

CHAPTER 2

International Integration : Theory and Practice

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This chapter has two main objectives: (1) to put the concept of international integration within the context of economic theory; and (2) to describe and provide insights into the international institutions countries have put in place to regulate the process of international integration. Understanding the theoretical basis for economic integration is important because, to a considerable extent, government initiatives regarding trade and other aspects of integration are influenced by theoretical arguments. As with any change in government policy, changes to how nations interact with each other will involve trading off a set of benefits against costs. Theory can provide insights into those benefits and costs. This chapter discusses the major theories of international trade and the insights they provide for policy makers.

International commercial relationships with other countries will impinge on a nation's sovereignty. To provide a commercial environment where firms are willing to invest in trade-related activities requires rules for trade and other aspects of international commercial activity that trading nations accept. As these rules limit nations' sovereignty, a large number of international organizations have been established to facilitate the difficult trade-offs between the need for a secure business environment by those engaged in international commerce and the sovereignty concerns of nations. These international organizations have evolved over time. They are described and the extent of their role in the process of international integration outlined. The combination of theoretical arguments and institutional arrangements presented in this chapter should provide the background required to understand the complex issues dealt with in the chapters that follow. Without a basic grounding in trade theory and the organizations of international commercial relations, it will not be possible to fully