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**FUNDAMENTALS OF INTEGRATION PROCESSES  
IN INTERNATIONAL BUSINESS**

**Abstract.** *The essence of integration processes in international business is considered. It has been established that one of the most important patterns of economic development in modern conditions are international integration processes. It was determined that international integration processes are processes of convergence and unification of the economies of different countries into a single economic complex based on the deepening of sustainable relationships in production and division of labor, the interaction of reproductive structures at different levels of national economies, which leads to convergence in accordance with intergovernmental economic agreements mechanisms and coordinated regulation by intergovernmental bodies. It is proved that the development of integration processes in the international economy was accompanied by the liberalization of international economic relations within the integration associations and measures of collective protectionism in relation to third countries.*

**Keywords:** *integration; international business; international activity; international integration processes; national economy; customs union; free trade zone; common market; economic union.*

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**ОСНОВИ ІНТЕГРАЦІЙНИХ ПРОЦЕСІВ В МІЖНАРОДНОМУ БІЗНЕСІ**

**Анотація.** *Розглянуто сутність інтеграційних процесів в міжнародному бізнесі. Встановлено, що однією із найбільш важливих закономірностей розвитку економіки в сучасних умовах є міжнародні інтеграційні процеси. Визначено, що міжнародні інтеграційні процеси – це процеси зближення та об'єднання економік різних країн в єдиний господарський комплекс на основі поглиблення стійких взаємозв'язків у виробництві і розподілі праці, взаємодії відтворювальних структур на різних рівнях національних господарств, що зумовлює зближення згідно з міждержавними угодами господарських механізмів і узгоджене регулювання міждержавними органами. Доведено, що розвиток інтеграційних процесів у міжнародній економіці супроводжувався лібералізацією міжнародних економічних відносин в межах інтеграційних об'єднань та заходами колективного протекціонізму відносно третіх країн.*

**Ключові слова:** *інтеграція; міжнародний бізнес; міжнародна діяльність; міжнародні інтеграційні процеси; національна економіка; митний союз; зона вільної торгівлі; спільний ринок; економічний союз.*

**Introduction.** International integration processes are one of the most important patterns of economic development in modern conditions. These system-forming processes originally developed in the middle of national economies, organizationally connecting different enterprises and industries, and then moved across borders to other countries. Their development eventually led to the emergence of international integration associations. Thus, international integration processes are defined as processes of convergence and unification of the economies of different countries into a single economic complex based on the deepening of sustainable relationships in production and division of labor, the interaction of reproductive structures at different levels of national economies, which leads to convergence in accordance with intergovernmental economic agreements mechanisms [12–14].

The foundations of integration processes in international business, the foundations of integration associations were studied in the works of well-known economists, including: K. Bekh, Yu.S. Zaloznova, M.O. Soldak, O.M. Zelinska, O.V. Kot, K.Ye. Kravchenko, N. Kocherhina, T.Ye. Obolenska, I.S. Kaleniuk, V.A. Panchenko, O.V. Chernenko and others.

**The aim of the research.** The purpose of the study is to determine the foundations of integration processes in international business and their impact on the world community.

**Results of the investigation.** Integration processes in international business are defined as processes of close economic and political rapprochement of countries, unification of their efforts to effectively solve economic, social, political and other problems [8; 9].

Among the main factors contributing to integration processes in international business, the following are distinguished:

- the commonality of economic systems, the degree of maturity of market relations;
- geographical proximity, the presence of a common border, transport communications;
- political stability, the commonality of cultural customs and traditions, the presence of historical ties;
- kinship of economic, social, investment and other problems;
- demonstration effect, or a positive example of integration associations already existing in the world.

The participation of countries in international integration associations is associated with both certain benefits for them and losses [10; 11].

The main benefits received by countries from the integration of their economies:

- improvement of mutual trade conditions (due to elimination of customs barriers, agreed regulation of prices for agricultural products, etc.);
- increasing the capacity of the common market of goods and services (thanks to economies of scale of production);
- expansion of access to financial, material, labor and scientific and technical resources on the scale of the entire integration association;
- intensive development of production cooperation and increasing the level of competitiveness of national production;
- investment and innovation activity of business entities as a result of increased internal competition and growing demand for their products;
- acceleration of the structural restructuring of the national economy (thanks to receiving support and financial aid, which is especially important for less developed countries);
- development of good neighborly relations between countries.

Possible losses for member countries of integration associations [17; 18]:

- for a country with a weakly competitive economy, the immediate abolition of import duties leads to the bankruptcy of its enterprises, primarily the manufacturing industry, as well as a significant reduction in revenues to the state budget;
- for a country that was late in reforming the agrarian sector of production, the introduction of strict uniform requirements for the quality of its products, especially livestock products, may lead to its decline for a while;
- a possible outflow of labor resources, primarily qualified labor, to more economically developed countries that offer higher pay and better working conditions;
- the formation of joint supranational management bodies, centralized finances, as well as the abolition of the visa regime for the movement of people, may eventually cause dissatisfaction in individual countries.

International integration processes are a long process that includes a series of stages or forms of rapprochement and interaction between countries. In principle, the level of integration is determined by the extent to which business entities of one or another country managed to minimize transaction costs in the foreign economic sphere of their activity [20].

Among the main forms of integration in international business, the following are distinguished:

1. Preferential trade agreement is the initial, simplest form of economic integration, which involves bilateral or unilateral reduction of trade barriers. Such agreements are usually practiced by developed countries with developing countries and the latter among themselves.

2. A free trade zone is a form of economic integration in which all barriers to mutual trade are removed, but each of the countries participating in such an agreement conducts its own trade policy towards third countries (not included in the zone).

3. The customs union is a more complex form of economic integration, under which not only trade barriers are eliminated, but also a common trade policy is implemented with respect to the rest of the world. Here, all participants of the agreement create a single customs territory, which obliges each of them to observe a single customs tariff in trade with other countries. Accordingly, supranational governing bodies are formed to coordinate joint actions. Therefore, a mandatory condition for the creation of a customs union is the presence of a common border. Customs unions are less common in the world than free trade areas. This is explained by the fact that a country can enter any number of free trade zones, but only one customs union.

4. The common market is a form of economic integration that involves the free movement of not only goods, but also production factors - capital and labor.

5. The economic union is the highest form of economic integration, which is characterized by, in addition to the free market of goods, capital and labor the harmonization and unification of monetary, fiscal and social policies of the participating countries.

Since the intensive movement of capital and labor across state borders runs into problems related to the existence of different tax and banking systems, social insurance systems, etc., coordination and harmonization of the economic policy of the participating countries becomes necessary [19].

In order to eliminate these and similar problems, the participating countries agree to delegate part of their sovereign powers to supranational authorities (executive, legislative and judicial).

Integration processes in international business have the following levels:

– interaction at the level of enterprises and organizations (creation of transnational corporations);

– interaction at the level of states, parties and organizations, social groups, individual citizens of different countries;

– integration grouping because of international association. The evolution of international economic integration took place in several stages.

Each stage of integration has its own characteristics (Table 1) [1–4].

The general feature of these stages is that certain (depending on their level of development) economic barriers are eliminated between countries that have entered one or another stage of integration.

As a result, a relatively closed market space is formed within the integration association. Under the influence of market regulators (prices, interest rates, etc.), a more efficient territorial and sectoral structure of production emerges in it. This provides the participating countries with a significant advantage, as labor productivity increases; the need to spend on customs control over foreign economic transactions disappears [5–7].

Table 1

**Development stages of integration processes in international business**

Stage name	Stage content
1. Preferential trade agreements	The first stage of the regional integration process. It is characterized by a special preferential economic regime granted by one state to another without extending it to third countries, or between already existing integration associations and a separate country or group of countries: discounts (waivers) in relation to customs duties on imported goods, preferential lending and insurance of foreign trade operations, special currency regime, financial and technical assistance.
2. Free trade zone	Presupposes the country's voluntary refusal to protect its national markets only in relations with its unification partners and preservation of national customs tariffs in relations with other countries.
3. Customs union	The free movement of goods and services within the grouping complements the unified customs tariff for third countries.
4. Common market	Barriers between countries in mutual trade for the movement of labor, capital, and technology are eliminated.
5. Economic and monetary union	In addition to all the measures listed above, it provides for the implementation of a unified economic policy by the participating states.
6. Political union	Presupposes the transformation of a mature single market space into a coherent economic and political organism.

Source: based on [1–4].

Today, there are more than 20 economic groups in the world. Among them stand out:

1. in Western Europe – the European Union (EU) and the European Free Trade Association (EFTA);
2. in North America – the North American Free Trade Agreement (NAFTA);
3. in the Asia-Pacific region – the Pacific Economic Community (APEC).

In the process of integration, separate groups of countries create conditions that are more favorable for each other in intra-regional trade, provision of services, and movement of factors of production and generally stimulate the development of international economic relations within the framework of integration associations [12–14].

The participants of the integration process carry out a deeper division of labor, more intensively exchange goods, services, capital and labor. Economic currency unions have been particularly active recently. OPEC, the Association of Iron Ore Exporting Countries (AIEC) and others are called upon to coordinate the economic policy regarding the production volumes of the relevant goods and the price policy.

The possibilities of these organizations depend on the features of the current phase of reproduction in the world economy, economic fluctuations, the policy of trade and industrial corporations that monopolize the market or price.

Almost all integration associations solve similar tasks, which boil down to using the advantages of a large-scale economy, creating a favorable foreign policy environment, optimizing trade policy, maximally contributing to the structural restructuring of the economy, maintaining young industries and ensuring the necessary conditions for the creation of new ones.

Economic rapprochement of countries within regional boundaries creates favorable conditions for companies of countries participating in economic integration, to some extent protects them from competition with companies from third countries [15; 16].

Depending on the degree of involvement of national economies in the integration process, they are divided into marginalized, initially integrated, locally integrated and systemically integrated:

- countries not involved in integration processes are considered marginalized, whose foreign economic relations are dominated by trade in goods that bypass international capital flows, and due to the weakness of the national currency, they are not included in the system of international monetary and financial relations;

- initially integrated countries carry out active international investment activities simultaneously with trade and are objectively included in international monetary and financial relations, large-scale export-import operations and especially international investment activities form objective prerequisites for micro-integration at the level of transnationalization;

- national economies enter the stage of local integration when the processes of transnationalization develop dynamically and trade integration groups (free trade zones and customs unions) are created;

- there are countries at the stage of systemic integration, which are characterized by the prevailing role of TNCs in international economic relations and interaction within more complex forms of integration associations - common market, economic union.

Currently, the only example of systemically integrated economies is the EU. The USA is at the stage of local integration, and Japan is only moving to this stage. Most of the world's integration associations are at the stage of initial integration – the stages of preferential agreements or free trade zones [15; 16].

**Conclusions.** Therefore, the development of integration processes in the international economy, which, on the one hand, was accompanied by the liberalization of international economic relations within the framework of integration associations, and on the other hand by measures of collective protectionism in relation to third countries, caused concern of the world community (primarily GATT/WTO) regarding potential obstacles to free trade. In order to prevent the emergence of contradictions, in the 1990, independent specialists of the World Bank formulated criteria, the observance of which by integration groups would make it possible to make their activities consistent with the interests of the international economy as a whole:

- regional trade agreements must cover all sectors of the economy without exception;
- liberalization of trade under the terms of the most favored nation regime should precede the formation of any integration grouping or accompany it, especially if the previous tariffs were high;

- the transition period should not exceed 10 years and should provide for a clear schedule of trade liberalization in certain industries;

- the general customs tariff implemented within the customs union should not exceed the lowest customs tariff in the relevant industry, which was in force in the countries with respect to which the regime of the most favorable treatment is applied;

- the rules for accepting new members into the integration group should be quite liberal and not hinder its expansion;

- the rules for determining the country of origin of goods should be transparent and not be used for protectionism within the group;

- a rapid transition to more developed forms of integration is necessary, more attractive compared to less developed ones, as they provide a more rational distribution and use of production factors;

- after the creation of an integration group, anti-dumping procedures should not be used in relations between its members, and clear rules of their application should be established in relation to third countries.

These criteria can also be used to evaluate the effectiveness of integration associations from the point of view of international trade liberalization.

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