

Approaches to Regional Economic Integration

Asia-Europe Compared

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Integration models compared

Europe: gaining from shared regional sovereignty

- Successful in economic terms, especially to reduce the income gap among member countries
- Deep institutional development (despite recent setbacks)
- Single market, monetary union, move towards common foreign policy, close political relations

Asia: growth, adaptability, and flexibility

- “Light” on institutions
- Strong economic logic (market-led integration)
- Open regionalism (globalism and regionalism growing together)
- Based on adaptability and flexibility (flying-geese model of industrial development)

Integration models compared

Functional Dimensions	Europe	Asia
Triggering Factor	World Wars (I and II)	Cold War (external) Asian Financial Crisis of 1997/98 Regionalism in EU and NA
Leadership	Based on the German-Franco alliance at its start Functional role of small states	No single hegemonic power Central role played by ASEAN Increasing role of China
Institutions	Wide and deep	Light on institutions Gradual institutional deepening
Pillars	European Communities Foreign & security policy Justice and home affairs	ASEAN ASEAN+3 East Asian Summit

Integration models compared

Functional Dimensions	Europe	Asia
Modalities	<p>Common Institutions</p> <p>Open method of cooperation</p> <p>intergovernmental cooperation</p>	<p>Intergovernmental cooperation and dialogue</p> <p>no common institutions (only ASEAN secretariat)</p>
Economic Logic	<p>Strong, particularly successful for low-income countries</p> <p>Clear economic benefits for members</p>	<p>Strong and successful for low- and middle-income countries</p> <p>Open Regionalism</p>
Sequencing	<p>Common trade policy</p> <p>Common market (free movement of goods, labour, and services)</p> <p>Monetary Union</p>	<p>Parallel developments:</p> <p>Bilateral and plurilateral FTAs</p> <p>CMI, ABMI, ABF (financial)</p>
Regulatory Approach	<p>De jure (legalistic, rule-based)</p>	<p>De facto (pragmatic, case-by-case)</p>

Integration models compared

Functional Dimensions	Europe	Asia
Sovereignty	From national to shared regional sovereignty Principle of subsidiarity	Shared only in very few cases
Expenditure Programs	Common Agricultural Policy Structural Funds	ASEAN Secretariat: established APEC, ASEM: marginal
Entry rules	Democratic system Market economy Acquis Communautaire	Political decision, case-by-case
Regional Identity	Strong	Weak but latent

Sequencing of integration

Europe: Balassa scheme tailored for the region

- ❖ Free Trade Area
 - ❖ Customs Union
 - ❖ Common Market
 - ❖ Monetary Union
 - ❖ Political Union
- Financial and Monetary Integration followed integration of real markets
 - Late removal of capital controls (end-1980s), after the creation of a single market

Sequencing of integration

Asia: Parallel developments of real and financial integration

- High intra-regional trade and FDI shares
- Proliferation of FTAs
- Financial crisis of 1997/98 acting as a trigger for closer regional cooperation (ASEAN+3)
- Much higher degree of global than regional financial integration
- Facing a world where capital accounts are highly liberalized
- Financial integration depends on speed of internal reforms and capacity to develop regional and global financial centers

Asia-Europe reciprocal lessons

Differences in Asia-Europe approaches

- Intra-regional differences within Asia are more pronounced than within Europe
- Inter-regional differences are focused on institutionalization sequencing of integration
- Learning reciprocal lessons: relax some of Asia and Europe unique features and principles to include those from the other region and adjust to them

Lessons from Europe for Asia

Economic dimension

Good	Bad
Backbone of economic laws and good market governance	Rigidities, especially in the labor market (slow change)
Clear definition of powers among institutions	Subsidies (i.e. CAP) which hinder competition
Regional exchange rate mechanism	Expenditure programs to buy off the opponents of integration
Clear rules for budget proportional contributions	Preferring regionalism to multilateralism when can the latter is possible

Lessons from Europe for Asia

Political dimension

Good	Bad
Strong political commitment and cooperation among key countries	Creating unnecessary “white elephant” institutions
Sharing regional sovereignty (positive-sum game)	Adopting too complex rules and regulations based on equity principles
Creating common institutions and using the open cooperation method	Using entry-rules in an ambiguous manner (i.e. Turkey)
Principle of subsidiarity and small-country (minority) bias	

Lessons from Europe for Asia

Cultural dimension

Good	Bad
Increasing countries' efficiency through competition, peer-pressure	Erecting barriers against immigrant workers
Breaking the exclusive linkage between nation and state	
Increasing consciousness of belonging to different societies	Pretending to be always culturally superior to other regions
Increasing role of media, civil society, cultural organizations	

Lessons from Asia for Europe

- **Transmission of industrial development**
and economic growth from advanced to developing economies (Flying Geese) – This model can be applied to other developing regions such as Africa
- **Market-driven economic dynamism**
and interdependence (open regionalism, focus on productivity and competitiveness)
- **Pragmatism, flexibility, and adaptability**
to changing global and regional economic environment (including labour market flexibility)