through commodity–monetary relationships' (1958, p. 44).

monopoly positions may emerge, because the full exploitation of economies of scale requires only a single firm. In the EEC, the aircraft, space, computer and electronics industries come into this category; in LAFTA, economies of scale may be appropriated in the framework of a single firm in, for instance, fertilisers and automobiles; and in the EAC the case will be the same in the production of steel or paper. Thus, the desirable scope of production and development integration will vary inversely with the combined market size of the countries participating in an integration scheme.

Interference with allocation patterns brought about by the market mechanism will also be desirable in cases when participating countries are at different levels of industrial development, lest such disparities be perpetuated. This conclusion represents the application of the infant-industry argument to the integration of nation states and will apply irrespective of social system, as is shown by the cases of Romania in the CMEA, Ireland in the EEC, and Honduras in the CACM.

However, production and development integration and the need to safeguard the interests of countries at lower levels of development require joint decisions. The taking of such decisions in turn entails a diminution of the national sovereignty of the individual countries. The existence of a trade-off between the (uncertain) benefits of integration and the (partial) loss of national sovereignty leads to the conclusion that the chances of success of integration schemes increase with their size and the homogeneity of the would-be partner countries.

VI. ECONOMIC UNION AND NATIONAL SOVEREIGNTY

The issue of national sovereignty is put in an even sharper focus in the case of an economic union that involves, in addition to trade integration, the co-ordination of economic policy making. The co-ordination of economic policies in turn requires political decisions that would necessitate establishing a common decision-making apparatus. In this connection one may again cite Vajda, according to whom 'Economic union is not a stage on the path leading towards political union, but a possible and desirable consequence of the latter' (1971, p. 41).

The experience of the EEC confirms this conclusion. Recent efforts to achieve monetary integration without the co-ordination of economic policies have proved to be a failure. And, as noted elsewhere,

> . . . progress in policy co-ordination, and in transforming the Common Market into an economic union, is hampered by the present institutional structure. At the same time, changes in this structure would necessitate political decisions and a degree of political integration that is not presently acceptable to the national governments (Balassa et al., 1974, p. 7.)

In Vajda's view, the lack of progress towards economic union in the European Common Market is an expression of the fact that economic interest is not in itself sufficient to moderate the nation states' concern about their sovereignty. For the same reason, he believes that 'today the development of the Council of Mutual Economic Assistance into an economic union would be a no more realistic aim than in the case of the European Economic Community' (1971, p. 43).

Rather than attempt to make a prediction about the likelihood that one or another integration scheme will be transformed into an economic union, it is better to emphasise, in conclusion, that the conflict between national sovereignty and economic self-interest can be resolved only if there is a political interest and the political will to do so. Economic integration thus appears as part of a political process the final outcome of which is determined by essentially political factors.

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Comments
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Our congress is devoted to the discussion of problems the significance of which is growing steadily in world economics and politics. This is borne out by the obvious fact that processes of integration are becoming widespread in various regions of the world and embrace different groups of states -- socialist, capitalist and developing ones. It is further confirmed by the fact that economic integration exercises an increasing influence on both the domestic economy and the policy of individual countries, as well as on relations between countries. The character, extent and scale of integration processes in the world, within the framework of each social system, also have a certain effect on international economic relations. And we see in broad and truly international economic co-operation, a vital factor for peace and the security of nations.

Now, turning to the paper by Balassa, I should like to make the point that it is mainly concerned with the results of economic integration in the EEC, CMEA and a number of groupings of developing countries. Acknowledging the work done by Balassa, I think he should have begun differently and first posed a more general question: what is meant by economic integration, what content is given to this term? To establish points of departure on this very complicated question and perhaps to come to a more or less common view seems to be a useful effort. It depends to a considerable extent not only on our understanding of the principal types of integration - primarily integration of socialist countries, and integration of capitalist countries - but also on the choice of criteria for, and consequently the evaluation of, various aspects of so dynamic a phenomenon of international life as the various integration processes with their so different consequences.

I regard integration as a trend in world development that has objective foundations and that has been called into existence by the needs of the productive developments and international division of labour. In the light of the contemporary scientific and technological revolution, effective development – not only of individual enterprises and branches, but also of the national economies of many countries as a whole -- increasingly depends on the degree and extent of economic ties with other national economies. The share of the national product sold by most countries on external markets now reaches 10, 20, or even more per cent.

It is not only a matter of quantitative growth. Fundamental qualitative changes are taking place in the character of international economic exchange. Its sphere involves not only a growing mass of commodities, but also capital investment, manpower and a variety of specialists. There is an intensification of scientific and technical contacts and a growth of industrial co-operation. And, significantly, the durability and stability of ties between national economies of the countries involved are assuming increasing importance. All this, I repeat, is a reflection of the general requirements of the process of development of productive forces and the internationalisation of economic life.[1]

[1] For more detail see M. M. Maksimova, *Ekonomicheskiye problemy imperialisticheskoi integratsii: Ekonomicheskii aspekt* ('Economic problems of imperialist integration: the economic aspect') (Moscow: Mysl, 1971), section I.

Economic integration is a specific manifestation of this process. We think that it differs from earlier forms of international economic co-operation in the more complicated and universal character of the ties between countries that are included in appropriate regional groupings, as well as by the greatly increased role of the state in regulating such ties on a collective basis. The most general features of economic integration that distinguish it from other phenomena in the world economy are, in my opinion, the following.

First, integration is a process of the development of stable and deep ties, and of the division of labour between national economies, that is accompanied by the mutual complementing and adjustment of individual enterprises, branches and economic areas of various countries, and leads to the formation of international economic complexes initially within the framework of groups of countries close to each other on the level of economic development.

Second, integration is an adjustable process, in the sense that it demands conscious co-ordinated efforts on the part of subjects (economic organisations, states) in shaping and effectively regulating economic ties between national economies and between their corresponding spheres, branches and enterprises. The state machinery of individual countries and international institutions has an active role to play here.

Third, processes of integration are of a predominantly regional character and tend to develop most fully in those parts of the world that have the appropriate economic and political prerequisites.

Fourth, as integration proceeds, deep structural changes occur in the economies of the countries involved and new economic proportions are established, leading ultimately to the higher social productivity of labour and to savings in time.

Fifth, in its essence, integration is closely connected with class and social relations and with politics, and therefore can (and does) take place (as distinct from international economic co-operation in general) only between countries with the same type of socio-economic system and mode of production. This sets limits to integration groupings.

In view of all this, economic integration can, in my opinion, be generally defined as the objective process of development of deep and stable relationships and of division of labour between national economies, a process of formation of international economic complexes within the framework of groups of countries with the same type of socio-economic system — a process consciously regulated in the interests of the dominating classes of these countries.[2]

Hence, there exist different types of economic integration — if we give to the definition of 'type of integration' the broadest content, reflecting both the economic and political essence of appropriate integration groupings, the totality of instruments and measures that serve to carry out integration processes, and so on. The main criterion is the socio-economic system of integrated countries. Consequently, in present-day life we distinctly discern three main types of integration: integration of socialist countries, integration

[2] For more detail see *World Marxist Review*, no. 7, July 1973, pp. 14–18; and M. M. Maksimova, *Ekonomicheskiye problemy*, chapter 7.

of capitalist countries, and integration of developing countries.[3] Each of these types of integration has its characteristic features and regularities, an integration mechanism of its own.

Furthermore, it is essential to distinguish — as is done by many — between types of integration and different stages, because the latter are not identical with integration processes that take place under a planned economy or a market economy. A confusion of concepts as regards types of integration and stages, or phases, of development leads (as I believe is to be found in Balassa's paper) to a wrong comparison of the results of the development of the integration processes. Thus, in effect, Balassa is automatically applying the stages of development that were passed through by the EEC, as well as its mechanism of activity, to the work of the CMEA; and this preconditions a number of erroneous assessments of the results of CMEA activity in the sphere of integration.

It is a matter of common knowledge that for a long time the integration measures of the EEC's agencies have dealt chiefly with trade relations and customs policy. In fact, certain progress has been achieved in this field. But, as Balassa admits, grave complications and problems have arisen in connection with the currency and energy crises and with mounting inflation, as well as with the Six becoming the Nine.

It is only in recent years that the EEC has raised the question of a new stage — the transition to a joint scientific, technical, and industrial policy, and to the establishment of an economic and monetary alliance. This stage, in the common belief of Western economists and Common Market officials,[4] involves far greater difficulties. Understandably so, because it deeply affects the basic interests of the countries, the private companies, the different classes and the social groups.

The mechanism of capitalist integration is based on a combination of competition and state monopoly regulation, principles of planned development within individual corporations — national, transnational, and international — and spontaneous development on the scale of the wo capitalist market. This, I think, is one of the main sources of the grave difficulties and contradictions that are being experienced by the European Community and by other West European groupings.

A different character, different stages of development and a different mechanism are inherent in socialist integration. It is not at all obligatory, for example, for socialist countries to make use of such methods as the establishment of customs unions or free-trade zones, since these do not have

[3] The integration of the developing countries has its own pronounced specific features that are connected both with the comparatively low level of economic development of these countries and with their position in the world economy. It is characterised by the existence of two opposite tendencies. On the one hand, it is the striving of the democratic forces of these countries to strengthen their economic independence and overcome their backwardness through joint action within the appropriate regional groupings. On the other, it is the striving of reactionary forces relying on outside support to consolidate the positions of foreign capital in integration complexes and to bar the development of countries along the democratic road.

[4] See, among others, works and contributions by W. M. Corden, J. C. Ingram, E. Salin, F. X. Ortoli and R. Dahrendorf.

for them the role they play in Western countries. On the other hand, the existence of social ownership of the means of production allows the introduction of such forms of integration as are based on the planned development of socialist economy, on the planned activity of socialist state and economic organisations.

It is therefore quite natural that integration in the CMEA should have started with higher and more complex forms - co-ordination of economic plans, and the creation of a mechanism for scientific, technical and production co-operation that, through the joint efforts of the participating countries, would undertake to tackle major problems in the energetics sphere, including atomic energy, the production of raw materials, the establishment of electronic computer systems, and a number of other advanced branches of industry and co-operation of production on an international basis.[5] The facts show that substantial progress has been made in these and other spheres.[6]

This progress also made itself felt in such key synthetic indices of economic development as rates of growth of national income and of the industrial output of the CMEA countries. In the twenty-five years from the CMEA's foundation (1949–73), the combined national income of the member countries has increased eightfold, and industrial production more than twelvefold. For comparison's sake, it can be pointed out that the corresponding indices for the EEC Six over the same years were 3·6-fold and 5·5-fold (for the EEC Nine it was threefold and fourfold respectively.[7]

While paying particular attention to the co-ordination of plans and joint production, scientific and technical activity, the CMEA member countries also attach much importance to commodity and money relations, to the development of trade, to the improvement of the price system, and to monetary-financial and credit relations.[8]

The economic integration of socialist countries is a complex process. Like any new process, it involves certain difficulties of both an objective and a subjective nature and presupposes that certain views and methods of economic management need to be brought up to date to cope with new demands. This process presupposes a comprehensive approach to many economic problems and calls for the ability to find the most effective and

[5] See CMEA, *Comprehensive Programme*.

[6] In more detail see *Narodnoye khozyaistvo stran-chlenov Soveta ekonomicheskoi vazimopomoshchi, p. 3; Narodnoye khozyaistvo SSR v 1972* (Moscow; TSU, 1973; 1974); O. Bogomolov, Integration by Market Forces and through Planning' (Chapter 12 below).

[7] Calculated from: *Narodnoye khozyaistvo stran-chlenov Soveta ekonomicheskoi vzaimopomoschchi, p. 3; Narodnoye khozyaistvo SSR v 1972* (Moscow; TSU, 1973); *Monthly Bulletin of Statistics*, May 1974; *The Growth of World Industry* (1970).

[8] In 1950–73 reciprocal trade of the CMEA countries grew by a multiple of 10·5 to reach 47,500 million roubles in 1973, or 63 per cent of their aggregate foreign-trade turnover. For the years indicated, this percentage on the whole remained stable and was far in excess of the corresponding index for the EEC countries (some 50 per cent in 1973). It is characteristic that, in the pre-war period, reciprocal trade among the present CMFA countries accounted for only 10 to 15 per cent of their foreign trade. (See *Narodnoye khozyaistvo stranchlenov Soveta ekonomicheskoi vzaimopomoshchi; Vneshnaye torgovlya*, no. 6, 1974; and *Aussenhandel Monatsstatistik*, no. 1, 1974.)

most rational solutions to meet the interests not only of a given country, but also of all the members of the community. This is precisely the line that the Communist and Worker's Parties of the socialist countries, their governments and their scientific communities have been following.

The experience of the CMEA and its economic bodies and, especially, the current Comprehensive Programme for socialist integration, testify to the huge possibilities offered by the joint activities of the CMEA countries in many diverse spheres of their mutual contacts and relations.

It is obvious that socialist integration will go through a number of stages in its development. These will not repeat the stages of capitalist integration, but will be governed by their own laws. It is equally obvious that it would be absurd to demand that the socialist countries should employ methods and mechanisms typical of capitalist integration, just as it would be absurd to try to apply the distinctive features of socialist integration to relations dominating in the capitalist world. This position is dictated by commonsense, and I am sure that the problem is understood by participants in this congress.

The differences between socialist and capitalist integration are indeed very profound and it would be an illusion to underestimate their depth. But are the differences between the types of integration an insurmountable obstacle to ties between appropriate integration groupings? I am sure they are not.

In the modern world there are tasks demanding collective effort – those of developing to the utmost international economic ties, of promoting genuinely equal and mutually advantageous co-operation among all countries, irrespective of socio-economic system. This task applies equally to the socialist, the capitalist and the developing countries, whether within integration groupings or outside them. It presupposes joint action both on a bilateral and a multilateral basis, and many diverse forms of ties and co-operation between countries and integration groups of countries in the common interests of all peoples. I am referring, above all, to the interests of ensuring peaceful life all over the world, of raising the material and cultural standards of the broad masses of people in all countries, the successful solution of problems facing mankind in the fields of energy, natural resources, environmental protection, the wiping out of famine and disease, the exploration of outer space and the oceans, and the full development of the forces of production.

As regards the problem of possible co-operation between integration groupings of countries with different socio-economic systems – notably, the CMEA and the EEC, and all the indications point this way now – I should like to stress that this co-operation will require the elaboration of a largely novel and original mechanism. Such a mechanism must, in my view, reflect the specific features of the different groupings and the requirements of ties between them, and must be based on the principles of genuine equality of the rights of all partners.

It is the honourable duty of scientists and, of course, economists to promote in every way the development of international co-operation and the fruitful solution of the complex problems of mankind.

Comments
Richard Lipsey (Canada)

Balassa has admirably summarised (1) views on types of integration; (2) much of the existing evidence on the apparent success and failure of different schemes of integration in developed market economics, socialist countries, and developing countries; and (3) some possible reasons for some obvious, and some alleged, lacks of success in these schemes. I shall discuss his paper under these three headings.

I. DEFINITIONS OF INTEGRATION

His introductory discussion shows how difficult it is (a) to get a common definition of integration that applies to all types of economies ('applies' in the sense of outlining a relevant area of interest), and (b) to separate the question of definition from the question of choosing the appropriate tools for achieving integration. Possibly a search for a single definition is inappropriate. Possibly in mainly-market economies. such as those of the United States and Canada, trade and factor integration *is* the most important objective, while in mixed economies, such as those of F ance and the United Kingdom, a substantial amount of policy integration is needed in order to reap the benefits of regional specialisation. In socialist economies, the main emphasis may need to be on policy integration.

II. MEASURES OF SUCCESS

To attempt any measure at all of the successes and failures of integration schemes is a heroic task. I greatly admire the work of Balassa and of others that is briefly summarised in the present paper. But the task of a critic is to criticise, and I do so not just to find fault, but with the basic idea that an iterative process is possible: measurement – criticism – better measurement – better criticism, and so on. I presume that one of our major tasks at this conference is to ask if we can get better measures than we now have of the successes and failures of integration schemes.

The main measure used by Balassa is based on changes in trade patterns. Trade diversion is assumed to cause a fall in the ratio of *trade with the outside world* to GNP, while trade creation is assumed to cause a rise in the ratio of *total trade* to GNP.

The main problems here, it seems to me, lie with the basic concept of trade creation and trade diversion. They are static concepts. Their effects are once-for-all changes in the allocation of resources. At any date in the future their effects must be measured against *what would otherwise have been*, not by what is happening to trade at that time. In the economic theorist's model without adjustment lags, the introduction of a scheme for regional integration causes a once-for-all shift to more intra-integrated area trade and less trade with the outside world, and the forces that *subsequently* influence the allocation of resources become once again cost changes due to technological advance, and demand changes due to differing income elasticities of demand as real income rises as a result of growth. We shall call the first set of forces affecting the allocation of resources *integration induced* and the second set *growth induced.*

Adjustment, however, does not occur instantaneously. The two sets of forces, integration induced and growth induced, are intermixed.[1] The more sudden the integration, the more likely it is that integration-induced effects will dominate, at least for the first few years; but the longer the time lapse the more would normal growth-induced effects dominate. The morals are: (1) the longer the time since a relatively sudden move towards integration, the harder is it to discern the effects by studying changes in the patterns of trade; and (2) the more gradually the integration measures are introduced, the more will the effects be mixed up, even in the short term, with growth-induced effects.[2] No one, for example, would expect current changes in intra-United States trade to be explained by the concepts of trade diversion and trade creation caused by the introduction of a free-trade area almost two centuries ago. The effects are there, of course, but they are measured by what might have been, not by what is changing now.

One way of illustrating these problems is to note that the static theory of customs unions has no place for an increase in the volume of trade with the outside world; it remains constant or it falls. Yet in his paper Balassa notes the increase in imports of high-technology-based products from the United States into both the EEC and the CMEA countries. This, of course, is no mystery. Economic growth, whether or not caused by regional integration, will lead, through a high income elasticity of demand, to imports from countries providing high-technology-based products. But this suggests that, over any extended period of time, (1) the effects of trade diversion in reducing trade with the outside world could be masked by a high income elasticity of demand for the products of the outside world, and/or (2) the favourable effects of trade creation could be masked by a low income elasticity of demand for the products of other countries in a regional grouping.

All this does not mean to say that the measures are useless, nor does it deny the dramatic nature of the comparison between the shifts that have occurred in intra-EEC trade and those that have occurred in intra-CMEA trade -- but by themselves they are not conclusive. Furthermore, the change in the volume of trade should be measured against the potential for intra-integrated area trade. As the debates of twenty years ago about unions between 'complementary' and 'competitive' economies showed, this potential can vary greatly among different regional groups.[3]

[1] The problem becomes even more complex conceptually if integration itself affects the growth rate.

[2] Income elasticities vary as income varies (because various sectors of the economy rise and fall in relative importance as growth proceeds). Thus, what might have been cannot simply be measured by projecting the pre-integration income elasticities into the post-integration period.

[3] I have focused attention on the volume of trade. Balassa makes frequent references to percentages. For example, he writes 'we find that the share of intra-CMEA trade in the total declined from 71 per cent in 1959 to 63 per cent in 1971, involving mainly a shift to trade with developed market economies'. The percentage is a hard taskmaster

Could we get some other measure as a substitute or as a cross check? To illustrate the difficulties, let us consider an alternative. One measure of the success of regional integration is the absence of duplicated industries producing the same product in various member countries. This suggests that we look at production rather than trade. In the neo-neoclassical model used by many Western economists, products are distinct from each other, and each is homogeneous. In such a world, specialisation of production and growth of trade go hand in hand, and they become alternative measures of the same thing. But consumer goods industries in Western economies abound with the production of similar but not identical products.

Consider an example. Before a customs union is formed, countries A and B each have a car industry producing solely for its domestic market. After integration, both car industries survive, but A's industry exports half its production to B, as does B's industry to A. There has been a large increase in the volume of trade but no increase in regional specialisation in production.

A Western economist who accepts consumer sovereignty will regard this change as a gain because it increases the range of consumer choice. A Western economist who is critical of the tendency of capitalist economies to proliferate the production of very similar commodities – and there are many who are – will not regard this as a significant gain. But, however we may value the change, we get very different answers if we look at changes in the patterns of trade and at changes in the location of production.[4] Which is more relevant?

Whatever may be the problems of measurement, I find it hard not to be impressed by the differences pointed to by Balassa between the development of intra-EEC trade and that of intra-CMEA trade. (I have said nothing about his report on the developing countries, because I cannot in any way disagree with his depressing conclusion that, with one or two notable exceptions, the movements for regional integration have made little or no headway there.)

III. EXPLANATIONS

I should like here just to note, and briefly comment upon, the main points made by Balassa in his conclusion.

(1) *There is a need for a better system of prices to reflect relative scarcities.* Surely one does not have to accept the Western subjective theory of value to agree that it is desirable to know real opportunity costs: how many nuts and bolts must we export to get the quantity of imports we want (a) for one of our regional partners and (b) from the outside world?

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since it insists on adding to the constant total of 100! To illustrate the problem, note that the figures quoted are consistent with an absolute trade-creating increase in intra-CMEA trade from 71 to 126, which itself caused economic growth, which, in turn, operating through a high income elasticity of demand for high-technology goods, increased trade with developed countries in real terms from 29 to 74. (Trade with the developing nations has been ignored for purposes of this illustration.)

[4] In view of some of the changes in EEC trade I think this illustration is a relevant, although an extreme, example. I can think of no examples of the opposite extreme case: an increase in the specialisation of production *without* an increase in the volume of trade.

There is one interesting point worth noting here. Once one has decided to satisfy needs for a particular commodity by importing rather than by domestic production, all one has to know is quoted prices abroad. It does not matter how prices in foreign countries were arrived at; the raw prices give one opportunity costs and allow one to calculate which foreign country demands the lowest real sacrifice in exports for a given quantity of imports. Uncertainty about what prices in different foreign countries reflect should not, therefore, contrary to what Balassa seems to imply, lead a country to favour trade with one foreign country over another. Where this uncertainty does cause trouble is in the decision between importing and producing at home. To decide whether to export nuts and bolts and import cheese and crackers, or to produce cheese and crackers and, hence, fewer nuts and bolts at home, one wants prices that reflect the real opportunity costs in domestic production. Arbitrary prices will lead to mistaken decisions (mistaken in the sense of preventing the maximising of production).

(2) '*[D]ecision making at the firm level will give desirable results only in the absence of monopoly positions*', *and, where monopolies occur, product and development integration are needed.* Possibly. But it is important to note that where the EEC has had least success is in high-technology-based industries (such as aircraft and computers) where governments play a large part in supporting often inefficient local industries. The fear of monopoly should not blind us to the fact that it is more efficient, in terms of resource use, to have one huge monopoly serving the whole integrated area than a series of government-protected monopolies serving the markets in each individual country. Government co-operation is required to create the efficient super-monopoly. It may afterwards be desirable to control the monopoly's pricing policy, but the resource gain is there, whether or not this is done. Government co-operation is required where governments exert a strong influence on resource allocation (for instance, by subsidising a local industry). Whether the end result is a monopoly or a series of competing firms is beside the point. It is interesting to note that the EEC has had least success in promoting integration in areas where the production of high-technology products are being encouraged by individual governments.

(3) *Interference may be justified for the aid of less developed regions.* This is particularly important when we realise that many comparative advantages are acquired rather than dictated by nature. (The importance given in recent years in Western economies to the concept of human capital reflects this point.)

It seems to me that in the ensuing discussion we should not spend too much time trying to find a single definition of integration, but should concentrate our attention on measuring its effects, on evaluating successes and failures and, where there are failures, in trying to identify causes. These are the themes set by Balassa in his own paper.