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**ON SOME CHANGES IN THE THEORY AND PRACTICE OF
REGIONAL ECONOMIC INTEGRATION**

ABSTRACT

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I. GENERAL CHARACTERISTICS OF THE DISSERTATION

Today the world is at a critical juncture in terms of the development of international economic relations and in particular the *processes of globalisation, regionalisation and economic integration*. The proliferation of regional trade agreements, the rise of economic communities in Asia, Africa and Latin America and the resurgence of protectionism in recent years underline the dynamic and multilateral nature of contemporary trade liberalisation efforts and regional integration processes. Against a backdrop of geopolitical tensions, technological disruptions and changing patterns of world trade, strengthening economic ties and fostering global cooperation between countries and regions as a prerequisite for security and prosperity has never been more necessary.

This complex landscape can be appreciated using a variety of theoretical frameworks relating to diverse empirical analyses and policy debates that seek to explain the complex nature of economic integration and its effects and implications for the economies involved. From the classical theories of comparative advantage and factor endowment to the contemporary contributions of new trade theory and economic geography, the intellectual foundations of economic integration have evolved with and in response to the changing realities of the global economy.

Yet for all its theoretical complexity, *the practice of economic integration remains fraught with challenges and uncertainties*. The experiences of different regions and countries vary considerably, reflecting different levels of development, institutional capacity and geopolitical considerations. At the same time, the recent resurgence of protectionist measures, the 'disruptive' effects of technological innovation, the multiple crises and the continuing uncertainty arising from geopolitical tensions further complicate understanding integration processes and require that they be viewed in a new perspective.

In light of these dynamics, the dissertation seeks to delve deeply into the **specifics of contemporary regional economic integration processes**, offering **new approaches to the theoretical underpinnings, practical challenges and policy implications of this complex phenomenon**. By *critically examining contemporary developments, identifying key trends, and applying new ways and means to make sense of and overcome the challenges of economic integration*, the study aims to contribute to **a deeper understanding of the dynamics shaping the future of the global economy**.

The dissertation is the result of nearly 10 years of research, encompassing scientific observation, systematization and analysis of structural transformations in the world economy and their impact on foreign trade policy (in particular on the economies of the African continent and Bulgaria), the study of trends in the

development of the theory of international trade and, in particular, the theory of economic integration within the framework of specific analyses of the processes, motivations and benefits derived from participation in regional economic This also determines the structure of the thesis - **theoretical and contextual generalizations concerning transformations in the global economy**, as well as the postulates and limitations of the existing theory of economic integration, are derived on the basis of already published case studies, in order to be able to propose and justify in the last part some **new approaches of the author for understanding and evaluating it**.

The object of study is the theory and practice of regional economic integration in the context of contemporary global economic dynamics. *Both the theoretical foundations and the practical manifestations of regional economic integration in today's world economy* are covered. It explores the *conceptual frameworks, models and theories that underpin regional integration processes*, and how these theories are applied and adapted in real-world settings. Different theories of economic integration, ranging from classical trade theories to more contemporary approaches such as new trade theory and economic geography, are comprehensively covered from a theoretical perspective. This includes clarifying the conceptual principles, assumptions and implications of different theoretical perspectives on regional integration. Empirical studies and case studies are examined in an attempt to identify the drivers, outcomes and challenges of regional economic integration. In this regard, findings from existing studies are synthesized to *identify trends, patterns, and inconsistencies in the empirical literature*. Finally, part of the object of study is to *assess the external economic implications of regional economic integration for the participating economies* at both national and regional levels, including an analysis of the effectiveness of integration initiatives and their role in enhancing competitiveness and promoting economic growth.

The theoretical frameworks underlying economic integration and *their application to real-world scenarios* are **explored**, with an emphasis on recent developments and challenges. The focus is on a few key areas or themes, and the aim is to explore, analyse and evaluate these in depth:

- *the evolving dynamics of world trade* and its implications for regional economic integration, in particular changes in trade patterns, trade flows and the dynamics of value chains and their impact on regional integration efforts;
- *the role of technological innovation* (digitalisation, automation and e-commerce) in shaping regional integration processes, and the way in which technological changes in production, distribution and consumption patterns affect regional economic integration;

- *the impact of geopolitical considerations, including global and regional tensions, security concerns and strategic alliances, on regional integration initiatives and how geopolitical factors interact with economic interests to shape regional integration agendas and outcomes.*

By examining these dimensions, **the main objective** of this dissertation is *to systematize, critically analyze and scientifically define the changes in the theory and practice of regional economic integration, identifying the main factors driving these changes and assessing their effects on the participating economies, in order to propose new approaches for the study and evaluation of integration processes.* This includes several key highlights:

- To answer the question of *how regional economic integration processes have evolved over time.* This requires identifying and analysing the different drivers, trends and patterns that have shaped regional integration initiatives. By examining historical developments and recent trends, the idea of the study is to substantiate the *dynamic nature of regional economic integration and how it has adapted to changing global economic, political and technological realities.*

- In relation to the identification and analysis of the *most important factors driving changes in the practice of regional economic integration,* it is necessary to examine the range of economic, political, social and technological forces that influence the design, implementation and outcomes of integration initiatives. By delving deeper into the complexity of these factors, the study aims to *uncover the underlying dynamics that shape regional integration processes and outcomes.*

- In order to assess the effects of regional economic integration on the participating economies, the *economic, social and political implications of integration initiatives* need to be examined *at both regional and national levels.* The aim here is to provide a nuanced understanding of the benefits and challenges associated with regional economic integration by assessing the *impact of integration on economic development and on welfare.*

Ultimately, as mentioned, the dissertation aims to contribute to **a deeper understanding of the complex dynamics shaping regional economic integration processes.** By synthesizing theoretical ideas, empirical evidence and case studies, the study attempts to offer fresh perspectives and new insights into the multilateral nature of regional integration. Based on this enhanced scholarly understanding of regional economic integration, some **suggestions** are also put forward **to enrich and expand the theory of integration.**

The key **research questions** the study seeks to answer are:

- *What are the main drivers of change in the theory and practice of regional economic integration?* Understanding the forces driving change in the theory

and practice of regional economic integration is critical to addressing the complexities of today's global economy. Answering this question requires identifying the main factors, both internal and external, driving transformations in the practice of economic integration. By examining historical trends, policy developments and theoretical frameworks, the study aims to uncover the key drivers pushing forward the evolution of regional integration initiatives. This analysis will contribute to gaining valuable insights into the dynamic nature of economic integration processes and form a *new and deeper understanding of the forces driving change in the contemporary global economy*.

- *How are structural changes in the global economy - changes in trade patterns, technological advances, demographic changes, neo-protectionism and the rise of emerging markets - influencing the theory and practice of regional economic integration and its initiatives?* By examining the impact of these changes on trade dynamics, this study aims to clarify the ways in which regional integration efforts have adapted to the changing realities of the global economy.

- *How do new theoretical developments in the field of economic integration compare with the challenges and complexities of the real world?* The current **gap between theory and practice** has provoked the emergence of significant problems for the theory of regional economic integration. In this regard, the focus here is on *assessing the relevance and applicability of theoretical advances in the field of economic integration to the challenges and complexities of contemporary reality*. This includes a critical assessment of theoretical frameworks and concepts in the light of empirical evidence and practical experience from integration initiatives. By combining theory with practice, the study aims *to identify gaps, limitations and opportunities to improve our understanding of economic integration processes* and to enrich the results of their analysis.

- *What are the main drivers and obstacles shaping regional integration initiatives in the contemporary global context?* The complex landscape of different regional integration initiatives requires a comprehensive view of the most important drivers and obstacles to them. In order to answer this question, it is necessary to identify and analyse the factors that give the necessary shape to regional integration initiatives in the contemporary global context. By examining political, economic, social and technological factors, the study aims to elucidate the motives guiding integration efforts, as well as the challenges and obstacles impeding progress. Through a multifaceted analysis, the study aims to identify the *determinants of regional integration outcomes and their implications for economic policy and international economic relations*.

- *How are changes in the nature and scope of regional integration initiatives affecting economic policy and international relations?* The question involves an analysis of how changes in the dynamics of regional integration affect

economic policy making, trade relations and diplomatic engagements between participating economies. By analyzing these implications, the study aims to elucidate the broader ramifications of regional integration processes and *their implications for global economic governance and geopolitical dynamics*.

In order to answer these questions, I have set myself several **research tasks**:

- *Exploring structural changes in world trade.* This task encompasses the synthetic systematisation of the structural changes that are leading to the *transformation of global trade patterns*, in particular the analysis of: changes in trade flows; the dynamics of value chains and of market access facilitated by advances in technology; changes in patterns of production, consumption and trade; and the emergence of new major players on the international scene. Exploring trends in world trade, the aim is to outline the structural transformations influencing the theory and practice of regional economic integration.

- *A summary and critical review of the theoretical literature on regional economic integration.* In relation to this task, an in-depth review of the theoretical literature on regional economic integration is undertaken, including the identification of limitations, criticisms and debates, while proposing a new theoretical framework that could capture the complexity of contemporary integration processes. The synthesis of insights from the theoretical literature carried out aims to contribute to a *more comprehensive and complete picture of the theoretical foundations on which regional economic integration rests and functions*.

- *Analysis of empirical data and case studies to assess the practical implications of economic integration processes.* This assignment involves collecting and analysing empirical data and case studies to assess the practical implications of economic integration processes, including examining trade flows, economic performance and policy outcomes in different regions and contexts to identify trends, patterns and inconsistencies. By drawing on empirical evidence, the study aims to disentangle nuances in perceptions and conceptions of the *practical challenges and opportunities associated with regional economic integration*.

- *Develop a new conceptual framework that brings together ideas from the theoretical literature, empirical evidence and case studies to provide a comprehensive understanding of the multidimensional nature of economic integration today.* This includes synthesizing some of the most significant findings and identifying generalized themes and patterns that characterize regional integration processes. The aim is to **use this new conceptual framework to propose a structured approach to analysing and interpreting the complexities of regional economic integration in the contemporary global context**.

The main thesis of the dissertation is that *the structural changes observed in the global economy over the last few decades*, driven by institutional, market-oriented

and geopolitical factors, *necessitate a reassessment of traditional theories of economic integration*. **The hypotheses** to be explored are:

- H1: *Recent changes in the global economy call into question the applicability of conventional theories of economic integration to contemporary regional integration processes*. The rapid pace of globalization, coupled with the emergence of new economic actors and the evolution of global value chains, raises new and more complex issues that *conventional theories of economic integration cannot comprehensively and fully capture*. The reason is that conventional theories were created in another era, the defining factors of which are different from today's economic realities, and this implies and necessitates the development of more nuanced and context-specific theoretical approaches to contemporary regional integration processes.

- H2: *Integrating the structural transformations of international economic relations within existing economic integration theory requires a new approach to the analysis of economic integration*. The traditional focus of economic integration theories on factors such as tariff reduction and market access is insufficient to capture the full range of conditions and causes shaping contemporary regional integration initiatives. This necessitates a multidimensional approach that will help to understand and analyse in depth the complexities of economic integration in the contemporary global context.

- H3: *Small, open and less developed economies can use regional economic integration as a strategic tool to improve their foreign trade policies and ensure economic sustainability*. By participating in regional economic integration agreements, these economies can gain access to larger markets, attract foreign investment and diversify their export base. Moreover, integration can give them greater bargaining power in international trade negotiations and enable them to strengthen their economic resilience against external shocks. In other words, as a strategic instrument, regional economic integration can help small, open and less developed economies *to overcome the constraints of their size and resources and achieve sustainable economic development and prosperity*.

- H4: *From a theoretical and methodological point of view, a **new approach, including a three-dimensional assessment of integration processes and a new conceptual typology of integration agreements**, should be applied to the analysis and assessment of contemporary integration processes in order to gain a better insight into the essence and the specificities of contemporary regional economic integration*. This hypothesis stems from the assumption that traditional approaches fail to fully capture the various factors and dynamics of contemporary international economic relations. By applying a three-dimensional framework and a new typology of integration agreements, it is expected to arrive at a deeper and broader perception of regional integration processes, which will provide better opportunities for the

formulation and implementation of effective economic integration policies and strategic initiatives.

The stated hypotheses are in line with the main thesis of the dissertation, which emphasizes the dynamic and multifaceted nature of regional economic integration. They reflect various dimensions of change in the theory and practice of integration, including the evolving nature of integration patterns, the influence of global trends and dynamics, and the different considerations shaping integration processes. By testing these hypotheses using empirical analysis, case studies and theoretical synthesis, the study aims to provide a nuanced understanding of *the drivers, dynamics of and outcomes of change in regional economic integration*. This will contribute to a deeper and more comprehensive insight into the nature of the complex and evolving nature of regional integration processes in the contemporary global context.

The research uses a **multidisciplinary approach**, drawing mostly on economic ideas, concepts and tools, but also integrating some methods from political science and international relations. The research methodology used in this dissertation is designed to facilitate a comprehensive analysis of changes in the theory and practice of regional economic integration. It includes literature review, case studies and theoretical analysis, supplemented by empirical data where applicable, and contains a combination of qualitative and quantitative research methods:

- The methodology is guided by a *conceptual framework* that integrates theoretical insights with empirical evidence *to analyze changes in the theory and practice of regional economic integration*. This framework helps to structure the analysis, identify key variables and generate hypotheses for further research.
- The research adopts *an interdisciplinary approach*, drawing on theoretical ideas and tools from economics, political science, international relations and other disciplines. This interdisciplinary perspective enriches the analysis and enables a comprehensive understanding of the complex dynamics of regional integration processes.
- A *thorough literature review* is used to establish the theoretical framework and contextual background of regional economic integration. This includes a review of academic journals, books, policy documents and reports from international organisations to identify relevant theories, concepts and empirical studies.
- A key component of the methodology is the *analysis of case studies representing different regions and integration initiatives*. The case studies provide valuable insights into the drivers, challenges and outcomes of regional integration processes. By selecting a diverse set of cases, the study seeks to capture the heterogeneity of integration experiences and draw generalizable conclusions.
- Where applicable, *empirical data analysis* is used to explore quantitative trends and patterns in regional economic integration. This includes statistical and

historical analysis of trade flows, as well as economic indicators to assess the impact of integration initiatives on participating countries and the global economy.

- The methodology contains a *comparative analysis of regional integration initiatives* in different regions of the world. By comparing and contrasting experiences, the study aims to identify commonalities, differences and best practices in regional integration governance, institutional design and policy implementation.

- Finally, the methodology is characterised by an *iterative process of data collection, analysis and interpretation*. Such an approach allows for flexibility and consideration of dynamics and change, ensuring that the research is fundamentally based on empirical evidence.

It should be noted that **most of the case studies included in the dissertation are authored and have been previously published** (in the period 2015 - 2023) as individual articles in various scientific journals and monographs. These articles represent the researcher's *original contribution* to the field of regional economic integration and were selected based on their relevance and importance to the research aims and objectives. By incorporating previous published research, *the dissertation synthesizes individual key ideas and conclusions into a coherent statement*, offering a comprehensive analysis of the subject and object of study. Furthermore, the inclusion of these case studies highlights the researcher's expertise in the field and ensures that *the analysis is based on the author's contributions that have been validated and approved by the scientific community*.

Although the goal of my research effort is to create a comprehensive picture of the evolving landscape of regional economic integration, due to the breadth of issues in this area, both theoretically and practically, the study has some **limitations**:

- Given the multifaceted nature of integration initiatives and the diverse and wide range of factors and variables that influence them, *not every nuance of regional economic integration processes can be explored*. The complexity of regional economic integration processes calls for a targeted approach, which is why some regional features or specific integration agreements may not receive comprehensive coverage within the framework of the study.

- The analysis focuses primarily on current trends and developments in theory and practice and *does not cover the entire historical trajectory or future prospects* of the field. Historical contexts and long-term trends sometimes play a significant role in shaping regional integration processes, and their omission can limit the contextual depth of the study.

- The conclusions of the study are largely dependent on the availability and reliability of the data sources, but in some cases some of them contain some limitations. Despite efforts to use official data sources and to apply rigorous methodologies to their collection and analysis, it is possible that variations in data

quality, coverage and consistency across regions and integration initiatives may affect the robustness of the study's findings and interpretations.

- **The main limitation** of the study relates to the *proposed new approach, which includes a three-dimensional assessment of integration processes and introduces a new conceptual typology of integration agreements*. While the theoretical and methodological framework for this approach has been developed and integrated into the analysis, its application *will not be empirically assessed or tested through case studies* here. **Conceptual typology and three-dimensional assessment are proposed as theoretical constructs** to improve the understanding and analysis of regional economic integration. **A detailed methodological apparatus for evaluation is also developed to accompany them**, including *guidance on specific instruments, indicators and data sources*. However, due to constraints such as data availability, methodological uncertainty and the need for site-specific justification, *it is not possible to empirically validate or apply this approach to practical cases within the framework of the research presented*. As such, while the new approach enriches the theoretical and methodological discourse and enables an extension of the analysis, its practical applicability and effectiveness require further empirical investigation, which will be the subject of future research.

Although efforts have been made to mitigate these through correct and careful methodology design and data validation processes, the study's findings must be interpreted in the context of these inherent limitations. *The author's future research endeavors will be aimed at addressing these limitations* by expanding the scope of analysis and employing advanced analytical techniques to improve understanding of the dynamics of regional economic integration.

The study draws on a variety of academic literature, including scholarly articles, books, policy papers and reports from international organisations. Primary and secondary **sources** have been carefully selected to provide a sound basis for theoretical analyses and empirical evaluations. The academic literature covers a wide range of disciplines - economics, political science, international relations and regional studies - reflecting the interdisciplinary nature of the research topic. By referencing academic journals, authoritative texts and relevant policy documents, the study provides a comprehensive and complete examination of the dynamics of regional economic integration. In addition, reports and publications from international organizations such as the World Bank, the International Monetary Fund, and the World Trade Organization offer useful insights into global trends, regional development, and the policy implications of economic integration initiatives. Statistical data from the World Bank, the World Trade Organization, the Organisation for Economic Co-operation and Development, Eurostat, the United Nations Commission for Africa, national statistical sources and others are also used.

The dissertation contains 250 pages (324 standard pages), of which 225 pages of main text structured in four chapters. It includes 22 figures and 13 tables. The bibliography comprises 302 titles, of which 61 in Cyrillic, 241 in Latin, including 20 of the author's own studies used and cited.

The study consists of an *introduction, four chapters and a conclusion*. In the context of the research objectives, *each chapter is further divided into sub-sections* that go deeper into specific aspects of the topic and include theoretical analyses, empirical evidence and case studies to clarify key concepts and arguments.

The content of the thesis consists of:

FOREWORD

INTRODUCTION

CHAPTER ONE: STRUCTURAL CHANGES AND SOURCES OF UNCERTAINTY IN GLOBAL TRADE

- 1.1 Liberalisation and protectionism in world trade
- 1.2. Globalisation, regionalisation and multilateralism
- 1.3. Market-oriented changes in the world economy
- 1.4. The changing nature and character of international trade
- 1.5. Non-market determinants of the market mechanisms of the world economy
- 1.6 Geopolitical and geo-economic dimensions of structural change in the world economy

CHAPTER TWO: ECONOMIC INTEGRATION THEORY

- 2.1. Nature of economic integration
- 2.2 Effects of economic integration
- 2.3. Case Study: The Impact of Regional Integration on Trade and Economic Development.

CHAPTER THREE: LIMITATIONS AND SHORTCOMINGS OF THE THEORY OF ECONOMIC INTEGRATION

- 3.1. General additions to the theory regarding developing, small and open economies
- 3.2. Specific challenges for underdeveloped and developing countries
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CHAPTER FOUR: A NEW UNDERSTANDING OF ECONOMIC INTEGRATION

- 4.1. Conceptual typology
- 4.2 Transition to three-dimensional assessment
- 4.3. Methodology for the application of the three-dimensional assessment
- 4.4. The impact of economic integration on global trade dynamics

CONCLUSION

REFERENCES

II. SYNTHESIZED CONTENTS OF THE THESIS

INTRODUCTION

The introduction plays an introductory role by presenting the subject, the object of analysis, the aims, the research objectives, and the hypotheses that are tested in the dissertation. It states the significance of the subject and the relevance of the issues and outlines the chosen structure of the thesis. Finally, the scope and limiting conditions of the study are presented, as well as the methodology used.

CHAPTER ONE:

STRUCTURAL CHANGES AND SOURCES OF UNCERTAINTY IN GLOBAL TRADE

There are *two pairs of opposing processes* in the international trading system related to institutional changes, which are discussed in detail in the following. *The first* relates, on the one hand, to the proclaimed *global liberalisation* of trade in goods and, on the other, to the increasingly *protectionist* measures implemented by many countries around the world. *The second* concerns the ongoing processes of *globalisation and regionalisation* in the world trading system.

This chapter also examines some *market-driven changes in global trade flows*. 'New players' are emerging in world trade, mainly due to the increasingly rapid progress of developing economies, especially compared to developed ones. This, together with the tendency to seek bilateral and multilateral preferential trade agreements, is leading to *a clearer demarcation of the trade interests of developing and developed countries*, but at the same time is creating even more fierce competition between global economic powers to enter new emerging markets. Alongside the concept of the 'global village' imposed by information and communication connectivity, a *new idea of trade connectivity* is emerging, which is reflected in the development and increasing attention paid to global value chains, in the formation of a new vision of transnational companies as major players in world trade, and in new trends in international capital movements and foreign investment. Last, but not least, we should note the manifestation of certain *cyclical factors* - a reduction in global demand, volatile commodity prices, slowing growth in China, etc.

In this context, the deepening and broadening of foreign trade relations can be both a key factor in opening up different perspectives for national economies and a catalyst for their development. In this context, countries are looking for ways to market their competitive production in the markets that are best for them.

Liberalisation and protectionism in world trade

The international trading system is witnessing two sets of opposing institutional changes. On the one hand is the pervasive narrative of global trade liberalization, exemplified by some claims that *all possible benefits of global trade liberalization have already been realized* (Krugman, 2016; Ackerman, 2016). On the other hand, *many countries around the world have resorted to protectionist measures*, including disguised non-tariff restrictions and direct tariffs introduced after various economic crises.

There are also a number of examples of how new trade liberalisation agreements contain many "non-trade" issues (sustainable development, promotion of democratic values, environmental standards, etc.). Although these agreements may appear to be reciprocal in nature, they are often in favour of developed economies. In practice, they can position developing countries as suppliers of natural resources and production centres for multinational corporations, with the owners of capital coming mainly from developed nations. This trend raises questions about the fairness of such agreements, highlighting the asymmetric distribution of benefits among participating nations and the challenges that developing economies face in the international trading system. *The framework of international trade is being challenged*, and instability and risks in trade relations are contributing to global economic uncertainty and slowing economic growth (Bobeva, 2020).

Globalisation, regionalisation and multilateralism

The process of globalisation is marked by the removal of traditional spatial and temporal constraints in economic activities. It is being driven by a multitude of factors, including the significant upsurge in information and communication technologies, the exploration of new energy sources, automation, biotechnology and the increasing knowledge intensity of modern production methods. These determinants are cumulatively contributing to a scenario in which economic actors around the world are becoming more interconnected and interdependent, effectively linking all economic activities into a cohesive whole in the global economy.

Despite the potential of an integrated and liberalised global economy and lucrative multilateral trade, progress in the World Trade Organisation (WTO) negotiations has been limited (or even non-existent). This lack of progress in multilateral trade negotiations is leading to a trend that defies logic and historical development. *Many countries, frustrated by stalled negotiations at the global level, are turning to regional free trade initiatives* and to bilateral or multilateral free trade agreements as an alternative. Such regional trade agreements are becoming increasingly common as they provide a means for nations to enforce their trade interests outside the constraints of the WTO.

The consequence of this shift is that it is leading to *a widening gap between the Global North (industrialised and developed countries) and the Global South (emerging*

and developing economies). While globalisation was initially seen as a force that could potentially bridge economic divides, the paradoxical result has ultimately been the emergence of a new form of '*closed*' regionalisation - *countries forming regional trading blocs and agreements that can create barriers to trade with non-participating nations*. This regionalisation is occurring in the broader context of a globalising economy, potentially leading to fragmentation and challenges in promoting global economic integration.

Trade liberalisation can occur at both global and regional levels. Multilateral negotiations involving a large number of countries are inherently complex and time-consuming. As an alternative approach, regional trade agreements are formed between a limited group of relatively similar countries. These agreements offer flexibility in negotiating rules and commitments that may go beyond the capabilities of broader fora such as the WTO.

It is important to bear in mind, however, that regional integration can also pose certain challenges. One of these is *trade discrimination*, where preferential treatment in a regional trading bloc can create disadvantages for non-participating countries - a phenomenon known as trade diversion. In this case, trade is shifted from a more efficient supplier in a non-participating country to a relatively more expensive intra-regional supplier, which essentially leads to a less efficient allocation of resources and can cause economic losses for some nations. Another risk relates to the promotion of regionalism in terms of *prioritising regional trade agreements and relationships over global ones*. Thus, while it may bring benefits, regional integration may also act as a barrier to trade liberalisation at the global level.

All this reveals the complexity of international trade dynamics and highlights the need for balanced policies to ensure that trade liberalisation efforts benefit all actors and contribute to global welfare gains.

Unfortunately, however, there has been no progress in this regard, especially as regards multilateral regulation of world trade within the World Trade Organisation. The case study presented in this section attempts to explain some of the reasons for this failure of the WTO and outlines in summary the main transformations and trends in the world economy that the failure of multilateralism has led to.

Market-oriented changes in the world economy

Market-driven changes in global trade flows reflect a rapidly evolving global landscape. In this context, *emerging economies are experiencing steady development, often outpacing the growth rates of advanced countries*. This difference in growth dynamics has profound implications for the global trading environment.

First, it highlights the contrast in trade interests between developed and developing countries. Emerging economies are making efforts to secure access to markets and resources, while developed nations seek to maintain their competitive advantages. This leads to complex negotiations and dynamics in international trade.

Second, this trend is causing intense competition among global economic powers to establish a significant presence in emerging, fast-growing markets. Countries compete for market share and influence in regions where economic expansion is most promising.

The idea of the 'global village', characterised by information and communication connectivity, runs parallel to that of *commercial connectivity*. The concept encompasses the development of global value chains in which transnational corporations play a central role in shaping world trade. Innovation in international capital and foreign investment flows is also central to this transformation.

Market-driven changes are further influenced by cyclical factors. Global demand fluctuations, volatile commodity prices, changes in consumer behaviour (especially in China) and other economic dynamics are intensifying the processes of change in global trade flows. As a result of the collective impact of these factors, the changes are becoming even more pronounced and complex, transforming the traditional way international trade functions.

With the growing importance of multinational corporations and global production chains, trade has become an increasingly contentious issue - with the public increasingly questioning major bilateral trade agreements such as the Transatlantic Trade and Investment Agreement (TTIP) and the Canada-EU Comprehensive Economic and Trade Agreement (CETA).

Trade itself is also changing. The lack of progress in the WTO is creating a more "defensive" attitude towards national industrial or commercial interests. Protectionist measures outnumber liberalising ones by a significant margin, and the number has been growing seriously since 2017. With the emergence of global value chains, a number of countries are adding value to production along the chain before receiving goods for final consumption. Thus, many exported goods combine domestic and external value added through the import of intermediate goods. In 2010, the share of external value added in total exports reached 31% and has remained roughly the same since then (Damen and Iglar, 2019).

The place of developing countries in the world economy is also changing. More than half of global merchandise trade involves at least one developing country. Trade between developing economies (South-South trade) is also growing, from 7% of world trade in 2000 to 19% in 2018. However, not all developing countries are at the same level. Between 1990 and 2018, Asia doubled its share of world trade from 15 to 35 percent, with

more than half of Asian trade within the continent. With the conclusion of the African Free Trade Area agreement, Africa is also attempting to give a major boost to intra-continental trade.

The case study for this section analyses another global trend - the growing demand and the formation of domestic value chains in China and other developing countries - changes that explain the increasing decline in trade intensity at the global level. This decline is not a sign that globalisation is over, nor does it mean that the world economy is in danger, but reflects the *ongoing evolution of the world economy and its linkages*. Economies are becoming more self-sufficient as they grow - any country with a very large territory and population, as is the case with China, will naturally be less willing to trade with other countries than a small country.

The changing nature and character of international trade

Alongside these transformations, global trade is undergoing dynamic changes associated with the *fragmentation of the production process and the integration of emerging economies into global markets*. These trends have implications for trade as well as for production specialisation and the demand for different types of skills, thus providing opportunities for greater gains but also posing new challenges for trade policy. As a consequence of changes in recent decades, 70% of international trade involves services, raw materials, parts and components. This is the result of the operation of global value chains that spread their production across countries and direct both investment flows and production activities to areas with raw material and labour resources (Panushev, 2020). Thus, the *very nature and character of international specialization are actually changing*. Countries no longer compete solely on the basis of final products, but rather in the performance of specific tasks within complex production processes.

Trade can boost growth and increase aggregate welfare in several ways. First, it induces an optimal allocation of factors of production across firms and industries, leading to higher efficiency and effectiveness. At the same time, by increasing competitive pressures, trade reduces inefficiency and stimulates innovation (Aghion and Howitt, 1998). Second, it contributes to access to a larger international market and thus increases the opportunities to realize economies of scale and technological spillovers that support economic growth (Rivera-Batiz and Romer, 1991; Dalum et al., 1999). Third, trade allows countries to specialize, both in terms of production and human capital, in goods and services for which the country has a comparative advantage, and this leads to more rapidly increasing productivity through learning and scale effects (Krugman, 1980).

The benefits of trade are not evenly distributed - both between and within countries. Trade encourages countries to specialize, and because different goods and activities are

associated with different opportunities in terms of technology and knowledge, those countries that specialize in dynamic and innovative industries are better positioned to achieve sustainable economic growth (Grossman and Helpman, 1991; Hausmann et al., 2007).

What products countries specialise in is determined by the resources available to produce the different products and by access to different technologies. Thus, for a given production technology, specialization is dictated by factor endowments (Heckscher and Ohlin, 1991). According to some estimates, a capital endowed country (at the 75th percentile in the distribution of capital per worker relative to other countries) would export 12% more of all products than a country at the median of the distribution of capital per worker. Along with this, exports of capital-intensive products (e.g. chemicals and plastics) could be about 25% higher (Johansson and Olaberría, 2014).

In addition to factor endowments, trade and specialization can also be influenced by public policies and institutions by changing incentives for factor accumulation and technological innovation. Because industries differ in terms of their need for regulations and institutions that promote production, differences in institutional environments across countries affect competitiveness through the impact they have on relative productivity (Chor, 2010; Nunn and Trefler, 2013). For example, well-functioning financial markets matter relatively more for investment services than for many other activities.

Growth in national industries can be supported by certain industrial or trade policies by providing opportunities to realise economies of scale (e.g. tariffs). However, they could also create trade diversions by changing relative prices, thereby affecting specialization and trade (Johansson and Olaberría, 2014). National policies and institutions create spillovers for trading partners by altering the relative productivity of a country for different goods (Helpman and Itskhoki, 2010), as well as through income and demand effects (Felbermayr et al., 2009). Last but not least, in integrated global value chains, policy changes that affect relative productivity create spillovers between countries, affecting the entire supply chain through production linkages (Koopman et al., 2010; OECD, 2012).

Changes in global specialisation also contribute to rising inequality by shifting demand from some factors of production to others, leading to changes in relative wages between and within different categories of labour. In theory, public policies can reduce wage differentials for skilled and unskilled workers both at the national level and abroad. For example, policies that encourage higher education attainment by broader segments of the population can create a widening wage gap if implemented in an environment characterized by increasing demand for highly skilled workers. At the same time, such policies can generate spillover effects to other countries by affecting the relative wages for

skilled and unskilled workers and thus impacting trade flows between countries (Johansson and Olaberría, 2014).

The case study here traces the main trends in trade and in specialization, and on this basis analyses the *changing nature of international specialization and the relationship between trade policy, trade and specialization*. Finally, an assessment of the future development of global trade and global value chains is presented and different scenarios for trade and specialisation up to 2060 are summarised.

Non-market determinants of market mechanisms in the world economy

The advent of digital technologies is ushering in a new era in global trade, *fundamentally transforming the structure and dynamics of international trade*. Digitalization facilitates the rapid exchange of information, streamlines communication, and revolutionizes the way business operates across borders (Betaneli et al., 2021). E-commerce platforms, digital marketplaces and online payment systems extend the reach of businesses, enabling them to tap into global consumer markets. The impact of digitisation extends beyond facilitating transactions. It influences supply chain management (Balanova et al., 2020) by enabling real-time tracking of goods, inventory optimization, and improved coordination between suppliers and manufacturers. The integration of technology into commercial processes is driving the rise of the digital economy, blurring the distinction between goods and services and also creating a new digital identity (Bankov, 2022).

But *the digital divide* remains an unsolved problem - some countries and communities have better access to digital technologies and online resources than others. Bridging this divide is essential to ensure that the benefits of the digital economy are inclusive and accessible to all. The digital economy is having a growing impact on trade, investment, innovation and development. This raises questions about its regulation, governance and impact on societies, which puts it at the centre of attention not only of policy makers but also of scholars working on international economics.

In order to illustrate the development and effect of digitalization on integration processes, the case study here analyzes the question of how African countries and regional blocs can prepare for the digital economy, and in particular whether e-commerce should be considered as a potential topic for negotiation within the African Continental Free Trade Area (AfCFTA), highlighting the potential of the AfCFTA to consolidate the multitude of strategies, policies and regulations affecting e-commerce. For African countries at different stages of development, digitalisation presents both opportunities and challenges. E-commerce can reduce transaction costs, facilitate remote delivery of goods and services, and unlock the potential for entrepreneurship, innovation and job creation. However, unequal access to information and communication technologies (ICTs), unreliable power

supplies, limited digital literacy, inadequate regulations, underdeveloped infrastructure, lack of online or alternative payment methods, and cultural preferences for physical interaction and cash payments present significant barriers.

Emerging technologies such as artificial intelligence (AI), the Internet of Things (IoT) and blockchain are changing manufacturing processes and global supply chains. AI-driven automation improves efficiency and precision in manufacturing, leading to optimized production processes. IoT connects devices across the supply chain, enabling real-time monitoring, predictive maintenance, and data-driven decision making. Blockchain technology ensures transparency, traceability and security in supply chain transactions, reducing risks associated with fraud and counterfeiting. Understanding the role of technology in shaping production and supply chain structures is imperative for stakeholders looking to reap the benefits of these transformative forces.

Growing awareness of the importance of *environmental sustainability* is influencing the structure of world trade. Sustainable practices are becoming key considerations for both businesses and consumers (Bobeva et al., 2023). Environmental sustainability is emerging as a determining factor in shaping trade patterns. The rise of green trade policies and regulations reflects a global commitment to tackling climate change and promoting sustainable development (Zhelyazkova, 2020). Countries and businesses that adopt environmentally responsible practices gain a competitive advantage in the international marketplace (Spasova, 2024; Zhelyazkova, 2024).

Global supply chains are increasingly vulnerable to environmental challenges, including climate change, extreme weather events and resource scarcity. Businesses and nations are adapting their strategies for engaging in supply chains to increase resilience and offset the effects of environmental uncertainty. The development of *the circular economy*, responsible sourcing practices and green logistics solutions are examples of measures taken to address environmental risks in global supply chains (Zhelyazkova, 2017).

Cultural influences play a major role in shaping demand for certain goods and services, contributing to the unique nature of international trade. Considering the question of how cultural factors influence consumer choices and the types of products traded on the global stage, it can be briefly summarised that consumer preferences driven by cultural norms, traditions and values contribute to the diversification of world trade. Businesses that understand and adapt to these cultural nuances gain a competitive advantage.

Social responsibility and ethical considerations emerge as critical determinants in the formation of international trade structures. Consumers and stakeholders are increasingly prioritising businesses that demonstrate a commitment to ethical practices, fair labour standards (Hadjichoneva, 2024) and social responsibility. The successful integration of social responsibility into business models (Marinova, 2021) highlights the growing

importance of ethical considerations in shaping commercial structures and draws attention to the need for businesses to align with societal values in order to achieve sustainable success in the global marketplace.

Geopolitical and geo-economic dimensions of structural changes in the world economy

Understanding the root causes of *the trade imbalances* that emerged during and after the Global Financial Crisis is essential for developing effective policies to mitigate their impact on world trade. The prospects for overcoming or exacerbating global trade imbalances are influenced by a variety of economic, geopolitical and political factors. Assessing potential solutions involves considering mechanisms to restore trade balance, address structural problems, and promote inclusive growth for convergence (Rangelova et al., 2021). This discussion is critical for policymakers seeking to formulate strategies conducive to creating a more sustainable and equitable global trading system.

The COVID-19 pandemic has triggered changes in the global economy on a number of fronts. The most visible manifestations are declining economic activity, reduced transport connectivity, rising unemployment, falling oil prices, and the accelerated digitalisation of some sectors. The long-term effects of the COVID-19 pandemic on global trade policies and practices are multifaceted. Assessing the lasting effects requires looking at changes in risk management strategies, the role of technology in facilitating trade, and reassessing resilience in supply chains. The case study presented here provides a brief overview of the directions towards which the world economy is heading in the course of the pandemic crisis, as well as some projections for the near future, all of which are linked to the general trends in the global economy already reported.

Geopolitical tensions have a profound impact on the formation and dissolution of trade alliances, shaping the structure of world trade. Tensions between nations or regional blocs can trigger changes in trade policies, tariffs and sanctions. The interrelationship between political relations and trade alliances is an integral part of international trade and shows the importance of striking a prudent balance between diplomatic considerations and economic interests.

Political stability is a cornerstone for promoting international trade - it provides the necessary conditions for economic cooperation and sustainable trade. Countries characterised by a stable political environment are more attractive to investors because this facilitates foreign direct investment and the establishment of global supply chains. Conversely, political instability can disrupt trade activities by creating uncertainty for businesses and investors.

In conclusion, the results of the analysis presented in this chapter can be briefly summarized as follows:

- ***The contemporary global trading system is in a period of transformation.*** Many factors - economic, social, political, etc. - are driving new trends, some of them controversial, with implications for the world economy.
- *The complex pattern of decision-making, the divergent interests of developed and developing countries, and the imbalances in the distribution of the benefits of trade liberalisation are leading to a **deadlock in the WTO**. The Doha negotiations, which, although they began in 2001, have not yet been completed, undermining the foundations of the international trade framework. This uncertainty in trade relations, in turn, is a precondition for global economic uncertainty and a dampening of growth.*
- *The lack of progress in the WTO has stimulated the **emergence and expanded the reach of protectionist attitudes**. As a result, the number of protectionist measures has increased significantly since 2017, surpassing that of liberalising measures.*
- ***Multinational corporations and global production chains are growing in importance,*** and trade is becoming a contentious issue. In this context, public assessments are becoming increasingly critical of major bilateral agreements, as is evident in the cases of TTIP and CETA.
- ***Global production chains are changing the nature of trade*** - many exported goods combine internal and external value added obtained by importing intermediate products.
- ***The nature and character of international specialisation also takes a different form.*** Countries no longer compete solely on the basis of final products, but rather in the performance of specific tasks within complex production processes. Success depends on building a competitive advantage in high-tech, high value-added activities, often centred on upstream and downstream activities. Changing consumer preferences for customised goods and proximity to the end customer further impact on specialisation, influencing the demand for skills in different countries. Traditional protectionist policies are thus becoming less effective in this fragmented trading environment dominated by intermediate products.
- ***Developing countries are increasingly important in the world economy.*** More than half of world trade in goods involves at least one developing country. Trade between developing economies (South-South) is also growing. Asia doubled its share of world trade between 1990 and 2018, and by signing the African Free Trade Area agreement, Africa is trying to boost intra-continental trade.

- *Emerging economies are becoming negligible regional and even global players that challenge the status quo of the world trading system. A growing number of bilateral and regional agreements are contributing to trade liberalisation more than the WTO, attempting to provide real alternatives to the organisation.*
- *Trade liberalisation can take place at the global or regional level. Regional agreements are easier to negotiate, but often risk trade discrimination and welfare losses for some countries. There are also cases where regional integration can foster regionalism, which hinders liberalisation at the global level.*

CHAPTER TWO:

THEORY OF ECONOMIC INTEGRATION

Integration relations are an objective and natural result of the development of the world economy and international economic relations. As the volume of trade increases and national economies become more interconnected, *production becomes more internationalised*. The world economy is increasingly composed not of closed national economies but of *open economies* with a high degree of interconnectedness and interdependence in their overall development. Gradually it is becoming an integrated reproductive system rather than a complex of interconnected national economies. Internationalisation expresses the process of reducing the separateness of firms and overcoming economic nationalism. The process has been particularly intense since the Second World War, has taken place with qualitatively new characteristics and has determined the dynamism of integration ties.

This generalised picture of integration development can be described more concretely as follows:

- the rapid increase in the volume of trade between national economies, requiring joint efforts to promote and regulate it;
- the dynamics of capital movement, which converges national reproductive processes and makes them a concern of common policy;
- increasing *economic dependence between national economies*, which requires synchronisation of governance and a common concern for economic development;
- the rapid growth of transnational business, for which national borders are becoming meaningless and which is stimulating supranational features of the economy, etc.

Apart from economic preconditions, integration processes are determined by political reasons, historical traditions, cultural and psychological factors, etc.

Regional economic integration has been one of the main trends in the development of international economic relations in recent decades. There are numerous examples, practically all over the world, which show that this is not an isolated event, but a truly

global phenomenon. The deepening of regional integration in a number of areas has been supported by regional initiatives, particularly in the area of trade, which has led to the creation of regional agreements and communities that are very different in their geographical and substantive scope. In recent decades, world trade has become increasingly open and less discriminatory, and more and more countries have joined such binding agreements. Trade agreements themselves have in turn increasingly deepened and broadened to include new policies such as trade in services, foreign investment, intellectual property, etc. *The opportunities offered by different forms of economic integration and the ways and means of exploiting them are increasing.*

"Theories of economic integration clarify the foundations of social welfare and socio-economic cohesion in its implementation" (Dimova, 2011, p. 386). The main reason for studying traditional economic integration theory is to assess its potential from a global welfare perspective, using static effects as a criterion. The new (dynamic) theory of integration, on the other hand, includes the dynamic effects of integration in the analysis (Chou, 1967).

This chapter presents a systematic review of existing theories of economic integration. Starting with an overview of classical theories such as the theories of static and dynamic effects of integration, *this chapter summarizes theoretical approaches to the study of economic integration, traditional and new theories of its effects, and the factors influencing motivation to participate in integration processes.* The case study presented at the end also provides insights into the limitations of these theories in terms of the effects and benefits of integration specifically affecting developing countries.

Defining economic integration

The term "integration" means the restoration of something in its entirety. It is used to characterize a wide variety of relationships of interdependence and interweaving of social relations in a group of states. The term "economic integration" is used to delineate and characterize different areas of international economic relations and the process of bringing individual economies together to pursue free trade. In the narrow sense in which it will be considered here, economic integration refers to the removal of discriminatory barriers to trade between a number of countries and the establishment of elements of cooperation between them. Economic integration is also expressed in the objective combination and unification of processes in national economies as a result of the development of modern productive forces and achievements in the scientific and technical field. As a form of economic influence, it creates more favourable conditions for mastering advantageous positions in the world economy and in international relations. In practice, integration develops as economic-political alliances on the basis of interstate agreements.

Summarizing the views presented, *economic integration can be defined as an economic agreement between different countries aimed at increasing welfare, characterized by the reduction or elimination of tariff and non-tariff barriers to trade, as well as the coordination of monetary and fiscal policies, with the ultimate goal of achieving full integration, including unified monetary, fiscal, social and economic policies, governed by supranational institutions.*

Static effects of economic integration

According to most authors, the theory of economic integration goes through two stages of development, each responding to political and economic issues relevant at the time of its emergence. The first stage involves the traditional theories of economic integration, which explain its possible benefits in terms of trade and are often referred to as "static analysis of integration agreements". The second is the new theories of economic integration, which evolve under changed economic conditions and trade environments and are known as 'dynamic economic integration analysis'.

Viner's study is the first to define specific criteria for distinguishing the benefits and drawbacks of economic integration. His so-called static analysis of economic integration separates its possible effects into the now well-known *trade creation and trade diversion* effects. Trade creation is said to occur when, in reaching a trade agreement between two countries, trade shifts from a member country offering a good more expensively to one offering the same product more cheaply. A trade diversion occurs when imports shift from a cheaper supplier in a non-integrated third country to a more expensive supplier within the Community.

In short, *Viner's theory in practice means that countries would be motivated to integrate if integration is likely to result in more static gains than losses*, or in other words, more trade creation than trade diversion. Many authors have complemented Viner's static analysis by looking at different sides of the integration effects question, adding the so-called *trade expansion* (Panushev, 2003). Thus, static effects generally include (1) trade creation, (2) trade diversion, and (3) trade expansion.

The need for dynamic analysis

All studies extending Viner's analysis conclude that *there is no clear answer to the question of whether or not customs unions increase global welfare*. From the perspective of international trade theory, although intra-community trade is increasing, in practice static effects act as regional barriers to it, enabling a new, regional protectionism to take place, and directing the distribution of the benefits of integration towards the large, developed

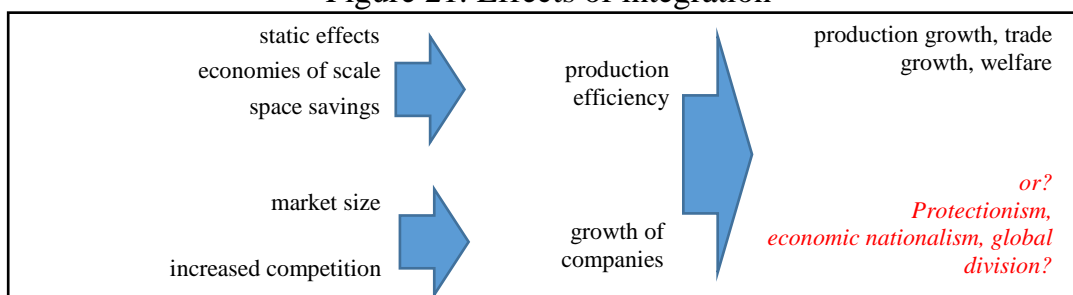
economies within the community at the expense of efficient resource use and global welfare gains.

It is a basic tenet of international economics that free trade in competitive markets ensures efficiency of production and consumption throughout the world and in each country individually. The creation of preferential trade agreements, motivated by the ideas of static analysis, was initially seen as a shift towards free trade and was perceived as a means of increasing real incomes. However, it appears that this analysis does not provide simple answers and principles, so attention must turn to the dynamic analysis of economic integration (Balassa, 1961).

The dynamic analysis of the effects of economic integration stems from the characteristics of today's free economy. Because of their depth, dynamic effects of economic integration have a greater impact on economic processes than static ones. Thus, dynamic effects generally include (1) *economies of scale*, (2) *economies of scope*, (3) *increasing market size*, and (4) *intensifying competition*.

In theory, these effects should lead to larger and more efficient production, to increased trade flows, and hence - in the context of the neoclassical trade model - to increased welfare. However, there is also much concern that they are actually giving rise to a new kind of regional protectionism, economic nationalism, and increasing global division (Figure 21).

Figure 21. Effects of integration



Source.

Evolution of forms of economic integration

Various authors identify *different stages of economic integration*, usually starting with Preferential Trade Agreements (PTAs), which involve reduced trade barriers for goods produced in the contracting countries. Moving up the ladder of integration, Free Trade Areas (FTAs) are characterized by zero tariffs for member countries on goods inside the area, but maintain their own customs policies towards countries outside the area. Customs unions (CUs) further synchronize external tariffs on third-country goods among members. Common markets go beyond this by allowing free movement of factors of production. Economic unions involve harmonisation and some alignment of economic

policies, and economic and currency unions (ECUs) establish a single currency and monetary system. Some studies identify the highest stages as full economic integration with broader policy unification and political union (PU), where the ultimate goal of integration is political union with more centralized decision-making affecting national sovereignty.

The forms of economic integration are evolutionary - each scheme of a higher rank contains the characteristics of the lower ones, but also new elements that expand it in scope and content. They can be seen as stages in a process that has as its ultimate goal (insofar as this is desired by the participating states) the achievement of full integration - unified monetary, social and economic policies and supranational institutions whose decisions are binding on the member states.

To the extent that each successive more advanced form of integration entails the surrender of more national sovereignty by the participating states, they themselves set their own objectives in the integration process. "The transition from one stage to another, higher one, means the expansion of the areas of economic life - the object of integration..." (Marinov, 2004, p. 51). Despite the evolutionary nature of the integration process, countries that believe this is achievable and consistent with their objectives can start the process directly from one of the higher levels.

In order to demonstrate how *the success of trading communities depends on the initial economic performance of the countries involved, and the conventional static and dynamic effects of trade integration have a less pronounced impact*, a case study of the evolution of integration processes in Africa from the perspective of traditional integration theory is presented in the case study to this section. The results show that participation in integration communities may in fact lead to lower real export growth for countries with higher exports prior to the signing of regional trade agreements, thus rendering these agreements ineffective.

Based on the research presented in this chapter, several important conclusions can be drawn:

- ***Economic integration*** as a form of cooperation between countries in the economic sphere ***has become a leading trend in recent decades***. Examples from around the world show that this is not a random event, but a global phenomenon.
- *Regional cooperation in trade and other areas is increasing, leading to regional agreements of different sizes and objectives. World trade is becoming freer and more equitable, with more countries joining agreements covering not only goods but also services, investment, intellectual property, etc. **The opportunities offered by integration, and the ways to exploit them, are increasing.***

- *Theories of economic integration develop in two stages. The first explains the advantages of integration for trade (static analysis). The second stage (dynamic analysis) emerges as economic conditions change and includes new theories that consider the effects of integration on growth, technology and competitiveness.*
- *In general, the static effects of integration can be summarized as (1) trade creation, (2) trade diversion, and (3) increased trade flows.*
- *The dynamic effects of integration can in turn be systematised as (1) economies of scale, (2) economies of space, (3) increased market size and (4) increased competitive pressure.*
- *Empirical research on integration in Africa shows that these effects work differently in developing and underdeveloped economies - the success of such trading communities depends on initial economic performance, and trade integration leads to lower real export growth for countries that had higher exports before the signing of regional trade agreements - something that makes these types of agreements ineffective.*

CHAPTER THREE:

LIMITATIONS AND SHORTCOMINGS OF THE THEORY OF ECONOMIC INTEGRATION

This part of the study attempts to identify some of the shortcomings and limitations of conventional economic integration theory in assessing integration processes in the context of contemporary changes in the world economy, especially in relation to developing, small and open economies. Using a comprehensive literature review, theoretical synthesis and case study analysis, and empirical evidence, the *inconsistencies between theoretical predictions and real-world integration outcomes* are demonstrated. Through a critical assessment of the strengths and weaknesses of existing theories, *this chapter lays the groundwork and makes the case for proposing a new approach to understanding economic integration in the final chapter.*

The theory of economic integration attempts to answer two questions: (1) what is its effect on welfare and (2) what are the factors that influence countries' willingness to engage in integration processes (Abdel Jaber, 1971, p. 260). The answers to these two questions are analysed here from the perspective of underdeveloped and developing, small and open countries.

In most cases, the theories of economic integration and its benefits - both those of the dynamic effects, but especially the static effects of integration - are not applicable to underdeveloped and developing countries. Already Balassa (1961, p. 16) argues that the theoretical literature on economic integration considers customs union only among industrialized countries. Their problems are related to economic

development and not so much to relative changes in production and consumption characteristics.

The chapter systematizes some additions and limitations of existing theoretical generalizations in the following directions:

1. General additions to the theory regarding developing, small and open economies

- Static and dynamic approach
- International competitiveness
- Benefits of trade diversions
- Alliance size
- Promoting regional trade
- Substitution and supplementation
- Macroeconomic policy coordination

2. Specific challenges for underdeveloped and developing countries

- Effects on employment and productivity
- The need for a development perspective
- Changing the structure of trade with developing countries
- Protections for industrial development
- The theory of the learning field
- Production specialization
- Share of trade with Member States
- Initial duty levels
- International trade as a share of GDP
- Transport costs
- The package approach

The two case studies presented in this section, based on an examination of the dynamics of the value and volume of intra-community trade, show that in the case of African RECs there is a relationship between the stage of integration among member countries (i.e. how deep the integration process is) and the value and share of intra-community trade (i.e. how effectively the positive effects of regional integration are exploited). Through these concrete examples, the specific challenges faced by LDCs and developing countries, specifically in Africa, in engaging in economic integration processes are demonstrated.

3. Specific issues for small and open economies

- Small economies and regional integration
- Open economies and regional integration

In order to illustrate the challenges facing small and open economies, two case studies examine and analyse the development of Bulgaria's foreign trade relations (as a small and open economy) after its accession to a developed integration community (the European Union).

4. *Political determinants of economic integration*

- International negotiations
- Attracting supporters
- Political system
- Legal and institutional systems
- Political will
- Integration and security
- Religion, language and culture
- Political factors affecting developing countries
- International Relations
- The combination of economic and political determinants

Participation and engagement in integration processes becomes particularly important for smaller, open and less developed economies. Increasingly, *involvement (and engagement) in integration processes is seen as a new instrument of active foreign trade policy to respond to structural changes in world trade.*

For small, less developed and/or highly open economies (like Bulgaria) integration serves as a multilateral instrument of foreign trade policy. This allows them to reduce vulnerability to external shocks, increase competitiveness, preserve added value and strengthen regional resilience. Smaller economies recognise that *participation in integration processes can be a strategic means of protecting their interests and advancing their economies in an increasingly interconnected world.* This includes:

1. *Integration for intra-community import substitution.* Small, open economies often face challenges related to their dependence on international markets (Easterly and Kraay, 2000). These countries are susceptible to external shocks and to global economic fluctuations. Through active participation in integration processes, they seek to reduce their dependence on external markets and foreign goods. As a tool to promote intra-community import substitution, integration allows these nations to substitute part of their external trade with intra-member trade. This can mitigate their vulnerability to global market fluctuations.
2. *Stimulating regional and national competitiveness.* Participation in integration processes provides an opportunity to boost regional and national competitiveness

respectively (Kitson et al., 2004). When smaller and less developed economies engage with their neighbours in regional integration, they can jointly invest in infrastructure development, technology transfer, human capital, etc. - cooperation that would lead to increased efficiency, productivity and competitiveness on a broader scale. Thus, by participating in integration agreements that promote cooperation and resource sharing among member countries, these economies would improve their global standing.

3. *Retain "home-grown" added value.* Integration also plays a role in preserving 'domestic' value added (Banga, 2014). In smaller and less developed countries, there are often concerns that a significant portion of the value generated by production and trade within them leaks out to larger, more developed economies. By participating actively in integration, such countries can work to retain a more significant share of this value in the region. This is particularly important in industries where smaller economies possess unique capabilities or resources.
4. *Supporting regional integration processes.* Regional integration processes are intensifying in different parts of the world. Smaller and less developed economies are realizing that they can use regional integration as a means to improve their position in the global economy (Briguglio, 1995). Through regional cooperation, they can negotiate with larger and more powerful trading partners from a more advantageous position. This allows them to better protect their interests and ensure that their specific economic advantages are recognised and exploited.
5. *Promoting regional economic resilience.* In the face of global economic uncertainty, regional economic resilience is critical, especially for small, open and less developed countries (Geithner, 2007). By building stronger regional economic networks, they can create a buffer against external shocks. Through integration, these countries are enabled to work together to develop contingency plans, improve crisis management, and collectively address challenges such as economic downturns or disruptions in global supply chains.
6. *Overcoming global trade barriers.* Increased participation in regional integration processes is a response to the challenges and barriers posed by the larger and more powerful players on the global trade scene (Baldwin, 2006). In order to deal with the challenges arising from the complexity of global trade rules and regulations, smaller economies can coordinate relevant rules and norms with neighbouring countries in regional agreements and thus overcome some of the barriers associated with global trade. In this way, these economies

can use regional integration as a means to create new trade opportunities and remove global trade barriers.

While integration promotes regional cooperation and economic strength, it *also raises questions about the possibility of regional protectionism emerging at the global level*. Smaller economies may use the opportunities created by participation in regional integration processes to advance their interests, potentially at the expense of global trade liberalisation.

Based on the research presented in this chapter, several important conclusions can be drawn:

- *It is obvious that **the motivation behind the economic integration of developing, small and open countries cannot be explained by static and dynamic effects alone** - some factors are stronger and others, on the contrary, weaker.*
- *Therefore, in order to assess the benefits of the integration of developing, small and open economies, **their specificities**, e.g. stage of economic development, structure of economies, production and trade policy characteristics, etc., must be taken into account.*
- *In the light of all these controversial issues, **the fair distribution of the benefits of integration poses a significant challenge**, leading to different motivations for participation in integration processes.*
- *Moreover, **differences arise depending on whether the countries involved share similar characteristics** such as the size of their economies, their degree of openness and their level of economic development - small or large, open or closed, developed or developing.*
- *This divergence therefore leads to **different approaches to integration, different rates of development and different outcomes**.*
- *All this, together with the intensification and spread of regional integration processes observed in recent decades, gives us grounds to conclude that **in the modern world economy economic integration is seen and actually used as a means to implement a new type of barriers to free trade - regional protectionism at the global level**.*

CHAPTER FOUR:

A NEW UNDERSTANDING OF ECONOMIC INTEGRATION

The analysis of the evolving global economy and economic integration theory leads to insights that prompt a *re-examination of the practice of integration processes*

and their implications for the perception of integration. In light of these insights, in this chapter I make some suggestions for improving and extending integration theory.

From the analysis of structural changes in the world economy through the lens of economic integration theory in Chapter 1, it is clear that *economic theory cannot offer answers to many important questions and provide explanations for what is happening globally. This calls for a revision of integration theory, involving both a new understanding of the typology of integration processes and of actual practice, and an assessment of the distribution of the benefits of participation in integration processes*, especially in relation to small, open and developing economies.

To understand the different approaches and outcomes of different integration communities around the world, a more conceptual *typology* can be derived based on the different forms of economic integration discussed in the previous sections (see Table 12).

Based on the policies and freedoms involved, different forms of economic integration can be distinguished:

1. *Internal static integration* (including freedom of movement within the community). This category encompasses the removal of barriers to trade and economic activity between Member States, leading to greater internal economic integration.
2. *External static integration* (covering common external barriers). This category refers to common external barriers imposed collectively by participating countries on non-member countries. Such barriers, such as tariffs and trade regulations, create a different trading environment for the integrated community.
3. *Dynamic integration* (involving common economic and other policies) that goes beyond trade to encompass wider economic and political cooperation between member countries. It aims to create a more unified economic and political entity with shared policies and institutions.

Table 12. Typology of economic integration agreements

		Agreement on Preferential Trade	Free Trade Area	Customs Union	Common market	Economic Union	Economic and monetary union	Full economic integration	Political Union
Internal static integration	Goods (duties)								
	Goods (non-tariff)								

	Services								
	Capital								
	Labour								
External static integration	Goods (tariffs)								
	Goods (non-tariff)								
	Services								
	Capital								
	Workforce								
Dynamic integration	Customs tariff								
	Monetary policy								
	Economic policies								
	Policies related to national sovereignty								

Legend:

<i>complete</i>	<i>partly</i>	<i>missing</i>
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Source.

This expanded typology is essential for analysing and comparing different integration agreements, identifying their specific characteristics and assessing the potential implications for the countries involved. It also highlights the evolving nature of integration, where countries can progress from one level to another, reflecting the dynamic nature of international economic relations.

Transition to three-dimensional assessment

In response to the multidimensional impact of integration processes (both as static and dynamic effects), especially the distribution of benefits and motivations for participation, *I propose to move from a two-dimensional to a three-dimensional framework for assessing integration processes* (see Figure 22).

This broader assessment covers multiple factors influencing both participation and the outcomes and benefits of participation in integration agreements for different types of countries, which can be summarised in the following three categories:

1. **Genesis:** *exploring the origins and contexts of integration processes.* The focus here is on understanding how and why the process of integration came about. Factors to be considered include the historical, political and economic environment as well as the motivation of the parties involved. This dimension enables an in-depth analysis of the *historical and geopolitical factors influencing integration.*
2. **Motivation:** *assessment of incentives to participate, expected benefits and mechanisms for their distribution.* This group of factors takes into account the economic and strategic interests of nations as well as their expectations of the

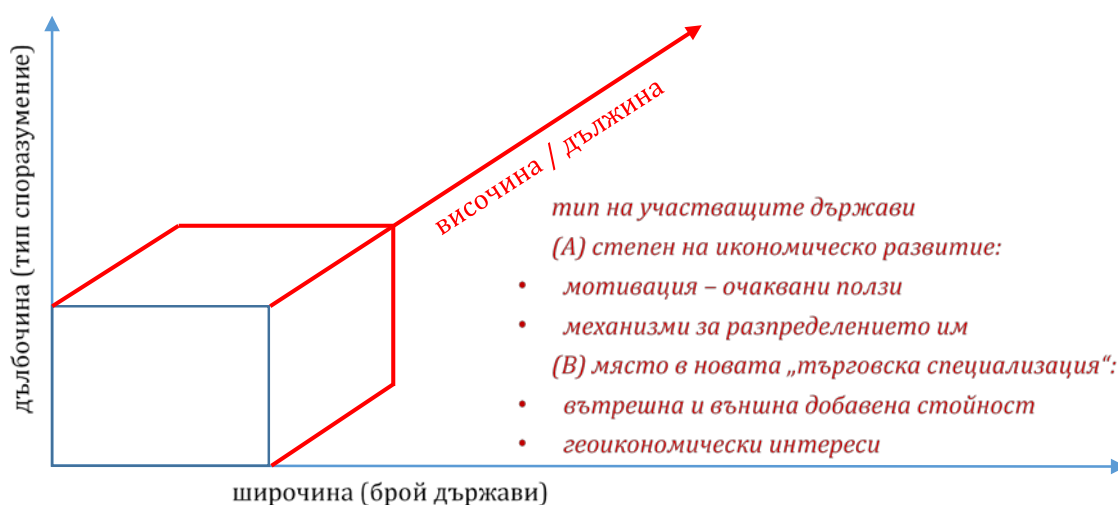
benefits of integration. This dimension allows a clearer understanding of *whether, through integration, countries seek to increase trade, improve economic development, gain geopolitical advantages, or achieve other specific objectives.*

3. **Development and results: analysing the evolution and results of integration.** This is the broadest and most comprehensive category - it refers to the whole life cycle of the integration process and helps to examine the evolution of integration over time, the policies and mechanisms implemented and the results achieved. By critically examining the specific impacts of integration on economic, social and political aspects, this dimension makes it possible *to assess the extent to which the objectives of integration have been achieved.*

On the basis of these three sets of additional conditions and factors, *I propose that when analysing a particular integration process, in addition to the number of countries (width) and the form of integration (depth), a **third dimension** (height) should be introduced which takes into account:*

1. *the type of countries involved, particularly in terms of the size of their economies and their level of economic development, allowing an assessment of their motivation to participate, the expected benefits and the mechanisms for their distribution, and*
2. *the place of actors in the new 'trade specialisation' in terms of domestic and external value added of production and trade and their ability to pursue and protect their national or regional geo-economic interests.*

Figure 22. From two to three dimensions in the assessment of integration processes



Source.

The use of three-dimensional assessment allows for a more nuanced and comprehensive analysis of economic integration processes. *Such an approach recognises that integration is not a two-dimensional phenomenon and that various factors, from historical context to policy development and outcomes, influence the success and effectiveness of integration agreements. Each of the three dimensions contributes to a deeper insight into the substance of integration processes.* By examining their genesis, motivation and development, one can identify the drivers of integration, assess whether the intended objectives have been achieved and understand the evolving nature of this type of agreement. *Three-dimensional assessment also facilitates comparative analysis of different integration processes.* By taking into account the dimensions of genesis, motivation and development, agreements can be compared across regions and time periods and thus a more complete picture of the diversity of integration patterns can be obtained.

Methodology for the application of three-dimensional assessment

In this section, I present some *suggestions on possible tools to assess the new dimension of economic integration.* Based on the proposed additional conditions and factors, a third dimension could be added to the methodology for assessing economic integration, which takes into account the type of countries involved and their position in the new trade specialisation.

In summary, the methodology includes:

- ***Assessment of the type of parties involved:***
 - an analysis of the *size of the economies of the participating countries and their level of economic development* to understand their motivation for participating in the integration process;
 - an assessment of the *expected benefits of integration for each participating country*, including economic growth, increased competitiveness and benefit sharing;
 - an analysis of the *geo-economic interests of the countries involved* and their ability to pursue and defend them in the context of integration.
- ***Evaluating positions in the new trade specialisation:***
 - A study of the *internal and external value added of production and trade of the countries involved* to determine their role in the new trade specialisation;
 - exploring the *capacity of the participating countries to realise and protect their own national or regional geo-economic interests* within the integration process;

- assessing the *potential risks and challenges associated with new trade specialisation*, including exposure to unfair trade competition and loss of control over key sectors of the economy.

Many such methodologies that seem theoretically sound actually become inapplicable or difficult to apply because of information deficits and because data collection options and processing and analysis methods have not been thought through in advance. In this respect, *this section first presents in more detail some suggestions for specific tools and indicators for analysis and for the assessment of individual elements, and concludes by outlining the main tools and data sources for using the proposed methodology.*

The impact of economic integration on global trade dynamics

Economic integration plays a key role in shaping global trade dynamics, influencing cross-border flows of goods, services, capital and labour. With the changing nature of international economic relations, understanding the impact of economic integration on world trade is becoming increasingly complex. *In order to provide a comprehensive framework for analysing the effects of economic integration on world trade dynamics in this context, the new typology and a new estimation methodology detailed in the previous paper are proposed.*

The proposed three-dimensional framework for assessing integration processes takes into account the type of countries involved and their positions in the new framework for trade specialisation. By assessing the size of the economies and the level of economic development of the participating countries, this new approach offers an understanding of their motivations for participation, the expected benefits and the mechanisms for benefit distribution. Furthermore, analysing the position of countries in the new trade specialisation framework in terms of production and trade with domestic and external value added helps to assess their ability to pursue and protect national or regional geo-economic interests.

*This new approach improves **understanding of the impact of economic integration on global trade dynamics** in several ways:*

First, it provides a more nuanced perspective on the diverse effects of integration agreements on trade patterns. By taking into account the characteristics of the countries involved, such as their economic size and level of development, the typology allows for a deeper analysis of *how integration agreements affect trade flows and market dynamics within and across regions.*

Second, by examining countries' positions within the new framework of trade specialization, the methodology attempts to identify patterns of benefit distribution

and the potential for trade creation and trade diversion resulting from integration processes.

An analysis of the dynamics of trade under different forms of economic integration reveals the multilateral nature of their impact on world trade. Preferential trade agreements, free trade areas, customs unions and other forms of integration have different effects on trade patterns, on market access and on competitiveness. Furthermore, the methodology can contribute to *identifying the challenges and opportunities associated with different forms of economic integration*, helping to make the case for appropriate policy solutions aimed at maximising the benefits of integration while mitigating the potential risks.

The proposed new approach to assessing economic integration illuminates the practice of integration in a new and different way. A good understanding and strategic use of integration processes has the potential to shape the future of world trade and its liberalisation. This perspective is particularly valuable to gain insight into the nature of the dynamics of integration, as has been evident from observations in some regions of the Global South. It is noteworthy that the phased approach to regional economic integration, exemplified by the ongoing process of integration in Africa and the establishment of the African Continental FTA, has emerged as an alternative path to sustain global trade liberalization. It represents a viable option for overcoming the challenges and obstacles in the pursuit of the neoclassical ideal of free trade and multilateral liberalisation.

However, *a number of challenges remain in assessing the impact of economic integration on global trade dynamics using the new typology and methodology.* The limited availability of reliable and comparable data, methodological limitations and the complexity of global trade relations create significant obstacles to a comprehensive analysis of economic integration. However, in the future, ongoing research and refinement of the assessment framework can address these challenges and contribute to a deeper understanding of the evolving relationship between economic integration and global trade dynamics. *By taking advantage of the insights provided by the proposed framework, future research can be more effectively oriented in exploring the complex effects of economic integration and the evolution of international economic relations more generally.*

Economic integration has emerged as a dominant trend in recent decades in the field of international economic relations. It is not just an isolated phenomenon, but a truly global one. The deepening of regional integration in different areas is supported by regional initiatives, especially in the field of trade, giving rise to various

regional agreements and communities that differ in terms of their geographical and substantive scope. In recent decades, global trade has been characterized by greater openness and reduced discrimination, drawing more countries into binding agreements. At the same time, these trade agreements have expanded and evolved to cover additional policies such as services, foreign investment, intellectual property rights, etc. As a consequence, **the opportunities offered by the various forms of economic integration and the strategies to exploit them are increasing significantly.**

From the analysis of the structural changes in the world economy - the growth of production and trade flows together with their increasing fragmentation, globalization and regionalization, the paradoxical coexistence of trade liberalization proclamations and actual protectionist tendencies, as well as the profound impact of geopolitics and geoeconomics, it becomes evident that **conventional economic theory fails to answer many important questions and provide comprehensive explanations for global developments. This realisation highlights the need to revisit economic integration theory.** This revision includes a comprehensive assessment of the distribution of benefits arising from participation in integration processes, a new understanding of the typology of integration processes in the real world, and a reassessment of the role of integration as an instrument of foreign trade policy.

The complex dynamics of structural transformations in the world economy and the evolving practice of economic integration bring to the fore the need for a **multifaceted understanding of global trade processes.** The intertwining of globalisation, regionalisation and the evolving dynamics of trade are shaping the contemporary trade landscape. The changing role of integration in foreign trade policy and the potential of regional integration as a means to implement global trade liberalization provide food for thought on whether this is the right path in the evolving global economic narrative in a world of dynamic and interdependent economies.

In this context, it is worth **considering whether the introduction of the third dimension of integration, combined with the emergence of a "new generation" of trade agreements, is an attempt to preserve the status quo or to change the system of international economic relations. Only time will tell whether these developments will lead to an intensification of regional protectionism and a deepening of the divide between the Global North and the Global South, or whether they will provoke serious reflection on the need for a new geo-economic paradigm.** Such a paradigm should include a new understanding of international political economy from theoretical, practical and political perspectives, as well as a **new perspective on the new economic geography** beyond the limitations of neoliberal doctrines promoting 'infinite growth' and 'inevitable globalisation'.

CONCLUSION

The dissertation examines regional economic integration in the context of contemporary transformations in the system of international economic relations. It analyses structural changes and sources of uncertainty in world trade and delves into the specific economic theory associated with integration processes to assess the changing dynamics of regional trade agreements, market-oriented changes and non-market determinants that shape the global economy.

The analysis carried out in Chapter 1 *summarises the structural changes affecting world trade*, including changes in trade flows, the dynamics of value chains, technological advances and the emergence of new global economic actors, bringing out the concept of a *new type of international specialisation*. By examining these trends, the study offers valuable insights into the *structural transformations that shape contemporary processes of regional economic integration*. Chapters one, two and three identify trends, patterns and differences, presenting trade flows, economic performance and policy outcomes in different regions and contexts. This enables some *generalisations to be drawn regarding the practical challenges and opportunities associated with regional economic integration*.

Drawing on the in-depth review of the theoretical literature undertaken in Chapter Two, Chapter Three identifies the *limitations, criticisms and debates associated with conventional theories of economic integration*. Chapter Four proposes a *new theoretical framework that addresses the complexities of contemporary integration processes*, providing a more nuanced understanding of the theoretical foundations underpinning regional economic integration. Bringing together insights from the theoretical literature, empirical evidence and case studies, **the study offers a structured approach to analysing the multidimensional nature of contemporary economic integration**. This new theoretical framework provides a *deeper understanding of the drivers, dynamics and outcomes of regional integration processes in the contemporary global context*.

Analysis and critical evaluation of conventional theories of economic integration reveal their limitations in capturing the complexity of the effects and outcomes of integration in the real world. By systematically examining the challenges faced by small, open and developing economies, the need for a deeper understanding of integration processes is highlighted. It is on this basis that a *new theoretical conceptual framework for understanding economic integration in the modern era* is proposed, *which assesses integration processes in three dimensions* and provides a new perspective for viewing regional economic dynamics in depth and in totality.

Furthermore, *methodological recommendations related to the application of this new approach to the study and assessment of integration processes* are developed for future research in this area.

The thesis of the dissertation is that **changes in the world economy require a reassessment of traditional theories of economic integration**. The summaries of how the dissertation addresses the research questions support this thesis by providing a comprehensive understanding of the changing nature of regional economic integration through a synthesis of insights from the theoretical literature, empirical analysis and case studies.

The four hypotheses defined in the introduction were tested within the study and all were confirmed. It is demonstrated how *the structural transformations observed in the world economy question the applicability of conventional theories to contemporary regional integration processes*, supporting the need for more nuanced theoretical approaches. The *need for a multidimensional approach to the analysis of economic integration* is justified by *integrating structural change into existing economic integration theory*, consistent with the second hypothesis. Through empirical analysis and case studies, the study also provides evidence to support the hypothesis that *regional economic integration can serve as a strategic tool for small, open and less developed economies* to improve their economic development and economic sustainability. *The development of a new conceptual framework and typology for understanding economic integration processes* confirms the need for a new approach to effectively analyse and evaluate contemporary integration processes.

The dissertation achieves its main objective - **to systematize, critically analyze and assess the changes in the theory and practice of regional economic integration**. By identifying the main driving forces behind these changes and assessing their impact on the economies involved, this study provides **new insights into the dynamics of integration processes**. The dissertation demonstrates the dynamic nature of regional economic integration and its ability to adapt to changing global economic realities through a comprehensive review of historical developments and current trends. In this regard, the research questions outlined in the introduction are also addressed:

- *First, the evolution of regional economic integration processes over time is traced*. Various drivers, trends and patterns that have shaped integration initiatives are identified and analysed. Through an analysis of historical developments together with contemporary trends, the dynamic nature of regional economic integration and its ability to respond to changing global economic landscapes is highlighted.

- *Second, the key factors leading to changes in the practice of regional economic integration are identified and analysed.* Economic, political, social and technological forces are examined in a multifaceted way to reveal the underlying dynamics underlying the processes and outcomes of regional integration. Thus, the study sheds light on the underlying forces shaping regional integration initiatives and outcomes by delving deeply into some of these factors.
- *Third, the impact of regional economic integration on the participating economies is assessed.* This assessment covers the economic, social and political implications at both regional and national levels, providing a deeper and broader understanding of the benefits and challenges associated with regional economic integration.

The dissertation thus contributes to improving understanding of the complex dynamics that determine regional economic integration processes. The study synthesizes theoretical concepts, empirical data and case studies to offer a **new perspective and a new approach to assess the multilateral nature of regional integration, and to provide a methodological toolkit for its application.** From this improved scholarly understanding of regional economic integration, proposals for refining and extending integration theory emerge, paving the way for future research and policy development in this area.

III. CONTRIBUTIONS OF THE DISSERTATION

1. The *concept of a new type of international specialization* beyond manufacturing - international trade specialization - is put forward and applied to the assessment of patterns and trends in world trade.
2. *Structural changes and sources of uncertainty in contemporary international economic relations* are summarized and analyzed.
3. A *comprehensive analysis of regional economic integration* is developed and recommendations for improving and extending integration theory are made:
 - 3.1. The *impact of structural transformations in the world economy* on the theory and practice of regional integration is assessed.
 - 3.2. A *critical assessment of the applicability and relevance of conventional integration theories* in response to contemporary changes in the world economy is offered.
 - 3.3. The theoretical approaches to economic integration are systematized, and some of *their shortcomings and limitations* are highlighted *in the context of structural changes in the global economy in terms of developing, small and open economies*.
4. A *new theoretical framework* for understanding regional economic integration is proposed:
 - 4.1. An *expanded conceptual typology* is developed to classify different types of trade liberalisation and regional economic integration agreements.
 - 4.2. A *new framework with a three-dimensional approach for the analysis and assessment of integration processes* has been developed, which takes into account the complexity arising from the dynamics and structural transformations in the world economy, *complementing the existing two dimensions (the number of countries and the form of integration) with a third that takes into account the type of countries involved and their place in the new international trade specialisation*.
5. A *new methodological approach for the study and assessment of integration processes* is developed, including a set of specific qualitative and quantitative indicators, analytical, statistical and econometric tools for assessing the type of countries involved in integration processes and their positions in the new trade specialization.

IV. LIST OF PUBLICATIONS RELATED TO THE THESIS

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