Introduction

International economic integration is a process by which countries merge into larger entities in order to increase their national and/or group's welfare. The objective of the theory of international economic integration is to discover the economic rationale and determinants for the process, to explain and try to shape its evolution, as well as to provide tools for the measurement of its impact on welfare. However, theoretical consideration of economic integration is complex, because integration both promotes and restricts trade and factor mobility at the same time. Trade (and factor mobility in certain types of integration) is liberalised, at least in part, among the participating countries, while at the same time it is restricted and distorted between the integrated group and the rest of the world. Hence, international economic integration may be regarded in certain circumstances as a kind of inward-looking economic strategy for the participating countries (at least and hopefully only during the initial phases of integration).

The basic types of international economic integration are given in Table 0.1. What matters is that the process of integration does not necessarily need to be gradual from the 'lower' types of integration towards 'higher' ones. For instance, a group of countries may decide to create a common market and 'jump' over the 'lower' types of integration such as a free trade area and a customs union. Everything depends on the ambitions, intentions, goals and current and future potential of the group of countries and on their specific integration agreement. This table, however, does not cover the new economic integration models practiced in South-East Asia. Integration takes place in this region on a 'technical' trade-facilitation level. Governments and firms are interested in the removal of barriers that slow trade and impede the smooth operation of value-adding and distribution chains.

Table 0.1 Basic types of international economic integration

Policy action	Type				
	Free trade area	Customs union	Common market	Economic union	Total economic union
Removal of tariffs and quotas	Yes	Yes	Yes	Yes	Yes
Common external tariff	No	Yes	Yes	Yes	Yes
Factor mobility	No	No	Yes	Yes	Yes
Harmonisation of economic policies	No	No	No	Yes	Yes
Total unification of economic policies	No	No	No	No	Yes

The Handbook is organised in three volumes. Volume I presents general issues and regional groups; Volume II is devoted to competition, spatial location of economic activity and financial issues; while Volume III covers contentious issues of agriculture, the environment and quantitative studies.

VOLUME II

Curzon Price opens Part I with her chapter about institutional competition and the drive to harmonise in the EU. Pitelis and Kelmendi take account of the EU industrial policy. Buigues and Meiklejohn deal with the network industries in the EU. Technological capabilities of domestic firms are described by Cuervo-Cazurra and Un. Castellacci has contributed a chapter from the evolutionary economics perspective.

Spatial location of firms and industries (Part II) is important as that is the geographical area where the new value is created, employment generated and, possibly, it may be the origin of exports. Tharakan and Thisse combine trade theory with economic geography. Camagni and Capello provide an overview of regional growth and location theories. Behrens, Mion and Ottaviano study welfare implications of reallocation of resources across firms and countries calibrated on European data. Amiti investigates how the sequence of trade liberalisation can affect industrial location. Forslid details regional policies in the multiregional framework. Fujita and Hamaguchi point out issues related to spatial distribution of economic activity in the areas with income disparities in East Asia. Litzel and Möller identify integration issues that relate to the region of Nuremberg in Germany. Marin demonstrates how skilled workers in Germany and Austria are losing out to the same type of workers in Eastern Europe following the outsourcing of skill-intensive activities eastwards after the eastern enlargement of the EU. Linders, de Groot, Florax and Nijkamp put forward an inquiry on the importance of geographical distance on trade in the light of changing technology.

In Part III monetary and fiscal issues start with a discussion about the role of the International Monetary Fund by Williamson. Praussello reminds us about the stumbling blocks on the way of monetary integration and possible future monetary disintegration tendencies in the EU. Whalley sets out a discussion of puzzles in the transborder treatment of capital income. Gortsos lays out an analysis of financial integration in the EU. A deep analysis of fiscal integration in the EU is contained in the chapter by Vanistendael. Finally, McCarthy, van Doorn and Unger pass judgement on the issue of tax competition and harmonisation of corporate tax rates in Europe.