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Abstract

This paper compares the economic integration processes of the European Union and the East Asian nations and comments on the possible reciprocal lessons, if any, that can be drawn in order to smooth the future paths of the two groups. On the EU side, institutions, structural policies, and the monetary union are most relevant, and in East Asia, production networks, trade, and financial cooperation. Both entities are presently facing difficult challenges to progress and growth.

Keywords: East Asia, European Union, regional integration, economic cooperation

JEL Classification: F59 and P52

1. Introduction

Over the last two millennia, Asia and Europe have been the cradle of civilizations that shaped the modern ways of life. While Europe's imprint on world affairs has remarkably increased after the geographical discoveries started in the fifteenth century and the period of colonialism that followed until modern times, during the last few decades, East Asia has been growing quickly as if in the expansion phase of a long wave or Kondratieff cycle, while Europe is pausing if not declining. These trends are reflected in many aspects of society, not simply in technology or economics: around the world, books, movies, music, cuisine, and architecture are increasingly “Asian”.

At the same time both regions have been ravaged by wars, their dynamism often channelled into violence and destruction. The same forces that created innovations in many fields were also responsible for death. In Europe, two world wars culled two consecutive generations, the fighting wasting ten years in the first half of the 20th century, while East Asia’s people similarly struggled for many long years. Similarly in Asia, during long years before and after the two world wars, peoples were struggling.

Fortunately, the collective energies present in Asia and Europe are now channeled more constructively—not least into closer regional cooperation that entrenches peace and enhances prosperity. In Europe, common values at last began to prevail, and integration—economic and political—became a reality. The story of the European Union (EU), as it is now named after a few changes, is a mixed one but on balance positive, convincing many to consider it a model of integration to follow or even copy.

On the other hand, Asia is often cited as a miracle for economic development. No other region in the world was able to achieve such an extensive economic growth in such a short period of time. And most of the region's members, especially in East Asia, are integral part of the success story. Today, scholars agree on the idea of 'factory Asia', where production processes of manufacturing goods are fragmented across the region, as large multinational corporations together with local small and medium enterprises take part in an articulated regional division of labour (Ando, 2006; Athukorala and Yamashita, 2005).

A comparison of the European and the Asian approaches to regionalism finds different challenges, and some similar experiences. Regionalism has progressed much further in Europe than in Asia. The devastation wreaked by the two world wars convinced Europeans of the importance of working together to bind their economies and societies within regional structures. They realized that by pooling their sovereignty with their neighbors in certain areas they could achieve more than by acting alone. By drafting common rules, promoting close coordination among national authorities, and developing strong regional institutions that advance economic integration, the EU has generated huge economic gains and sharply narrowed the income gap among member countries. EU governments also cooperate closely in foreign and security policy, as well as in justice and home affairs.

Regionalism in Asia has developed rather differently. Regional integration has been driven more by markets than by governments. Cooperation among national authorities is more recent and less intimate. It remains focused on economic issues (with some social components) and light on formal institutions. For now, it involves no political ambitions, although the Association of Southeast Asian Nations (ASEAN) has an advanced security dialogue with several Asian and non-Asian partners. Asia's pragmatic and flexible approach to regionalism is partly dictated by history. Asian countries—especially those in South and Southeast Asia—are little inclined to compromise their independence by pooling sovereignty with their neighbors, not least because several nation states have only recently emerged from colonialism and need first to build their national identities. Disparities in economic development, social structures, and political systems are also much greater in Asia than Europe.

But let's first clarify what we mean by economic integration and cooperation. Following Balassa (1961), regional economic integration can be defined as a process by which various forms of discrimination between national economies are gradually eliminated. This implies that the price of the same good will be equalized in an economically integrated region, taking into account all economic characteristics, including time and space. And economic integration will be reflected in substantial flows of resources, both factors of production and consumption goods, across the region.

This paper compares Asian regionalism with Europe's. It contrasts their differing approaches to regional cooperation and integration and draws lessons for how they could address common challenges such as the ongoing global crisis. In the following section we offer essential quantitative data from the two economic entities, focusing on integration and homogeneity. In section 3 a more detailed presentation of the evolution of the EU is given, stressing the role of institutions, agricultural, regional, and social policies and the single currency. Section 4 gives a parallel presentation for East Asia, stressing trade, production, financial cooperation and its original concept of regionalism. Section 5 presents the challenges facing the two regions and conclusions.

2. East Asia and the EU Today—Some Data

In the 1950s and 1960s many regional groups were established in Europe, Asia, Latin America, and Africa, and a wave of economic integration began, spurred also by the newly independent states, formerly British or French colonies. Several agreements were signed, usually free trade agreements (FTAs) in what we can consider a symptom of globalization; many collapsed, some survived in a comatose state, one developed quite successfully (the EU), and another is now flourishing after a period of deep quiet and rest (the Association of Southeast Asian Nations [ASEAN]).[1] The latter has been rather informally expanding beyond its geographical borders towards the northeast and west.

[1] The following definition of regional groups is used in this paper: (i) Association of Southeast Asian Nations (ASEAN) includes Brunei Darussalam, Cambodia, Lao People's Democratic Republic, Indonesia, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam; (ii) ASEAN+3 includes ASEAN countries plus People's Republic of China; Japan, and Republic of Korea; (iii) East Asia Summit (EAS) includes ASEAN+3 countries plus Australia, India, and New Zealand; (iv) European Union-15 (EU-15) includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom; (v) European Union-27 (EU-27) includes EU-15 members plus Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia,

Until recent decades, the EU's relations with East Asia were quite limited. East Asia was more distant and politically vulnerable than Africa or Latin America; the political and economic presence of the United States (US) was overwhelming and the individual European countries could not muster the resources needed to play a role. In addition, rapid Japanese economic growth since the 1960s had eroded the market shares of its competitors in most areas and sectors. By the 1980s the two groupings had begun a rapprochement, under the ongoing Asia-Europe Meeting (ASEM) now the most important and wide-ranging of its processes. ASEM's origin appears more tactical than strategic, however. The demise of the Soviet Union had left the US the only world power and Asia and Europe wished to find an alternative to (though perhaps not against) the US.

The results are rather limited: trade and foreign direct investment (FDI) have increased only because of the growth of PRC exports to the 27 EU member countries, while there has been greater success in cultural and humanitarian exchanges and projects. This may be due to an absence of a single political institution on both sides. But given long-lasting relations between the two regions it is not unreasonable to expect deeper cooperation.

Before comparing the integration processes in East Asia and Europe we present a few tables showing some basic data about the two groupings. Table 1 shows the degree of heterogeneity of Europe and East Asia as far as population, total GDP, and GDP per-capita are concerned (2007). Although the EU (especially when all 27 members are included) is quite a diversified group of countries, the degree of heterogeneity increases dramatically for East Asia. Using World Bank figures of per-capita GDP values calculated at purchasing power parity in 2007, the ratios show that the gap among ASEAN+3 members is 5-6 times higher than that among EU countries.

Table 2 shows the intraregional trade intensities (in bold) in the EU and East Asia in 2007. One can easily notice that the EU is more integrated than ASEAN+3, and that it has been so for many years, particularly if we consider the EU-27 and not simply the EU-15. At the same time, Table 3 shows that ASEAN countries have a stronger bias to trade among themselves in comparison with the EU. Tables 4 and 5 prove that intraregional FDI is much higher in the EU than in East Asia. This might point out to a much deeper economic integration of the European economies because of the long-term commitment that is usually linked to FDI-related activities.

Other comparisons between the degrees of economic integration in Asia and Europe are shown in the Asian Development Bank study mentioned above (ADB, 2008). The study suggests that some forms of economic interdependence—especially intraregional trade and production networks—are stronger in East Asia today than they were in the EU in the early stages of European regionalism in the 1960s and 1970s. It also shows that the 1997/98 Asian financial crisis helped trigger regional economic cooperation and

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Lithuania, Malta, Poland, Romania, Slovak Republic, and Slovenia; and (vi) Asia-Europe Meeting includes EU-27, ASEAN+3, plus India, Mongolia, Pakistan, the European Commission, and the ASEAN Secretariat.

integration. Since then, all indicators of economic regionalism in Asia, from trade to finance, have risen rapidly compared with the pre-crisis period.

In particular, while Asia's financial integration it typically very low compared with the EU's, during the last decade it has increased rapidly as Asian financial markets have started to become more liquid and deep, and the share of bank claims on total financial intermediation has declined when compared with that of equities markets and bond markets. And as Asia's economic integration in both trade and finance increases, a striking feature of the region is that this trend occurs with a parallel increase in Asia's integration with the rest of the world (ADB, 2008).[2]

3. How Did EU Economic Integration Evolve?

Because of its success, the EU integration model has been used in the recent years as an example to be imitated if not simply copied: certainly the European experience has been positive for most of its member states and citizens. It is useful to recall a few of its features in order to better evaluate its positive and negative aspects (Plummer 2006, Wyplosz 2006).

Over the centuries, Europe was a land of trade and wars. But as World War II ended—and the Iron Curtain cut Europe in two leaving Western Europe feeling insecure and threatened—there was a strong and deep desire for peace. Within this context, the creation in 1951 of the six-nation[3] European Coal and Steel Community—putting two then strategic commodities under a common authority—marked a substantial shift away from nationalism toward regionalism. Indeed, the vision for integration at that time was even bolder, with the formation in 1952 of the European Defence Community (EDC) aiming to combine the armed forces of the same six countries; but the EDC collapsed because France did not ratify it.

These original attempts to integrate Europe were political, but with relevant economic content: one could say the Common Market was a second-best solution. The Treaty of Rome (1957) left open the possibility of moving forward to a political union, even if there was no explicit reference to it. It is useful to compare the evolution of the EU to the European Free Trade Area (EFTA), which progressively decreased in membership. Its appeal as a simple free trade area was limited, and it is now almost an appendix to the EU.

3.1 EU Governance and Institutions

The success of economic integration is due also to the creation of EU institutions (Berkofsky 2005). One must remember, nonetheless, that the Treaty of Lisbon, signed in

2 Using a correlation analysis of quarterly GDP figures, the ADB study (ADB, 2008) also documents a dramatic increased in Asia's macroeconomic interdependence in the last decade which occurs simultaneously with closer interdependence between Asia and the rest of the world, especially Europe and the United States.

3 Belgium, France, Italy, Luxembourg, Netherlands, West Germany.

December 2007, as of March 2009 had only been ratified by 25 member states, with the Czech Republic in the process of ratification, and Ireland rejecting it in a referendum. It is not yet clear which solution will be adopted in order to avoid anther failure and costly delay.

Indeed, there is no unique political vision of Europe: a nation-state Europe (proposed mainly by France), a loose network of economic agreements only (United Kingdom), and a federalist vision, with different nuances of the centralization versus decentralization debate (that is, larger or smaller powers given to local or regional governments).

The result, as changed over time by new treaties, has been similar to the creation of a "benevolent dictator", in which the powers to legislate are mainly in the hands of heads of state or government. The EU Council and the Commission propose, legislate, and execute: the former mainly legislates, while the latter also has some exclusive competencies, in particular in trade and competition policies. The Commission is independent of the national governments and its commissioners, the highest officials, do not represent their governments even if they are chosen by them. The European Parliament, meanwhile, is gaining more powers (in particular under the not-yet-ratified Treaty of Lisbon and, last but not least, there is the Court of Justice.

This set-up is in continuous need of adjustment as the EU slowly moves toward a solution that has increasingly federalist and democratic characteristics, with a proper Parliament and a less powerful Council. In addition, there is the problem of accountability, even if some people deem this a non-issue because national governments are democratically elected. The Commission and the other EU institutions are often perceived as a distant and sometimes oppressive bureaucracy, because of the many regulations they have introduced in the system. That said, most of the regulations are due not to the Commission, but to decisions of the Council and Parliament. And it should also be noted that national governments or groups often use Brussels as a scapegoat for their own mistakes.

More recently, a new byword has been introduced into the *Euro-jargon*: "subsidiarity", or the principle by which political and administrative matters ought to be handled by the smallest or lowest competent authority Curiously, this word is not even listed in some English dictionaries, yet, as a principle, it is a pillar of Catholic social teaching.

The EU's original institutions are now in need of deep revision because of the evolving internal and external political and economic environment, and the EU enlargement. If there is continuity in this evolution it might be moving away from a group of nations towards a federal entity, or from the unanimity rule in all matters towards a majority rule in most, if not all, votes. "Unity in diversity" has become a EU motto, although too often diversity is quite unmistakable while unity is quite difficult to be found. This weakens EU bargaining power. The synergies between foreign trade and foreign policy are clear: this is a simple example of the need to widen the competences and activities of the EU. Of course, big formal institutional changes are not strictly necessary; widening the competencies and modifying the voting procedures would be enough in most cases, although some states that have not yet forgotten their imperial pasts tend to resist these procedural changes.

A second point relates to the division of powers that ought to be normalized (at least in the Western tradition) with an elected parliament having the power to legislate. The present set-up is reputedly undemocratic and distant from the people: the turnout in EU parliamentary elections is generally lower than in national elections

Lastly, the power of the EU bureaucracy has to be checked and controlled. Presently, it is perceived by the majority of EU citizens as invasive, inefficient, too focused on details, and wishing to regulate every aspect of people's lives. Some of these criticisms are due to ignorance or are fuelled by national governments and political parties eager to shift blame for their own mistakes. These three trends are presently moving together at different speeds. An organic and comprehensive solution is presented in the Treaty of Lisbon.

3.2 Progressing from the Common Market

Another relevant feature of the EU is its steady and almost textbook progression from the initial agreement: from a common market to a single market, to a monetary union, to a set of better coordinated fiscal policies—and waiting for the last step, full economic union. This process has progressed alongside successive enlargements, bringing the original 6 states to 27, more than trebling its area, more than doubling its population, and almost doubling its GDP (2007 figures). It has been both a deepening and a widening of the integration process.

Over the years, the EU has become more and more diversified. The new members were in general poorer and less open and industrialized than the incumbent ones. The structural policies, or actions, have been strategic in making the increasing integration quite smooth and successful.

Indeed, the EU process has followed orthodox economic theory. Two slightly different kinds of integration might be conceived of: world and regional. In one case, the sequence ought to be goods first and financial capital later, beginning with domestic liberalization and continuing with international integration (McKinnon 1979). In the other case, the sequencing of integration encompasses a free trade area, a customs union, a common market, and an economic union. The EU integration respected both views because it was not only a regional but, at the same time, a global process. But the increasing relevance of non-tariff barriers (over tariffs) and of services (over goods) has made the sequencing more complex.

3.3 The Common Agricultural Policy

The Common Agricultural Police (CAP) is the most important heading on the expenditure side of the EU budget (even if the most recent way of presenting the items is somehow hiding it) and the most criticized EU policy. The reasons for its original set-up and shape were sensible and reasonable enough—self-sufficiency in food and fair income to farmers, among others. In addition it helped bring about a smooth transition from mainly agricultural economies to industrial ones, an important and positive result too often overlooked by many scholars; to a certain extent it has been a way to internalize serious social externalities due to the structural changes the European economies were undergoing. But over the years the CAP has been taken hostage by a few small, yet powerful national lobbies, while EU consumers and other countries' producers are hurt.

The negative results of CAP include overproduction of many goods, corruption, potentially inefficient measures—paying both to cull old cows and for new calves or to cut old olive trees and plant new ones—and of course high food prices. Some new members in 2004 and 2007 were attracted by these funds, but the EU put rather low ceilings on them in order to avoid a big increase in the budget.

Under CAP, the price support mechanism at first looked more efficient than direct income support because the administrative costs were smaller; in the 1950s there were several million farmers in the EU and not all products fell under the policy. But with some hindsight, direct income support might have been better, channelling the money through farmers groups or cooperatives, and not directly to each individual. In addition, some strict link between supply and demand ought to have been designed in order to limit or avoid overproduction.

The CAP is now moving away from its original scheme towards direct income support, but very slowly. Two new principles have been introduced: decoupling—linking funds to the production unit not to the quantity produced; and cross-compliance—linking subsidies to environmental, food safety, and animal welfare standards. The environmental element is now becoming quite important in agricultural measures, but could be used to go on spending money inefficiently: a new way to justify old bad habits, if proper evaluations are not carried out.

3.4 EU Regional Policies

Regional social and structural policies and the Lisbon Agenda find their deep motivations in the European social vision of sustainable growth from distributional and environmental points of view. Generally speaking, Europeans share common values regarding the central role of the person as an individual living in a local and national community. Personal (human, civil, political) rights are very important, but interlinked with social responsibilities (Various Authors, 2008).

Growing differences in income per head as new states became EU members gave origin to the structural or regional and social funds (to which one has to add part of the CAP expenditures). Motivations were political and economic. Politically, old members tried to "bribe" opposition groups in candidate countries and to cushion the costs of the membership. New countries had to accept the body of obligations (and of rights) already shaped in the EU—the *acquis communautaire*—and to undergo relevant changes. In addition, there was a component of solidarity derived from common EU culture creating a moral duty to share resources equitably among all citizens. Of course there is also an economic incentive to this: big income inequalities have costs too because they generate tensions, inefficiency, and even criminal activity.

The main economic argument was the need to avoid concentrating economic production in a few regions as this creates high congestion costs. It is well known that in the US more than 70% of firms not tied to natural resources (for example, mines) or to customers (for example, restaurants) are located in the Boston-Washington-Chicago triangle of the Northeast and California. The EU has apparently successfully avoided this, with very few industries showing appreciable concentration, although the explanation might depend much more on languages, habits, or regulations.

The experts do not agree on the actual results of these policies and quantitative estimates apparently depend on the number of “regions” taken into consideration. If they are few (that is, big regional entities) there is evidence of convergence; if they are many there is no conclusive result.

In principle one ought to examine this (and many other) issues separating three different problems: theoretical justifications for the policy, rightness in choosing the tools, and correctness in using them. The main criticisms are perhaps directed toward the last point. Sometimes the regions to which funds are allocated are chosen because of political reasons after long and not quite open bargaining, and the actual spending is inefficient and corrupt. At the same time, the need to present clear projects and detailed accounting statements has helped local administration significantly in improving methods and function. An independent cost-benefit analysis of the projects, decentralization, and co-financing by local authorities are ways to make these policies more effective and efficient.

3.5 The Lisbon Agenda or “Growth and Jobs”

After the oil price shocks of the 1970s it became evident that EU economic growth was lagging the US—not to mention Japan, the newly industrialized economies and, later, the People’s Republic of China (PRC). In response, in March 2000, the EU Council launched the Lisbon Agenda or Strategy with an ambitious aim: in ten years to become the most competitive economy in the world. There were two apparent stumbling blocks: rigidities in most sectors and markets (notwithstanding the Single Market) and the inefficient use of information and communications technology. It was well known that these deep and epochal innovations needed time and substantial diffusion before bearing fruit. But time and investment appeared long and sufficient. Targets were fixed and each year every member state produced reports full of figures.

By 2005, however, progress was quite modest and the Lisbon Agenda was simplified (and *de facto* given another name). Only two targets were stressed: to spend at least 3% of GDP on research and development, and to reach an employment rate (men and women) of 70% by 2010. The implementation of the Agenda was simplified too and, trying to maximize synergies, delegated mainly to national governments. In addition there is now a stronger link with structural funds or policies in order to avoid duplication, or worse, policy conflicts. Diversity is respected and the common future is stressed. Of course the role of macroeconomic policies is paramount in reaching the employment target (and we know that monetary policy is exogenous). In this closing second half of the decade most of the previous bureaucratic features have been corrected and responsibility is in the hands of the countries, not Brussels.

Meanwhile, the role of universities and higher research centers is quite relevant: there is a strong push towards coordination and harmonization of curricula, enhancing quality through competition. A few programs—Erasmus is the best known—are helping students (and professors, lecturers, and teachers) to attend and sit for exams at foreign universities.

3.6 Enlargement

Many new members have joined the European club and, up to the last two—Bulgaria and Romania—this seemed quite normal and almost no debate was raised. To north, south and west, nature had given Europe well defined boundaries in the form of the Mediterranean Sea and the Atlantic Ocean. But to the East the issue is not clear: are the Urals the boundary? Should the Russian Federation be excluded? And what about the Ukraine and Belarus? Maybe Europe is only an appendix of Asia.

When Turkey applied for membership many asked: “What does it mean to be European? Is Turkey part of Europe?” The issue was whether the EU could accept any country and enlarge without limits or whether there were peculiar or specific requirements. It is generally agreed that the North African countries are not part of Europe and that Russia might be a partner, but not a member even if it is a European state. Of course the few European countries that are not yet members may apply if they wish—Albania, Iceland, Norway, and Switzerland, and the remaining former-Yugoslavian states. But the response toward the Ukraine and Belarus is not yet unanimous. This failure so far to define the essence of Europe is at the bottom of the EU’s stop-and-go policy towards Turkish admission. Many are against it but do not wish to say explicitly “Turkey is not Europe” and are using other arguments as a pretext.

3.7 Monetary Union

The euro has certainly been one of the EU’s biggest successes. At its birth it was criticized and a few experts and scholars said that it would have been a case of under-5 mortality. Presently (March 2009) the 10-year old child is healthy if not too strong and adopted by 16 member states, with more to follow, and increasingly used as an alternative to the US dollar.

Preparation of the euro goes back a long way to the Werner Report in October 1970, when the European Economic Community still had only the six founding members. Its proposals were far-sighted, with much of economic and monetary union present in those pages. It called for implementation of full capital liberalization, fixed parities, and a single currency in ten years...by 1980! In addition economic policies and national budgets had to be coordinated between them and with monetary policy.

One has to remember that the working of the CAP was made much more cumbersome by the re- or de-valuations that were common before the euro. In March 1972 the “snake in the tunnel” was created as the first stage towards a full European Monetary Union (EMU) in order to narrow currency fluctuation margins, although the oil shocks of 1973 put everything off. By the end of the decade, however, the same problems and demands had resurfaced and, in March 1979, the European Monetary System (EMS) was established. Exchange rates within the EMS were fixed within narrow bands around the European Currency Unit or ECU (écu meaning “shield” in French), and the ECU was allowed to fluctuate against the other currencies. Parities within the EMS could be varied (and actually were many times), and responsibility to stay within the bands was on both parties, not only on the weak currency.

In the end, the EMS was pegged to the Deutsche mark, the strongest currency in the group. It underwent a severe crisis in September 1992 when the French Franc, the British Pound, and the Italian Lira devalued massively (and the Bundesbank did not intervene). But its results were positive because it helped to control and reduce inflation.

A second report—the Delor report of April 1989 named after Jacques Delors, the then-president of the European Commission (EC)—marked the beginning of the EMU. Three stages were set and convergence criteria, in order to join the euro, were fixed immediately. In May 1998, the Council decided that 11 countries had fulfilled the conditions and could adopt the euro. The European Central Bank (ECB) was a novel institution without past and so without reputation. Reputation, transparency, and ability to communicate were its main challenges, and in building them it was helped by the special operational set-up: because the national central banks could not be abolished, nor even merged into the new one, decisions are taken centrally while implementation is decentralized.

The main fault found with the ECB is its rigidity in fighting inflation and its neglect of economic growth, a position derived directly from the philosophy of the German Bundesbank. While this criticism might be warranted, the primary objective of this position is to maintain price stability: this is written clearly in all the relevant documents, treaties, and statutes. One can say that imported inflation ought not to be taken into account in fixing monetary policy, but this is secondary.

Lack of transparency is also sometimes blamed, as it was recently in relation to the fixing of interest rates. But it is possible that demands for the naming of dissenting Governing Council's members are instrumental in undermining ECB independence. ECB communication skills are also often judged a bit poor, although they have certainly improved since the central bank’s inception.

The issue at the heart of these debates and criticism is ECB independence, which a few national governments think excessive.

A specific fact: public opinion in a few countries saw the introduction of the new euro notes and coins as inflationary and ECB inflation figures as incorrect. It is true that there is often a one-time jump in inflation when new currencies or notes are introduced. But, in this case, perceptions were simply exaggerated and, at any rate, the ECB or the euro were not to blame: it was national authorities who were responsible for monitoring for any misbehaviour in the changeover to the new notes and coins.

Having a single monetary policy and different national fiscal policies (even if within clear limits outlined in the Stability and Growth Pact) poses many problems that can be solved only by deeper coordination of the latter policies. The success of the Euro is a clear indication of the need to proceed both towards political union and fiscal decentralization. On the one hand the EU budget ought to enlarge its scope and size, on the other Brussels and national governments ought to give regions greater taxation powers and spending responsibilities.

4. East Asian Integration: Achievements and Perspectives

4.1 Intraregional Production Networks

In East Asia, regionalism is the outcome of free market forces bringing closer economic interaction and interdependence. Economic cooperation among national authorities across the region has traditionally played a relatively less important role. However, as markets took the lead, government initiatives followed to reap the benefits of regional collective action and compensate for market failures. To be sure, while the adoption of national economic policies has been a key factor in support of individual countries' development strategies (World Bank 1993, Asian Development Bank 2008), regional priorities started to emerge only recently, especially after Asia was hard hit by the financial crisis of 1997/98, The crisis induced the region to respond collectively. This fundamental characteristic of Asian regionalism—driven by market integration and only lately supported by intergovernmental policy cooperation (Urata 2004)—not only constitutes a major difference with Europe, it also deeply affects the nature, sequencing, and timing of the regionalization process itself.

From the 1950s through the 1970s, intraregional interdependence among Asian economies was relatively low as their export strategies focused on developed markets in the US and Europe, rather than producing for other markets in the region. Developing East Asian economies were still backward in many respects and their main comparative advantages, cheap and abundant labor, induced them to specialize in the production of labor-intensive and unsophisticated products. As such, relationships among developing East Asian economies were mostly of a competitive nature. During the last two decades, however, East Asian economies have started to strengthen their interdependence, especially through the establishment of production networks linking countries across the region.

The growth of industries such as electronics and automotive (and several others), which require a large number of parts and components in their final products, prompted the creation of regional production networks because intermediate and final products can efficiently be produced in different locations according to the presence of competitive advantages (Athukorala and Yamashita 2005; Ando 2006). In fact, the export expansion and trade liberalization strategy followed by East Asian economies, together with the introduction of new investment laws and various schemes to attract foreign direct investment, induced multinational firms to fragment production throughout the region, generating a conspicuous volume of intraregional trade in parts, components, and related services. Today, the share of intraregional trade in ASEAN+3 is close to 50% of the total (see Table 3) and has been increasing steadily during the last few decades.

Labor has also started to become more mobile within the region, as various technical skills are required in production sites and several countries have adopted migration policies more responsive to development needs (Chia 2006). In addition, a mix of corporate and government strategies have promoted technology upgrades and diffusion, helping start a process of progressive technological graduation from learning and imitation to innovation (Hu 2008).

As explained by the *flying-geese* model, industrial development in East Asia is being transmitted from more to less advanced countries by means of foreign direct investment and intraregional trade, allowing developing countries to upgrade their production capacity from less to more technologically sophisticated industries (Akamatsu 1961; Yamazawa 1990). For example, what Japanese electronic firms are keeping today in Japan is almost uniquely the production of highly sophisticated electronic parts and components, as they have transferred out to other Asian countries their final products' assembly operations as well as the production of intermediate and low-tech inputs. Japan's trade with Asia of electronics (mostly exports of parts and components and imports of final goods) has increased as a result. Asia's newly industrialized economies (Hong Kong, China; the Republic of Korea, Singapore, and Taipei,China); Association of South East Asian Nations (ASEAN)-4 countries (Indonesia, Malaysia, Philippines, and Thailand); the People's Republic of China; and Viet Nam, Cambodia, and the Lao People's Democratic Republic are following, in sequence, a similar path.

4.2 Trade Policy Cooperation

While market integration has proceeded quickly, until recently, Asian governments have not been particularly active in promoting regional cooperation initiatives in the area of trade and investment because they made substantial progress through unilateral liberalization efforts or through multilateral negotiations under the General Agreement on Trade and Tariff (GATT)/World Trade Organization (WTO) framework. The only notable exception is the ASEAN Free Trade Area (AFTA), started in 1992. As the Japanese *keiretsu* and overseas Chinese were among the main market forces bringing production networks together across Asia, very little institutional set-up was needed due to the close coordination between business and bureaucracy, especially in Japan. In addition, the successful conclusion of the Kennedy, Tokyo, and Uruguay Rounds of GATT was a boost to facilitate trade and increase integration at the global level, with no need for additional regional arrangements.

During the last few years, however, Asian governments have embraced a substantial shift away from the unilateral and multilateral liberalization approach in favor of bilateral and plurilateral free trade and investment agreements. While this follows a general trend around the world prompted by the inability to conclude the Doha Round of WTO successfully, the number of FTAs that Asian countries have either concluded or are negotiating has skyrocketed to close to 100, with more than 40 proposals for new agreements (Capannelli, Lee, and Petri 2008). The intra-Asian share of these FTAs is approximately only 25 percent of the total, to signify how the nature of the Asian trade policy cooperation has a much more global then regional inclination. There are, however, several proposals to consolidate existing bilateral and plurilateral FTAs among East Asian economies into a single East Asian FTA (Kawai and Wignaraja 2008), although it is indeed difficult to see any real development in such direction, unless backed by the creation of a regional group with a proper secretariat, as in the case of ASEAN.

4.3 Regional Financial Integration and Cooperation

The progress of financial market integration and policy cooperation in East Asia is following a somewhat opposite path than that of trade and foreign direct investment: the integration of financial markets among East Asian countries is still low, while regional cooperation is quite advanced. Price and quantity indicators show that East Asian financial markets are very closely integrated with the rest of the world, particularly with the US and Europe, while the extent of intraregional financial integration remains shallow (Asian Development Bank 2008). Because financial markets in East Asia are still less efficient, deep, and liquid than those in the US and Europe, large amounts of Asian savings are not invested in the region but in US and Europe. Japanese investors, in particular, tend to seek more profitable opportunities in non-Asian markets, which typically offer higher risk-adjusted returns than Asian assets (Lee 2008; Shin and Sohn 2006).

The relative inefficiency and underdevelopment of Asian financial markets can be partially explained by the traditional dominance of the banking sector in financial intermediation over bond and equity markets, the quantity and quality of available information, as well as the lack of technical infrastructure and sophisticated investment vehicles. Since the 1997/98 financial crisis, however, Asian countries have introduced deep structural reform of their financial systems, strengthening their stability, efficiency, and improving their regulatory frameworks. Capital market infrastructure is being developed, the number and sophistication of market operators has been increasing, and the share of intraregional financial flows, although relatively low compared to global flows, has started to grow (Asia Development Bank 2008).

The 1997/98 crisis triggered major initiatives for regional cooperation as Asian countries realized the importance of collective action as a safeguard against the recurrence of financial turmoil and also as a platform to promote regional economic development. In response to the crisis, the finance ministries of the ASEAN+3 countries began meeting regularly and, as part of a more comprehensive framework of regional programs, created an economic review and policy dialogue to monitor regional macroeconomic and financial trends, established the Chiang Mai Initiative (CMI) to provide support to countries in temporary need of liquidity through bilateral swap agreements of their international reserves' holdings, and set up an Asian Bond Markets Initiative (ABMI) to help recycle Asian savings into Asian investment by fostering the development of local bond markets. Other initiatives, such as the creation of an Asian Bond Fund, were taken by regional central banks through the Executives Meeting of the East Asia-Pacific Central Banks (EMEAP).

4.4 Asian Institutional Framework for Regional Cooperation

The architecture for economic and financial cooperation in East Asia has an articulated structure including forums dealing with a wide range of issues. The geographical coverage spans subregional groups (such as the Indonesia-Malaysia-Thailand Growth

Triangle, the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area, or the Greater Mekong Subregion), to regional entities such as ASEAN, ASEAN+3, or the East Asia Summit (EAS), to transregional forums such as the Asia-Pacific Economic Cooperation and the Asia-Europe Meeting. The areas of focus and major initiatives of these groups vary substantially, covering cultural and political issues, development of human resources and infrastructure, business facilitation, macroeconomic and financial cooperation, promotion of industrial sectors, environmental protection, and student exchange.

As economic interdependence grows and Asian governments realize the benefits of regional collective action, the case for wider and deeper regional cooperation becomes stronger. But because East Asian integration is increasing alongside closer integration at the global level, emerging economic cooperation among East Asian countries is also designed to address global issues, which are of the utmost importance for maintaining regional economic growth and prosperity.

Among existing regional institutions, ASEAN is surely the most advanced and interesting case, the only one with a proper Secretariat empowered with professional staff and also with a legal status, after the adoption of the ASEAN Charter in 2007. Indeed, ASEAN is first real attempt to overcome national boundaries; an external threat was one of the reasons to set up this association and, at least from this point of view, it has been quite successful (even if because of external factors, not always related to policies adopted by ASEAN itself). Started in 1967 with five countries, successive and smooth enlargements have expanded the group to its ten members, of which Myanmar is the only one creating concerns, not only with external partners, but also internally, due to its poor standards of democracy and human rights.

Although ASEAN economies are by several measures more integrated with external economies than among themselves, economic interdependence has increased in recent years, especially since the establishment of AFTA. Almost all countries have brought down intra-regional tariffs into the 0–5% range, and with solutions found to the usual problems–rules of origin, lists of sensitive and excluded products, non-tariff barriers, customs cooperation and so on. The 2003 declaration on the creation of an ASEAN Economic Community (AEC) was another major development. Comprising not only economic, but also political, and security cooperation, it is scheduled to be in place by 2015. The AEC, among other objectives, aims to achieve a free flow of goods, services and capital, to create a single market, a single production base, and to reduce the income gap among ASEAN members. Although intentions are good and the progress achieved so far seems quite promising, it remains to be seen whether member countries will be able to fulfil their commitments, especially when certain areas of national sovereignty are to be ceded in favour of shared regional sovereignty. For example, ASEAN will expand the powers of the Secretariat in order to set standards and regulations which need to be reflected internally in national systems.

ASEAN's momentum is indeed positive: the Secretariat is expanding its functions, number of staff, and gaining new support from external agencies. Observers are also increasingly convinced of the pivotal role ASEAN can play in Asia's economic architecture and the process of regionalism. In particular, it provides an important balancing force between the large economies of Japan and the PRC, and can take on an increasing leadership role in the region because it is not regarded as a threat. But several important problems remain, notably with some of the old principles that govern the institution, such as equal contributions, unanimity of decisions, and non-interference in other members' internal affairs. In particular, the idea that each member contributes to the budget of the Secretariat an equal amount (currently less than $1.0 million per member annually) enormously limits the possibility to realize regional projects and creates a considerable dependence on external sources of funds, which do not usually come without strings.

ASEAN+3 is another of the important institutions to emerge in East Asia after the financial crisis of 1997/98. So far, however, progress under ASEAN+3 has not been as visible as ASEAN, if not for the number and frequency of its meetings. But obviously the path towards the creation of effective regional institutions and a proper cooperation mechanism requires time. Although the real commitments and agreements of the ASEAN+3 countries are still very limited, providing a regular forum for discussions and privileged channel for consultation among key players—who might otherwise compete over important regional and global issues—can already be considered an achievement.

But this is probably not enough. Asia needs stronger institutions for regional cooperation, with a clear mandate from national governments. Asia's reaction to the global financial turmoil that erupted in the late part of 2008 as a consequence of the US subprime crisis is a good case study. At the time of writing, discussions were still ongoing and a new course of action expected, Asian countries had yet to elaborate a collective regional response to weather the crisis and send markets a clear message. Existing mechanisms for regional cooperation need a bigger dose of leadership from national governments to be activated, but during periods of financial turmoil it may be difficult for individual countries to assume a leadership role or to follow other countries' initiatives. What East Asia requires most is further enhancement of institutional capabilities for regional cooperation in order to promote macroeconomic and financial stability and avoid the recurrence of the negative impact of a crisis like that of 1997/98, which saw poverty rates explode across the region. ASEAN alone may not be equipped enough for this task. The active and structural participation of larger regional economies such as the "plus three" countries (the PRC, Korea, and Japan)—and possibly India—is also needed.

4.5 Nature of Asian Economic Regionalism

Being "institution-lite" is a major characteristic of Asian regionalism (Asian Development Bank 2008): although Asia may need to enhance its institutional capabilities for regional cooperation, it is very difficult to imagine that it will develop any form of institution or regional mechanism like those existing in Europe today. Many Asian countries are still young and as such need to strengthen their national identities before they can effectively contribute to developing a regional community whose agenda could in certain areas prevail over national prerogatives. But Asia may also voluntarily choose not to develop heavy regional institutions to avoid fat bureaucracies and to remain focused on economic integration driven by market forces more than government policies.

The search for consensus is another distinctive trait of Asian regionalism, one that may derive somewhat from Confucian values. This may be an easy way for some Western analysts to avoid explaining what may appear as irrational behavior, but the paramount Confucian objective of keeping harmony has shaped institutions and habits, while centuries of common history and culture have left their mark. Some of these values are common to the European societies. Respecting the elderly and authority, relying on enlarged family groups, and the absence of real separation between different kinds of authority (civil and religious), were common features in Europe too, many years ago. Killing an evil-minded prince was right both in medieval Christian Europe and in traditionally Buddhist China. Confucian values have also been apparently well-suited to developmental states reinforcing and making public policies more effective. Nowadays this issue is sometimes used instrumentally to fend off pressure to become more democratic and to respect human rights. The consensus and non-interference principles have similar effects as the unanimity rule in the EU decision making process.

Asia's approach to regional integration and cooperation is also pragmatic and flexible, mostly relating to the region's economic and political realities, and the considerable difference among Asian economies in income levels, institutions, and political stability. Pragmatism and flexibility shape the idea of "variable geometry", according to which different members may adapt their speed and depth of integration and cooperation based on their capabilities and readiness to be part of a regional scheme. For example, ASEAN has adopted in several cases the concept of "*ASEAN-x*" to allow some members to join cooperation initiatives only when they are internally ready, but without preventing others to move faster toward closer cooperation. And related to the economic and geographical diversity of Asian countries is also Asian regionalism's bottom-up approach, whereby subregional markets and subregional cooperation form the building blocks of a broader and more integrated regional economic architecture.

5. European and East Asian Approaches Compared

5.1 Europe versus Asia

We can now attempt to compare the European and the East Asian approach to regionalism based on the observations included in the previous sections. In general, the European model can be considered a very successful example of regional integration and cooperation, one that sharply reduced the income gap among member countries. After the destruction and hardship caused by two world wars, Europeans realized the importance of sharing and working together with regional neighbors to build more integrated economies and societies; they understood that sharing sovereignty with regional partners in certain areas could generate much higher benefits than acting as a sum of individual policies. The European model, based on a legalistic approach to regional cooperation and encompassing the development of wide and deep regional institutions, was able to generate substantial economic gains through the creation of a single market, a monetary union, and by close coordination among national authorities in several economic, political, and social issues (including the creation of the Parliament and the Court of Justice).

The East Asian model takes a much more pragmatic, bottom-up, and flexible approach. It is based on the transmission of industrial development from more- to less-developed countries in the region and an open approach to non-regional members, pursuing a simultaneous deepening of regional as well as global interdependence. The 1997/98 financial crisis—combined with the failure of multilateralism, in particular the Doha Round of WTO, and the perceived progress of regionalism elsewhere in the world—helped spur regional cooperation in Asia. Based on the effort by regional authorities to sustain economic integration brought in by market forces through cooperation initiatives, regionalism in Asia is a much less ambitious process than in Europe, involving only a few, lean institutions, with limited power and mandate from national authorities to manage external shocks and regional spillover and to provide effective regional public goods.

The *Balassa* scheme provides a good summary of the major steps followed in creating the EU: a free trade area, a customs union, a single market, and a common currency. Eventually, a political union may follow. After creating a common trade policy, European countries introduced free movement of goods, labor and services, then progressively liberalized their capital accounts and started close coordination of monetary and exchange rate policies before introducing the euro in 1999. In Europe, the integration of trade and production occurred before and as a precondition of that of financial markets and monetary policies. Today the EU counts on an extensive institutional structure, a large bureaucracy, and close intergovernmental cooperation in foreign and security policy, as well as in justice and home affairs.

In contrast, the sequencing of cooperation in Asia is based more on parallel than consecutive developments in the trade and monetary areas. While regional trade policy cooperation has gained momentum during the last 5–6 years, cooperation in money and finance could not wait for the creation of a regional free trade area or a single market; the 1997/98 financial crisis created a need for closer macroeconomic and financial cooperation more than a decade ago, while East Asian economies are now facing a world where capital accounts are already highly liberalized.

Finally, another significant difference between the EU and East Asian models of regionalism regards rules for entering regional groupings. While entry rules in the EU are quite clear (democracy, market economy, and the complete acceptance in national systems of the EU body of rules and regulations) and largely objective—with the notable exception of Turkey—in East Asia it is difficult to identify an unambiguous set of rules governing the issue of membership. The standard approach is for case-by-case decisions taken ad-hoc by political leaders. The ASEAN enlargement process and the creation of groups such as ASEAN+3 or the East Asia Summit fall into this category, creating a sense of unpredictability over the evolution of the Asian economic architecture.

5.2 The Challenges Ahead

The most important challenge facing the EU is political rather than economic: how to deepen integration and progress towards some form of federal state. The collapse of the 2004 constitution has strengthened the will to solve this problem and the first reactions to Ireland's rejection in a referendum of the 2007 Treaty of Lisbon were quite different to a similar “No” in 2005. This time, most people are looking for a way out that implies a two-speed EU, even if this means leaving some member states behind. To be sure, the failure to achieve substantial coordination in foreign and security policies and a unique voice in international affairs has also hurt economics.

A second relevant challenge is the reform of the EU social model. While there is no clear relationship between social spending and GDP growth rates, labour markets in the EU are generally quite rigid and the outcomes of public spending are often not worth the money used. If one takes into account that environmentally sustainable growth has additional costs, it is quite evident that the EU must become much more competitive.

A few problems need solutions. First of all the harmonization of national fiscal policies: it is clear that the Stability and Growth Pact (SGP) conditions are not sufficient, while the EU budget is too small. Given the single monetary policy run by the ECB, fiscal policies too must be strictly coordinated: most national governments are too keen to blame their own mistakes on Brussels and to ask for exemptions from the SGP constraints.

Widening the Brussels competencies and budget, while cutting agricultural expenditures, is another issue. Presently, the EU budget is too small and most of it is spent on agriculture or regional and social funds. All countries are always looking at the “net balances”, that is, how much they get and how much they pay, although the idea itself of building a stronger EU is a sort of public good that ought to be taken into account.

Convergence between European sub-regions is still far from having found a solution and the last two enlargements have complicated the question. EU public opinion in most countries is moving away from paying for more equality; rich people and regions resist transfers to poorer ones. This is partly due to the low economic growth and rising inflation of the last few years, in addition to the general feeling that public money is spent inefficiently.

Moving the EU towards a higher growth path could be the solution to many problems. The quite ambitious target of the Lisbon Agenda—to become the most competitive economic region in the world by 2010—has been shelved somewhat, but the need remains. Many policy areas are involved, from education and research to labour markets, and from industrial policy to pension reforms. Education is often a protected sector, where teachers’ employment and wages appear to be the main objectives. In research there is too much overlapping and economies of scale are not fully exploited.

The East Asian region, meanwhile, is facing even tougher choices. Here too the political issues are interlinked with economics. The most basic challenge is in political leadership: presently there are three main actors—ASEAN, the PRC, and Japan. But it is not easy to imagine a “troika” solution, and Asian pragmatism is probably not enough to guarantee a way-out, as culture and history are still too pervasive. In addition, ASEAN does not appear to have made up its mind about the policy and relations to adopt towards the PRC. To be sure, the current settings of the ASEAN+3 process are such that joint chairs, including one ASEAN and one of the “plus-three” countries, are responsible for organizing meetings on a six-month rotation scheme. In addition, senior officials of the “plus-three” countries hold regular meetings, which often define the actual agenda of the group. But the ASEAN and ASEAN+3's failure to provide a quick regional response to the ongoing financial and economic crisis exposes the shortcomings of a system lacking real leadership and, at times, exercising too much flexibility.

Opening up East Asia to South Asia—namely, India—might be an alternative. But is India an East Asian country, as its inclusion in the “East Asia Summit” (together with Australia and New Zealand in 2005) would suggest? From a direct economic point of view, creating a regional FTA or, even better, a common market, is the first concrete challenge for regional cooperation. The present “spaghetti bowl” of bilateral and plurilateral FTAs ought to be consolidated into a wider one. In the AEC, a pragmatic solution has been found to the issue of labour migration; similar ones might be applied to other problems.

The link between assuming regional leadership and developing institutions to support the process of regional cooperation and integration is clear. As mentioned in the previous section, the biggest challenge East Asia is facing today to proceed along a meaningful path for regionalism is the enhancement of its regional institutional capacity: while intergovernmental cooperation has already developed several forums, initiatives and mechanisms, the only “Asian” institution with a proper representative function of its member states, run by professional staff working for the region’s interest (not for their own countries’ interests) is the ASEAN Secretariat. But the political weight of the Secretariat is limited because it needs Japan and the PRC, at least, to move toward a truly regional agenda. ASEAN is, indeed, becoming a focal point for regional cooperation in Asia and represents a strategically important balancing point among the major regional powers. But its power vanishes if not combined in an “*ASEAN+α*” scheme. To be sure, the Asian Development Bank is another important regional institution that is very active in promoting regional cooperation and integration, but its membership goes well beyond East Asia, including not only South Asia, Central Asia, and the Pacific, but also non-regional members from North America, Europe, and Oceania.

Another major challenge for East Asian economies is to strengthen their financial integration and to further liberalize their capital accounts. These issues are eventually connected to the debate over the possibility of creating a common Asian currency. Each of the many technical steps needed to introduce a single regional currency is quite controversial, including the composition of the currency basket, the choice of economic indicators to set the weights, and the selection of the anchor currency for pegging the new unit. The EMS may offer interesting insights. Twenty years elapsed between the creation of the ECU and the euro, with some fifteen realignments—as the devaluations were called—and a big crisis in 1992. On the positive side, there was a strong currency (the German mark) to which the others pegged; but the system cracked in 1992 when the countries with virtuous currencies refused to pay for the wayward ones. The usual economic debate is about the question of an optimal currency area (OCA). When the euro was proposed many economists, among them a Nobel laureate, were very clear in stating that the EU was not an OCA: luckily for the euro even a Nobel laureate can be wrong.

Finally, it is always important to realize that public opinion and the wishes of the people are crucial in defining the actual path for regionalism. As economies grow and income per head increases, consumer preferences will change: it is what Sen (1988) calls "endogeneity" of values during development. Asia's well-off consumers might not be willing to share their wealth with the poorer ones, perhaps in part because ideas of universal equality are not as common as in Western societies today.

5.3 Reciprocal Lessons

Are there reciprocal lessons Asia and Europe can learn from their regional economic integration and cooperation experiences? By any standard, the degree of regionalism in the EU is far more advanced than in East Asia. Given the marked differences between the two regions in basic characteristics such as economic growth, income distribution, population and labour force composition, technological capabilities, infrastructure development, and others, not a few scholars and experts think it is useless if not impossible to draw any lesson either way.

One view suggests that Western values and culture mainly derive from ancient Greek democracy and Roman law remoulded in Christian religion, which emphasize the concepts of individualism, ideology, and rights. At the same time, Asian (or Confucian) values and culture have different origins, where harmony, group, and pragmatism are the essential keywords. Others think that the two world wars erased the existing old European powers and all nations are now second to the region's institutions such as the European Commission or the Parliament. East Asia, by contrast, is home to two first level states (the PRC and Japan) plus ASEAN, with no clear leader able and willing to promote a truly regional agenda. But these are rather extreme positions: there exist similarities that suggest reciprocal lessons that can be put forward.

The EU experience is quite interesting from many points of view and one can draw lessons and proposals for other groups and associations. Identifying the motives of success (and of course of failure) can help find solutions elsewhere. The EU's main characteristics are: (i) a political vision for the region's economic development; (ii) the creation of strong regional institutions, a single market, and the euro; and (iii) the use of policies designed to overcome intraregional income inequalities, in a detailed framework of written laws and rules. The EU provides a clear example of the importance of creating a backbone of economic laws and good market governance, to clearly define powers both among regional institutions and between regional and national institutions, and to introduce specific rules for proportional contributions to the budget.

Another lesson from the EU is the importance given to the choice of tools for implementing economic and social policies, while the structural intraregional differences between EU peoples and states have been revealed as not that important: even though there is very little in common between a Finn and a Sicilian (each with populations of just over 5 million), the adopted policies tend to work well because the implementation mechanisms are carefully studied.

Moreover, European integration is not only about economics; it is also a political and a social project, both within the EU and with external economies as well. The original ideal of the Union was a political one and when the common market was agreed on as a second best solution, that vision was kept as a guiding principle; indeed a lot of flexibility was needed before, and it is still needed now, especially after the reversals of the Constitution and of the Lisbon Treaty.

Looking at the political and cultural dimensions, the EU can be considered a model for strong political commitment and cooperation among key countries, where they realize the positive-sum game generated by trading national sovereignty for shared regional sovereignty, and where the interest of small countries and minorities in general is preserved by introducing a positive bias in their favour in the regional decision making and voting mechanisms. Moreover, the EU model is one where peer-pressure plays a very effective and positive role in increasing regional efficiency by creating healthy competition among member states.

Given the importance placed on European culture and values, in the EU model the social aspects are looked after carefully, in particular income inequality and workers' rights. The single market and the euro, with their long years of preparation based on visions, roadmaps, and fairly detailed implementation plans, are the most relevant economic achievements to be studied. Other lessons came from the policy of decentralizing, whenever possible, the implementation of the economic measures (even many observers believe these are more publicized than accomplished policies): often local or subregional authorities are more effective and efficient than national ones.

But there are also several negative lessons of the EU model that East Asia should be aware of in order not to repeat the same mistakes. Because the list can be very long, we limit our observations to the most important ones. First of all, the EU has created several rigidities which are very difficult to eliminate; they mainly concern the labour market and the adoption of expenditure programs, such as the CAP, introduced to buy off the opponents of integration. Second, is the tendency to use overly complex rules and regulations, based on equity more than pragmatic principles. Third, is the creation of a self-sustaining and at times unnecessary bureaucracy, which often forgets that regionalism has an intrinsically discriminatory component, that it should be considered a tool for increasing global prosperity, not an end per se.

There are also lessons that Europe can learn from East Asia. The most important suggestion that can be drawn from the East Asian model of regionalism is the capacity to grow rapidly and continuously, based on the transfer of industries from more to less advanced regional economies, which implies a high degree of flexibility and adaptability. While in Europe cross-regional differences in terms of industrial structures are not as pronounced as in East Asia, the essence of rapid economic development in East Asia lies on the readiness of local industries to quickly adapt to the changing economic environment. A second lesson for Europe can be drawn by the successful integration of East Asian economies into the world by pursuing a path to regionalism that is not too biased in favour of the region's member economies but remains highly integrated with the rest of the world. This approach is usually referred to as “open regionalism”, or a form of regionalism with the least discriminatory component for non members. In turn, however, following this approach has implied a limited intra-East Asian economic integration and an almost nonexistent integration at the political level.

A third lesson is the importance of stimulating market-driven economic dynamism and to increase economic interdependence based on advances in productivity and competitiveness. Fourth, is the use of a pragmatic and flexible approach, including labor market flexibility, which allows the East Asian system to quickly adjust to continuous changes in global and regional economic environments. Moreover, the reliance on trust and personal relations (more than written laws or contracts)—a sort of unanimity rule by which one has to take into account the interests of all persons in a group (not only those of the majority)—and the essential role of education are other important aspects of the East Asian model that might be usefully transferred to Europe.

A way to overcome obstacles and difficulties in the EU and East Asia is the adoption of a two-speed (or multiple-speed) solution: to agree on basic requirements and agreements and let any country ready for deeper integration in some or all areas do so and lead the way. Of course this might widen the existing differences and upset union, but appropriate policies (and money) aimed at reducing income inequalities can avert this danger.

6. Conclusions

Over the last 50 years, EU member states have been deepening and widening integration internally and externally at different speeds. The successive enlargements of the Union have not dimmed the relevance of community policies and the process of convergence. At the same time, EU integration with the rest of the world has progressed without a break and all the fears of a "fortress Europe" have been proved wrong (even in the agriculture sector).

In recent decades, many of the East Asian countries have also been integrating with the world economy at full speed and have grown at unusually high rates, in successive groups following a flying geese flock formation. East Asia is presently the most dynamic region in the world and will likely become, in a few decades, a central force in the world economy. But the integration process of East Asian economies is quite recent and rather informal.

Both groupings are also facing difficult challenges due to the positive results they have achieved so far. It is difficult to foresee the outcome of the process in the two regions: another string of successes or deep crisis?

The EU is often presented almost as a textbook example to be followed by other regional associations. But while one can learn from others' experiences, it doesn't make much sense to imitate decisions and policies adopted by different countries, in different regions and contexts.

At the same time, understanding the mechanics of the process of regionalism is an important to singling out the essential factors of success. In other words it is worthwhile to know the objectives, the optimized functions, and the policies adopted in Europe and East Asia and their relationship to the targets, the factors determining these choices, and the effectiveness and efficiency of the actions taken comparing the degree of success and the related costs and benefits.

As the ongoing crisis is reshaping the global financial architecture, enhancing Asia's economic dialogue and cooperation is an important step to shape and raise its profile in global institutions. The EU is often presented as *the* integration model for other regional groupings, in Asia and elsewhere. But while regions can learn from others' experiences, their needs and circumstances vary. Asia must find its own path to greater cooperation and integration. This requires visionaries, people with great ideas who—as Jean Monnet, Robert Schumann, and Altiero Spinelli did in Europe—can influence opinion makers, inspire national leaders, and eventually enable the region to speak with a more prominent common voice in global forums.

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Table 1: Degree of Heterogeneity of National Economies Involved in the Regional Integration Process (2007)

Economic Indicator		Europe		East Asia	
		EU 15	EU 27	ASEAN	ASEAN+3
Population (in millions)		391	494	572	2068
GDP (US$ billion)		15,586	16,754	1,275	9,901
GDP per-capita (US$)		39,847	33,889	2,228	4,787
Gap I-GDP	largest economy / smallest economy	69	444	108	1,092
Gap II-GDP	average 3 largest economies / average 3 smallest economies	17	172	35	346
Gap III-GDP	largest economy / region's average	3	5	3	6
Gap I-GDP per-capita	largest per-capita GDP / smallest per-capita GDP	4	7	49	49
Gap II-GDP per-capita	ave. 3 largest per-capita GDP / ave. 3 smallest per-capita GDP	2	4	23	27
Gap III-GDP per-capita	largest per-capita GDP / region's average	2	2	23	11

Notes:
Higher gaps indicate a higher degree of heterogeneity.
Per-capita GDP is at purchasing power parity, in current US$ values.
EU 15 includes Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and United Kingdom.
EU 27 includes EU 15 members plus Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovak Republic, and Slovenia.
ASEAN includes Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.
ASEAN+3 includes ASEAN members plus the People's Republic of China, Japan, and the Republic of Korea.

Sources: World Bank, World Development Indicators. Available: www.worldbank.org. Accessed: September 2008. International Monetary Fund, World Economic Outlook Database. Available: www.imf.org. Accessed: September 2008.

Table 2: Direction of Total Merchandise Trade of Regional Economies in 2007 (%)

From\To	Europe		East Asia			ROW	Total
	EU-15	EU-27	ASEAN	ASEAN+3	East Asia-15		
EU-15	58.0	64.8	1.8	8.2	9.1	26.1	100.0
EU-27	58.0	66.0	1.7	7.9	8.8	25.3	100.0
ASEAN	10.8	11.4	25.3	52.3	60.2	28.5	100.0
ASEAN+3	12.3	13.2	14.3	41.8	50.9	35.8	100.0
East Asia-15	12.1	13.0	14.3	42.4	51.5	35.5	100.0
ROW	23.5	25.6	4.5	21.8	23.9	50.4	100.0
World	33.8	37.8	5.9	21.7	25.1	37.1	100.0

The intraregional trade share is defined as: (Xii + Mii) / (Xi. + Mi.) where Xii is exports of region I to region i; Mii is imports of region i from region i; Xi. is total exports of region i; and Mi. is total imports of region i.

See Table 1 for definition of regional groups.
ROW = Rest of the World.

Sources: International Monetary Fund, Direction of Trade of Statistics. Available; www.imf.org (accessed August 2008) and CEIC for Taipei,China.

Table 3: Trade Intensity Index (2007)

Europe		East Asia	
EU 15	EU 27	ASEAN	ASEAN+3
1.72	1.74	4.29	1.93

Intraregional trade intensity is defined as: [(Xii+Mii) / (Xi.+Mi.)] / [(X.i+M.i) / (X..+M..)] where Xii is exports of region i to region i; Mii is imports of region i from region i; Xi. is total exports of region i; Mi. is total imports of region i; X.i is total exports of region i to the world; M.i is total imports of the region to the world; X.. is total world exports; and M.. is total world imports.

See Table 1 for definition of regional groups.
Sources: See Table 2.

Table 4: Cumulative Foreign Direct Investment Inflows, 2000-2006 (US$ at current prices in billion)

From\To	Europe		East Asia		ROW	World
	EU 15	EU 27	ASEAN	ASEAN+3		
US$ billion	2,499.5	2,685.6	214.5	686.9	3,051.3	6,423.8
% of Total World FDI Inflows	38.9	41.8	3.3	10.7	47.5	100.0

Note: See Table1 for definition of regional groups.

Source: United Nations Conference on Trade and Development (UNCTAD).

Table 5: Intra-regional Foreign Direct Investment Inflows (US$ at current prices in billion)

Region of reporting countries	2005			2006			2007		
	Total FDI Inflows	US$ billion	% of total	Total FDI Inflows	US$ billion	% of total	Total FDI Inflows	US$ billion	% of total
EU-15	431.19	319.95	74.20	427.47	…	…	…	…	…
EU-27	463.13	375.41	81.06	489.23	354.83	72.53	574.97	342.21	59.52
ASEAN	41.07	3.77	9.17	52.38	6.24	11.92	…	…	…
ASEAN+3	123.30	…	…	119.39	…	…	…	…	…

… = not available.
See Table 1 for definition of regional groups.

Sources: ASEAN Secretariat for ASEAN data; Eurostat for EU data; and UNCTAD for the People's Republic of China; Republic of Korea; and Japan. Eurostat and UNCTAD data are from balance of payment (BOP) statistics, while ASEAN data are sourced both from BOP and national FDI agencies' statistics.

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