

Globalization and International Economic Integration

The aim of this essay is to write some facts about international economic integration and globalization as well as to try to distinguish the differences between these two phenomena that are important in current world economy. In addition to that it provides a possible solution for nowadays trend such as protectionism that we can observe in the case of some international actors.

We would like to start with some basic definitions. What is international economic integration? International economic integration can be defined as an objective process of mutual and gradual interconnection and convergence of national economic structures, intensification of interdependence between them, and their transformation into new economic structure of the establishment of regional economic complex. We need to take into consideration the fact that economic integration is an economic as well as a political phenomenon and it depends on the cooperation of several subjects at all levels – national and supranational. Economic integration would not exist without political willingness. There exists more approaches to international economic integration: Liberal, Neoliberal and Neo-Keynesian approach. The liberal attitude is connected with the elimination of all barriers for free trade and free movement of production factors. Liberals, according to the one of the international relations theory – liberalism, put emphasis on international institutions (global governance) rather than state institutions and they also believe in preserving the peace among states by increasing the interdependence through economic and cultural exchanges. It is also called supranationalism. The interdependence between states has more faces, the most important and most visible are economic, financial, political and cultural dimensions. On the other hand, another important phenomenon is globalization that has a lot of definitions. Globalisation can be characterised as the integration of national economies through trade, investment, capital flow, labour, migration and technology¹.

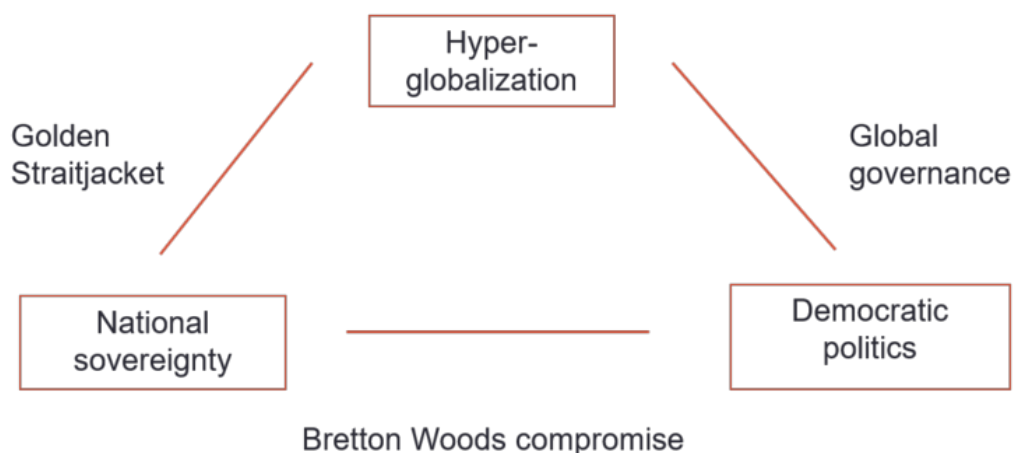
When we compare the definition of international economic integration and globalization, we can find the same characteristics such as for example free trade and capital flow between states. Both are based on liberalisation and removal of trade and other barriers. In the definition of international integration, there is mentioned the fact of the convergence of national economies. Thus, within the international economic integration, the member states tend to become more and more similar in several areas such as economic development, structure

¹ <https://investinganswers.com/financial-dictionary/economics/globalization-494>

of gross domestic product, common currency, similar political systems, it is usually within the states with similar culture and religion and many other factors. We can use the example of the European Union and its member states that had to go through the process of convergence in the economic point of view as well as the political point based on shared values such as democracy, freedom, human rights, equality and the rule of law.

Globalization should be also connected to the convergence of states, not only within the particular economic integration, but also in general among the states all around the world. On the other side, the process of convergence has more positive meaning in proportion to negative facts like poverty, hunger, war and other conflicts, terrorism, natural disasters and other problems of the world. It includes the economic issues such as inequality, debt or unemployment. It follows that globalization makes all problems global problems. What are the main differences between international economic integration and globalization? The purpose of the economic integration is to facilitate the free trade in goods and services between states that is accompanied by the free movement of capital and labour. International economic integration comprises several phases such as preferential trading area, free trade zone, custom union, common market, monetary union, economic and political union.

Each nation state has to give up a part of its sovereignty in favour of supranational institutions by entering the international integration or organization. In this case, we can apply Rodrik's Trilemma or so called the Political Trilemma of the World Economy (Rodrik – 2007) in which the member state has chosen hyper-globalization and democracy. Hyper-globalization represents deep economic integration and together with democracy (democratic politics) there is need to avoid powerful nation state. Thus, the state had to give up the part of its sovereignty, in other words, a part of its own – local governance. There is also the demand for global governance with results of common and coordinated politics by global or regional bodies. We can give an example of the European Union and its exclusive authority in decision-making and execution in areas such as customs union, common monetary policy, common commercial policy and common fisheries policy. On the one hand, it is the choice of global governance and on the other hand, the reduction of national sovereignty. As we can see in the following picture.



Another possibility can be represented by the choice of the United Kingdom of Great Britain and Northern Ireland that has voted for Brexit². They have chosen national sovereignty as a powerful nation state together with democratic politics and at the same time, they have limited globalization by resigning its membership in the European Union. Brexit would strengthen the national sovereignty by avoiding the deep economic integration and can be seen as anti-globalisation tendency. In this case, we can ask if there is a new trend of becoming more independent from the rest of the world or if it is possible to become independent nowadays, in the era of globalization and interdependence? There are many opinions on that issue, most of them agree on impossibility of avoiding globalization.

The third possibility is to pick hyper-globalization and national sovereignty and avoid democracy. In this case, hyper-globalization can only survive if democracy does not. We can use the example of Argentina in the nineties and at the beginning of new millennium, during the big economic crises in the country followed by hyperinflation and other economic problems. Argentina could be supported by international society like for instance by International Monetary Fund only if it agreed on the given conditions – privatization, deregulation, tax reform or opening up the state's economy (liberalization). They decided to do it by economic integration as well as keeping the powerful nation state. Thus, they had to avoid democratic politics according to Rodrik's Trilemma. Globalization would be considered as a driving force of its economy mainly thanks to the capital flows to Argentina. These measures are included in Washington Consensus. It was not successful for Argentina's economy because of uncompetitive currency directed by Convertibility Law and the impact was lack of confidence on the financial markets. According to Rodrik, the political reason of this failure lies in the nature of globalization and in the incompatibility of national democracy and deep globalization.

² https://rodrik.typepad.com/dani_rodriks_weblog/2016/06/brexit-and-the-globalization-trilemma.html

Hyper-globalization would be effective only by Golden Straitjacket characterized by free trade, free capital markets, free enterprise and small government. Democracy has negative influence on the Golden Straitjacket.³

Can be international economic integration and globalization considered as a synonym? According to the Rodrik's Trilemma these two terms are the most likely considered as a synonym, hyper-globalization and deep economic integration. However, in reality globalization is a general phenomenon that we can observe in almost every field of our life. In addition to that, globalization is considered as the most important factor of creating every kind of international integration (economic, political, defensive, cultural or other) so it has a significant influence on every integration. The interdependence of states has become the joining element of globalization and international economic integration. They also have the same contributors of rise such as the telephone, the Internet, different ways of transport and others. Another example of economic dimension of globalisation can be the New Silk Road – Chinese project. It is not the international economic integration but it is still the concept of globalization in economic point of view. The purpose of this project is to connect different geographical locations in order to facilitate the trade among them by activating the idea of old Silk Road in new concept, without any institutional economic integration. China has become an active player on the world scene. China was the first producer of silk in the past and silk became the symbol of economic and cultural interaction of globalization process today. In comparison to European states China obviously does not prefer international economic integration⁴. The New Silk Road can be also seen as a geopolitical instrument of China to reduce the economic power of the United States as well the Chinese goal to reach hegemonic position in the world. The second point of view, the One Belt, One Road Initiative as a continental part of the project, is the new era of globalization within free continents without the need of deep economic integration. One Belt, One Road links 65 countries of the world, it comprises 60% of the global population that is in comparison to the European Union huge project in terms of countries and population. Furthermore, China is developing similar initiative in other geopolitical area, in the regions of Latin America and the Caribbean.

³ Dani Rodrik: The Globalization Paradox, online:
https://edisciplinas.usp.br/pluginfile.php/4126392/mod_resource/content/0/RODRIK%20The%20Globalization%20Paradox.pdf

⁴https://www.researchgate.net/publication/321260954_The_New_Silk_Road_Old_Concepts_of_Globalization_and_New_Questions

If we try to apply Rodrick's Trilemma limited to the New Silk Road, we can use the combination of hyper-globalization together with national sovereignty. However, what is important, we do not have to avoid democratic politics. We would have to adjust hyper-globalization because in this case it does not mean deep economic integration but it means new concept of international economic cooperation without institutional supranational base. Moreover, involved countries remain their sovereignty what is important in these days due to the tendency of restored protectionism on the international stage. In addition to that, the national sovereignty is represented by the Communist party and the Golden Straitjacket is not fully applicable, so that this new model of economic cooperation would break the traditional Rodrik's Trilemma.

To sum up, international economic integration does not have only advantages, the costs of integration is for instance trade diversion in which the original trading partners are replacing by the new trading partners within the free trade area or other kind of international integration. It means in the international measures the loss of efficiency in the production and international trade. The other disadvantage is the erosion of national sovereignty, it is the case of the United Kingdom and Brexit in which they have decided to protect their national sovereignty. According to that we can observe renewing trend of protectionism in the world. Globalization plays an important role in the deep economic integration. It is also the phenomenon of making states more similar and interdependent positively or negatively on the world level. We can agree on the fact that globalization is the driving element of all forms of international integrations and it makes it quicker and easier and it helps to globalize the world economy. Furthermore, economic dimension of globalization is not limited only by international economic integration, there are also other types of economic globalization and interdependence as we mentioned the example of the concept of the New Silk Road. This concepts can play alternative role in the present trend of some states that are more in favour of protectionism such as for instance the United Kingdom or the United States. The aim of the second part was not to question or contest the Political Trilemma of the World Economy but the purpose was to challenge and provide the possible way of economic interaction between states in permanently globalized world without losing their sovereignty.