

ADB Working Paper Series on Regional Economic Integration



Institutional Design of Regional Integration: Balancing Delegation and Representation

Simon Hix

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Contents

Abstract	iv
1. Introduction	1
2. Regional Economic Integration as a Regulatory Project	2
3. Institutional Mechanisms to Limit Policy Drift by a Supranational Executive	5
4. Convergent Preferences in Europe and Asia	12
5. Rules for Adopting Policies: Weighted Council Voting and a Regional Parliament	19
6. Current Institutions in East Asia and the Chiang Mai Initiative Multilateralization	28
7. Conclusion	31
References	32
ADB Working Paper Series on Regional Economic Integration	35
Tables	
1. Preference Heterogeneity in the European Union	14
2. Preference Heterogeneity in Asia	15
3. Representation in the European Union ¹⁵ Institutions— The Rome Design	20
4. Representation in the European Union ²⁷ : Nice, Lisbon, and the Jagiellonian Compromise	22
5. Possible Representation in an East Asian Economic Union	24
6. Representation under the Chiang Mai Initiative Multilateralization (CMIM)	30
Figures	
1. Regional Market Regulation as a Coordination Game	4
2. Enforcement of Regional Economic Integration as a Prisoners' Dilemma	5
3. Policy Drift by a Supranational Regulatory Body	6
4. European Union Decision-Making in Building the Single Market	11
5. Voting Power in the European Union Council	23
6. Political Groups and MEPs in the 2009–14 European Parliament	25
7. Make-Up of a Hypothetical East Asian Parliament	27

Abstract

Regional economic integration is both a deregulatory project, involving the removal of barriers to the movement of goods and services, as well as a re-regulatory project, involving the adoption of common economic, social, and environmental standards to enable the market to function. The removal of trade barriers can be achieved by bilateral or multilateral agreements. However, the adoption of common rules requires the delegation of agenda-setting and enforcement to a supranational body to resolve policy coordination problems and enable states to credibly commit to implement market integration. The lesson from the experience of the European Union is that such delegation, if designed carefully, need not threaten national sovereignty, which is clearly a fear in East Asia. A supranational executive can be tightly controlled by the governments if (i) unanimity is required for any decision to delegate in a particular policy area, (ii) the governments are equally represented in the executive body, and (iii) there are high decision-making thresholds and checks and balances for the adoption of policy proposals by the supranational body. Such a design requires a certain degree of preference convergence among the governments to enable the initial delegation decision to take place by unanimous agreement. It also requires the establishment of an equitable system of representation and decision-making, which allows each state a fair chance to influence policy outcomes. Preferences may not yet have converged sufficiently in East Asia, but a system of representation can be designed which would allow states to be represented equitably in a supranational decision-making structure in the region, as the ASEAN+3 states have started to do in the Chiang Mai Initiative Multilateralization framework.

Keywords: regional integration, East Asia, Association of South East Asian Nations, ASEAN+3, Chiang Mai Initiative Multilateralization

JEL Classification: F50, F53, F55

1. Introduction

Regional economic integration is both a deregulatory project, involving the removal of barriers to the movement of goods and services, as well as a re-regulatory project, involving the adoption of some common economic, social, and environmental standards. The removal of trade barriers can be achieved by bilateral agreements or unanimous multilateral deals between participating countries, as the dense network of trade agreements in East Asia demonstrates. However, the adoption of common rules on how a market should work—such as competition rules, minimum product standards, environmental rules—requires the delegation of agenda-setting and enforcement powers to an independent body. Put another way, regional integration is unlikely to progress from free trade to genuine market integration without a certain degree of delegation.

Such delegation, as part of a package deal to foster market integration, has thus far been resisted by governments in East Asia. There are many reasons why sovereign states in this region have resisted this step. One reason is the fear that delegation to a supranational body, like the European Union (EU) Commission, would lead to policy outputs beyond the intentions of the governments. Such a step would compromise the tightly protected national sovereignty of these states. East Asia is very different from Europe, where citizens and state officials share a post-national conception of sovereignty, so the standard reasoning goes.

This paper challenges this reasoning. For a start, identities in Europe are not so different from those in Asia. In both regions, governments primarily seek to protect their national interests. Above all, delegation to an independent body, if designed carefully, can promote the collective interests of states rather than undermine the sovereignty of states. Specifically, policy drift by an independent executive beyond the intentions of the governments can be limited by (i) the requirement that unanimity is needed for any power to be delegated, (ii) the representation of all states in the independent body, and (iii) high decision-making thresholds and checks and balances for the adoption of proposals by the independent body.

There are two pre-requisites for such an institutional design. First, there needs to be a degree of preference convergence among the states to enable an initial decision to delegate to be made unanimously. Second, an equitable design of representation and decision-making in the central institutions needs to be invented, under which each state has a fair chance to influence policy outcomes and also to block any policy which they feel threatens a critical national interest. Have preferences converged in East Asia? And, can an equitable system of representation be designed in a region with such disparities in population and economic size?

To make the case that regional economic integration in East Asia can be promoted by the careful institutional design of delegation and representation, the paper is organized as follows. Section 2 explains how regional economic integration is primarily an exercise in market regulation, and how delegating agenda-setting and enforcement is critical for the promotion of market integration. Section 3 explains how institutional mechanisms can be designed to limit policy drift by an independent inter-state executive body.

Section 4 then discusses whether state preferences are sufficiently convergent in East Asia for such delegation to take place. Section 5 turns to the design of representation in a potential East Asian Economic Union. Finally, Section 6 looks at the current institutional arrangements in East Asia, particularly the Chiang Mai Initiative Multilateralization.

2. Regional Economic Integration as a Regulatory Project

A free trade area involves the removal of barriers to trade for a particular set of goods or services, via the reduction or abolition of import tariffs and quotas. All free trade agreements exclude particular sectors of the economy. In contrast, genuine regional economic integration, for example in the European single market, involves the removal of all barriers to the free circulation of goods, services, capital, and labor, as well as the implementation of a set of common regulations to enable markets to function efficiently and effectively (European Commission 1985).

Setting up a single market beyond the nation state consequently involves both deregulation as well as re-regulation. There are three elements of the deregulatory side of a single market program. The first element relates to the primary obligations of a single market program, which force governments to abolish tariff and non-tariff barriers on the free movement of goods, services, and capital. This includes removing barriers such as capital controls, import quotas, and customs duties.

The second element is the principle of mutual recognition. This principle means that if a good or service can legally be sold in one state in a market then it can legally be sold in all other states as well. This principle is central to the operation of the European single market, although it applies more clearly to the free movement of goods than to the free movement of services.

The third element is the harmonization of common standards, which in turn leads to the replacement of a network of national rules with a single set of common rules. This harmonization can have a significant indirect deregulatory effect. For example, economic integration may require the establishment of a common principle of non-discrimination on the grounds of nationality in the awarding of public procurement contracts or in the award of working contracts and the treatment of workers (if the free movement of persons is included). Such rules would force the liberalization of large sectors of the economy as well as industrial relations and workers' rights. Economic integration may also include common rules governing state assistance to the private sector to create a level playing field between the states. Such rules would lead to the privatization of nationalized industries and the opening up of national champions to competition from international firms.

On the other hand, economic integration beyond the adoption of common standards involves re-regulation of the market (Dehousse 1992, Majone 1996). To enable goods and services to circulate, common product regulations need to be adopted, such as product safety standards, consumer health standards, product labeling rules, and environmental packaging and waste disposal standards. In addition, some process

regulations need to be adopted to avoid a race to the bottom in social and environmental standards as a result of the application of mutual recognition, as states compete to cut the costs for their own industries to attract foreign direct investment (Baldwin 2009). At a bare minimum, these process regulations would include common rules on health and safety at work, and controls on environmental pollution in the production process. Process standards might also be adopted to cover workers rights, such as working conditions, working hours, parental leave, and workers' consultation rights.

How should these common regulations be made? According to the normative theory of regulation, the aim of market regulation should be to promote the public interest (Mitnick 1980, Sunstein 1990). In neo-classical economic theory, free markets are naturally pareto-efficient, but in the real world there are numerous market failures and regulation should be used primarily to correct these failures. For example, technical standards enable consumers to gain information about the quality of products; environmental standards reduce the adverse effects (negative externalities) of market transactions on individuals not participating in the transactions; and competition policies prevent monopolistic markets, market distortions, and anti-competitive practices. If these sorts of policies are made through traditional representative institutions via majority decisions—such as a council of states or a supranational assembly deciding by majority rule—these policies are likely to be redistributive rather than pareto-improving.

Applying this logic to regional economic integration, most scholars advocate the delegation of agenda-setting and enforcement to an independent body (Moravcsik 1998, 1999; Pollack 1997, 2003; Mattli 1999). First, delegating agenda-setting power facilitates the resolution of a coordination dilemma in the adoption of common regulatory standards. This intuition is illustrated in **Figure 1**. The scenario here represents a conflict between two states about what common regulatory standard to adopt in a single market. State A already applies a high standard (e.g., a high level of environmental protection), whereas State B applies a low standard. The negotiation is a coordination game since two possible equilibria exist: one with a common high standard, and one with a common low standard. Both states benefit from any agreement more than they would from no agreement, as any common standard would enable a single market to function in that particular sector, whereas no agreement would mean that a market could not exist. Nevertheless, the states cannot reach agreement, as both states would like their domestic standard to be applied at the supranational level. In this situation, an independent agenda-setter helps resolve the dilemma by working out which set of regulations are best to correct potential market failures, and then proposing these rules (with either the high standard or the low standard) as the harmonized standard.

Figure 1: Regional Market Regulation as a Coordination Game

		State B (low standards)	
		High Standards	Low Standards
State A (high standards)	High Standards	(1) A = €10 million B = €6 million	(2) A = €0 million B = €0 million
	Low Standards	(3) A = €0 million B = €0 million	(4) A = €6 million B = €10 million

Note: Each cell in the box shows the pay-offs for each state if that set of common standards were agreed upon. Cell 1 represents the pay-offs (in millions of euros) to each state of common high standards, cell 3 represents the hypothetical pay-offs of common low standards. Cells 2 and 4 represent the pay-offs of the status-quo, where State A continues to apply high standards while State B continues to apply low standards.

Source: Author's calculations.

In building the European single market the European Union often faced this problem, for example, in the adoption of common car emissions standards or health and safety standards. In many cases, the European Commission was able to propose a common set of standards that were well above the average levels applied domestically by the European Union states, which were then adopted as the harmonized rules for the European Union single market since agreement on any common standard was preferable to no economic integration. Nevertheless, this coordination logic worked better on product regulations, such as labeling and packaging rules, than on process regulations, such as labor market rules (Scharpf 1996). This is because while common product standards are essential for the exchange of goods and services in a single market, common standards in the production process are not essential for a single market to function. Also, conflicts over product standards tend to be far less contentious (with less redistributive consequences for states and social groups), than conflicts over process standards, such as worker protection rules or common labor market practices. As a result, the European Union has been far more successful in the adoption of common product rules than in the adoption of common process rules.

Second, delegating enforcement and oversight of policy implementation to an independent body resolves another type of collective action problem—a prisoners' dilemma. This is illustrated in **Figure 2**. In the scenario here, two states have agreed to a common set of rules for economic integration. Each state is sovereign, though, in deciding whether to implement the common rules. On the one hand, each state faces some cost for implementing the rules, since applying the rules would open up domestic markets to more competition from goods suppliers and service providers from the other state. On the other hand, each state would benefit from the other state opening up its

markets. Even if the benefits for one state of the other state opening its markets are greater than the costs of opening up its own market, there is a collective action problem because the best response of each state is not to apply the rules, in the expectation that the other state will be doing the same. The likely outcome is that both states will fail to implement the common agreement.

Figure 2: Enforcement of Regional Economic Integration as a Prisoners' Dilemma

		State B	
		Don't Implement (defect)	Implement (cooperate)
State A	Don't Implement (defect)	(1) A = €0 million B = €0 million	(2) A = €+7 million B = -€3 million
	Implement (cooperate)	(3) A = -€3 million B = +€7 million	(4) A = +€4 million B = +€4 million

Note: Each cell in the box shows the pay-off for each state of a certain combination of actions. Cell 1 represents the pay-off (in millions of euros) to each state if neither state implements the common rules, cell 2 represents the hypothetical pay-offs if State B implements the rules whereas State A fails to implement the rules. Cell 3 represents the reverse situation, and cell 4 represents the pay-offs if both states implement the rules.

Source: Author's calculations.

One way of resolving this problem is to delegate the enforcement of the agreed rules to an independent actor. This changes the cost-benefit calculations of each state, as each state is then aware that they could be punished for failing to apply the rules. For example, in the European Union context, the Treaty of Rome delegated responsibility to the European Commission for (i) monitoring the enforcement of the collective rules, and (ii) referring any state which breached the rules to the European Court of Justice. A similar logic applies in the operation of the Dispute Panels of the World Trade Organization. In this way, the delegation of oversight and enforcement to an independent body is a powerful commitment device as each state is then aware that once an agreement has been reached on a new set of common regulations, there is a high likelihood that all states will have to apply these rules.

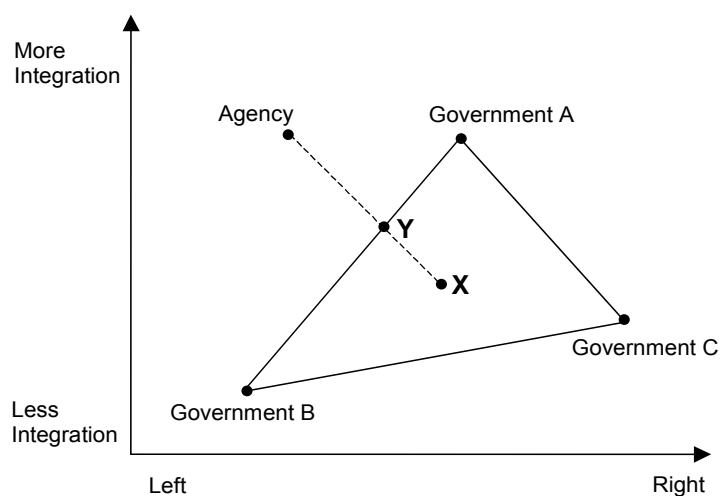
3. Institutional Mechanisms to Limit Policy Drift by a Supranational Executive

Against this normative theory, the positive theory of regulation suggests that independent agencies may not always act in the interests of the delegating principals

(Stigler 1971). Independent regulatory agencies are likely to have their own institutional interests and policy preferences, which might not be identical to the preferences of their principals. For example, agencies can try to increase their influence in the policy process. They can also seek larger budgets or attempt to maximize their independence from political control. These assumptions lead to a different set of conclusions about how regulation should be made. In this view, independent regulators are likely to try to achieve policies that are closer to their own preferences or institutional interests, which will then produce policy winners and losers, rather than a collectively pareto-efficient or pareto-improving outcome.

Delegating agenda-setting and enforcement powers might consequently lead to policy drift. An example of how this might happen in the process of regional economic integration is illustrated in **Figure 3**. In this scenario there is a two-dimensional policy space in which there are three governments with ideal points at A, B, and C. A regulatory agency, such as the European Union Commission, prefers a high level of regulation and seeks to promote further economic integration. Hence, it is located in the top-left section of the figure. Each government and agency tries to secure a policy which is as close as possible to its ideal point. The governments agree on a package of legislation, such as the single market program, at position X, which is a unanimous compromise agreement. The governments then agree to delegate responsibility to the agency to implement the package deal, via the initiative of secondary regulation and via the oversight of the implementation of primary rules in the package by the governments. With these powers, the agency is able to shape the final policy outcome and, in fact, can move the final policy as far as position Y. Governments A and B prefer this new policy to the original deal because Y is closer to their ideal points than X. But all three governments will block any moves further towards the agency's ideal point, as any policy in this direction would be less attractive to all the governments than position Y. The result, then, is that the agency has a certain degree of discretion to change the original policy outcome within the constraints of the preference structure of the delegators.

Figure 3: Policy Drift by a Supranational Regulatory Body



Source: Author's illustration.

For example, this is how some scholars have interpreted the relations between European Union governments and the European Commission in the late 1980s during the process of implementing the European Union single market (Garrett and Weingast 1993, Pollack 2003). At that time, the Commission, led by Jacques Delors, had been delegated responsibility to propose approximately 300 pieces of legislation to complete the single market by the end of 1992, which the European Union governments had committed themselves to do in the Single European Act in 1986. The Delors Commission favored a higher level of economic integration and more harmonization of social and environmental standards than some governments were willing to accept, most notably Margaret Thatcher's conservative government in the United Kingdom (UK). The original unanimous package deal in the Single European Act represented a relatively free market program, with only minor concessions towards a "Social Europe" to ensure support from social democratic governments, such as France and Spain, and very little in terms of common environmental standards, which the UK, Italy, and several other states feared would raise costs for businesses in Europe relative to the United States (US) and Asia. Nevertheless, the independent agenda-setting powers of the Commission, backed by the use of qualified-majority voting (QMV) in the European Union Council for the adoption of secondary legislation, meant that the European Union adopted more social regulations and higher environmental standards than many commentators had predicted when the Single European Act was signed (Tsebelis 1994, Pierson 1996, Tsebelis and Kalandrakis 1999).

Nevertheless, this sort of policy drift can usually be predicted and institutions can be designed to limit the extent of such drift (McCubbins and Schwartz 1984). For example, the structure of representation in an agency can be designed to minimize the gap between the preferences of the principals and the agent, giving each of the principals a seat on the executive board of the agency. Similarly, the procedure for appointing the head of the agency can be designed to maximize the consensus for the candidate, through an oversized-majority procedure or through the approval of multiple institutions. Principals can also gather information on the performance of the agent, and force the agent to disclose information in public hearings (known as a "police patrol" oversight procedure). Alternatively, principals can use private interest groups to do the monitoring for them, by providing for judicial review of the agent's actions and easy access to the courts for individuals or firms who are affected by regulations (known as a "fire alarm" oversight procedure). The result of these controls is a restriction of the ability of an agent to move from the original policy intention.

In the European Union context, for example, the institutional framework has been carefully designed to limit the possibility that the Commission will act as a runaway bureaucracy (Moravcsik 1998). The European Union governments have employed a classic police-patrol mechanism, via a system of committees of national representatives (known as "comitology"), which monitors the implementation decisions of the Commission. The European Union also uses a classic fire-alarm mechanism, via the access of governments and interest groups to the European Court of Justice, to challenge the decisions and legislative proposals of the Commission.

However, three other institutional design decisions are far more significant in understanding how policy drift has been limited in the European Union. First, the initial

decision to delegate power is taken by a unanimous intergovernmental decision. Amendment of the European Union treaty is required to either add a new policy competence to the European Union or to change decision-making in a policy area from unanimity amongst the governments to QMV, which would give genuine independent agenda-setting power to the Commission. Reform of the treaty requires unanimous agreement by the governments—at the level of heads of state and government—as well as national ratification, either by a parliamentary vote or a national referendum, or both. This is a high threshold for delegating any new powers to the Commission.

This threshold suggests three things about delegation in the European Union: (i) there is already a high level of political consensus amongst the European Union member states in all the policy areas where the Commission has independent agenda-setting power; (ii) any potential losers from delegation could demand a side-payment in the original package deal (Franchino 2007); and (iii) highly sensitive or politically salient issues remain largely intergovernmental in nature, as there is insufficient consensus to enable agenda-setting to be delegated on these issues.

On this second point, side payments to purchase unanimous support for a market integration project could be in the form of hard cash from those states that expect to gain the most from market integration (the net exporters) to those states that expect to gain the least (the net importers). For example, when the Single European Act was signed in Europe, the periphery states—Italy, Spain, Ireland, Portugal, and Greece—demanded a doubling of regional aid via the European Union budget as the price for signing up to the single market program, which they expected would benefit the core exporting states—Germany, the Netherlands, France, and the UK—more than the periphery states.

Side-payments can also be policy trades in the original intergovernmental package deal. This trade involves those states that expect to gain most from market integration, allowing other states to add issues to the agenda which they feel promote their interests at the expense of the net exporting states. For example, the Single European Act institutionalized a tradeoff between a center-right free market agenda for Europe and a social democratic policy of promoting a “Social Europe.” As a result, the treaty ended up containing provisions for common social and environmental standards, covering both product standards as well as process standards (such as workers rights), which were well beyond the original intentions of the market liberals in Europe.

On the third point, unanimous agreement at the highest political level before any delegation can take place means that intergovernmental decision-making still plays a significant role in the way the European Union works. The heads of state and government, who meet in the European Council four times a year, set the medium- and long-term policy agenda of the European Union and play an essential role in resolving disputes. Intergovernmental bargaining also dominates negotiations over the European Union’s multi-annual budget. And, inter-governmentalism, in the form of consensus agreement between senior cabinet ministers (e.g., prime ministers, foreign ministers, finance ministers, or interior ministers), is the dominant mode of decision-making in the fields of foreign and security affairs, economic and monetary union, and police and judicial cooperation. In other words, supranational delegation and decision-making only operates on a limited set of issues, which relate to the creation and regulation of

Europe's continental scale market. And, even within this set of policy issues, heads of state and government are involved in every highly salient issue, which they resolve through classic intergovernmental consensus-building and horse-trading.

Second, the rules governing the election of, and representation in, the supranational executive ensure that the preferences of the executive are close to those of the governments. Under the Rome Treaty design, the President of the Commission—the most powerful post in the European Union—was chosen by unanimous agreement amongst the heads of state and government of the European Union states. Since 1994, the nominee of the governments must also receive the backing of a majority in the European Parliament. And since 2004, the governments can nominate a Commission President by QMV, although in practice they try to reach a consensus. These rules ensure that the governments are likely to choose a Commission President who they can work closely with and who shares their vision for the European Union. In this respect, Jacques Delors was the exception rather than the rule, in that all Commission Presidents before and since Delors have been far more consensual and less ambitious. Indeed, when Delors was chosen, Margaret Thatcher had forced the other member states to accept Delors over the more popular candidate at the time, Claude Cheysson, whom she felt was less economically liberal and more Euro-federalist than Delors. Once appointed, however, Delors revealed his preferences to be further from Thatcher than she had anticipated. The three Commission Presidents since Delors—Santer, Prodi, and Barroso—have been less willing to confront the big member states in major constitutional, policy, or budgetary battles.

Regarding the other members of the Commission, there has always been at least one Commissioner per European Union member state, hence, replicating the preferences of the governments inside the European Union executive body. Under the Rome Treaty design, the large states—Germany, France, Italy, and the UK—had two Commissioners each while the other states had one each. With the prospect of enlargement of the European Union to 25 states, there was pressure to reduce the number of Commissioners. It was first agreed that there would be only one Commissioner per member state, which was implemented in the Barroso Commission in 2005. Then, in the failed Constitution for Europe, it was proposed that the number of Commissioners should be less than the number of European Union states. However, this became a salient issue with the rejection of the Lisbon Treaty in a referendum in Ireland, where Irish voters were concerned *inter alia* that they would lose a Commissioner. One result of the “No” vote in Ireland is a new protocol between the governments which ensures that every member states will retain a Commissioner. In other words, it has been very difficult for the European Union to move away from a model where representation of each state in the Commission ensures that the Commission's preferences are closely aligned to the preferences of the European Union governments.

Third, high decision-making thresholds and multiple checks and balances for the adoption of legislative proposals of the executive ensure that policy outcomes are highly consensual. At the same time as delegating new agenda-setting powers to the European Union Commission and extending the use of majority voting in the European Union Council, the European Union governments reformed the treaty to increase the checks and balances in the legislative process to ensure that no policy could be adopted without

broad national and political support. In the main legislative procedure of the European Union, which is known as the co-decision procedure, legislative proposals of the Commission must pass a simple majority in the Commission, an oversized-majority in the Council, and a simple majority in the European Parliament. Hence, this is a tri-cameral legislative system. Because of the structure of representation in the European Union's legislative institutions, the procedure also guarantees that policies cannot be adopted without the support of a broad coalition of both governments and political parties.

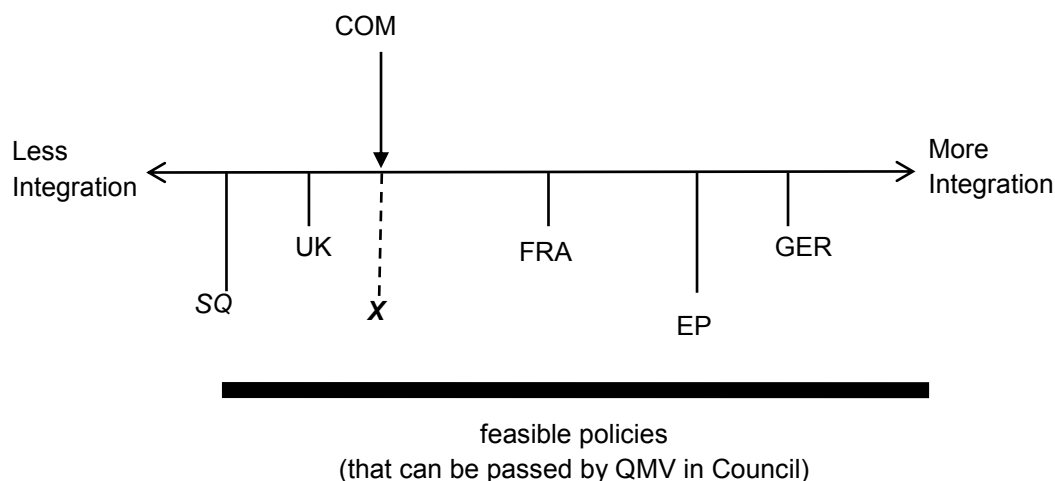
In the Council, for example, where the European Union governments are represented, the QMV rules ensure that an oversized-majority is required for policies to be adopted. Even when QMV is used, the European Union governments prefer to agree by consensus, as they know that they will be responsible for implementing policies once they have been passed and implementation will be more difficult if they have been outvoted in the Council (Mattila and Lane 2001, Hayes-Renshaw and Wallace 2006). This does not mean that European Union governments give in to a majority of other states, but it does suggest that every government has an incentive to compromise to achieve a broad consensus. As a result, the proportion of decisions in the Council that are taken by QMV has increased, yet the proportion of decisions that are contested, in which at least one member state registers an opposition vote, is still rather low (less than 20% of all decisions). And in most of these decisions it is rare that more than one government votes against the others (Hagemann and De Clerck-Sachsse 2007).

In the European Parliament, meanwhile, coalitions are formed along transnational party lines rather than national lines. The Members of the European Parliament (MEP) have sat as transnational political groups, rather than as national delegations, since the assembly first met in the early 1950s. Therefore, this practice predates the first European Parliament elections in 1979. Moreover, as the powers of the European Parliament have increased as a result of the treaty reforms in the 1980s and 1990s, the political groups have become more powerful as the incentives to organize and mobilize to shape European Union policies have increased. As a result, empirical research on voting in the European Parliament has demonstrated that while voting along transnational political lines has increased since the late 1980s, voting along national lines has decreased (Hix et al. 2007, 2009). In fact, since the mid-1990s, the political groups in the European Parliament have been as cohesive in recorded votes in the chamber as the Democrats and Republicans are in votes in the US Congress.

In other words, while coalitions in the Council are formed along national lines, coalitions in the European Parliament are formed issue-by-issue around broad ideological coalitions. This means that policy outcomes from the European Union are highly consensual, as a broad coalition of national interests and ideological views is needed for anything to be passed. Despite these high decision-making thresholds, the European Union has been able to achieve broad national and political consensus, particularly in the period of building the single market in the late 1980s and early 1990s. The reason for this is illustrated in **Figure 4**. In the process of building the European Union single market, the main policy conflict was between those actors who wanted further economic integration, such as Germany and the majority of MEPs, and those who wanted less regulation, such as the UK. On this dimension, the status quo, if no policy could be

agreed, was no economic integration. Since the Commission was chosen by unanimous agreement, the government closest to the status quo (the UK) was able to force the other member states to accept a moderate Commission. Furthermore, with QMV in the European Union Council, which here we assume is two of the three states, the set of policies that can defeat the status quo is very large. Hence, anything the Commission proposed was then supported by consensus amongst the governments and in the European Parliament.

Figure 4: European Union Decision-Making in Building the Single Market



COM = European Commission, EP = European Parliament, FRA = France, GER = Germany, SQ = status quo, UK = United Kingdom.

Source: Author's illustration.

However, this rosy picture of consensus in the European Union has changed in recent years. This is partly a result of European Union enlargement to 27 states, which has increased the number of actors in decision-making and the heterogeneity of preferences in the Council. A far more significant factor, however, is the shift in the European Union policy agenda from market-building to economic reform (Hix 2008). In the period of market-building, decision-making was highly consensual because the status quo was highly undesirable for almost all actors. In the current period of economic reform, in contrast, policy status quos are mostly centrally located, which means that bargaining is more conflictual as any policy change would produce losers. The result these days is often gridlock or lowest-common-denominator outcomes. Nevertheless, this emerging conflict in the European Union is perhaps best understood as the gradual normalization of politics in the European Union, which is an inevitable result of the progression from regional economic integration to the building of a genuine supranational polity.

In sum, economic integration beyond the nation-state is primarily an exercise in market regulation. The main policy aim of such regulation should be to create a level playing field for economic competition and to correct potential market failures. These goals are best secured through a particular institutional design. First, policy agenda-setting and

enforcement are delegated to an independent supranational executive, as in the case of the European Union Commission. Second, the potential independent action of this body is restricted through a particular institutional design, where (i) unanimous intergovernmental agreement is needed before any policies or powers are delegated, and intergovernmental deals at the highest political level are used to resolve disputes even after delegation has taken place; (ii) the procedure for appointing the head of the executive and the structure of representation in the body ensure a close match between the preferences of the executive and the government principals; and (iii) high decision-making thresholds for the adoption of policy proposals from the body ensure highly consensual outcomes.

What is remarkable in the European context is that the European Union has been able to progress so far with such a high level of national and political consensus. This is partly the result of a convergence of preferences between the governments and the main political parties in Europe, relative to the status quo of no regional economic integration. However, it is also a result of the careful design of representation in the European Union institutions to facilitate consensus. These two aspects—preferences and institutions—are the focus of the next two sections.

4. Convergent Preferences in Europe and Asia

The main reason why the states of Western Europe unanimously agreed in the mid-1980s to create a single market and delegate significant powers to the European Union Commission to achieve this goal was the dramatic convergence of preferences at that time (Moravcsik 1998). By the mid-1980s, there was a consensus in favor of a single market that included every major political party and political leader. On the right, the British conservative government of Margaret Thatcher realized that the impact of British privatization and deregulation would be much greater if these policies could be spread to the Continent. On the left, following the failure of radical socialist economic policies in the early 1980s, the French socialist government of François Mitterrand would turn to the creation of a European-wide market as a way of promoting the rationalization of European industry and the emergence of European industrial champions.

This political consensus was also supported by a broad consensus amongst economists. By the mid-1980s, most economists agreed that national Keynesian models had failed, as these policies had not helped Europe recover from the recessions of the 1970s and early 1980s as quickly as the US and Japan had. The solution, most felt, was the creation of a European-wide market that would force national governments to liberalize their economies while leading to enormous economies of scale. For example, a group of economists produced a famous report, *The Cost of Non-Europe*, which claimed that a single market would add 4.5% to the gross domestic product (GDP) of European Union member states, reduce prices by 6.0%, and create 1.8 billion new jobs (Cecchini et al. 1988).

Multi-national corporations across Europe mobilized to lobby their governments to support this agenda (Sandholtz and Zysman 1989, Middlemas 1995). After the so-called

Eurosclerosis years of the 1970s, there was widespread public enthusiasm in most countries for a renewed effort to integrate Europe. This was partly driven by optimistic expectations about the positive economic benefits of European integration. But, the new ideological commitment to European integration was also driven in the mid-1980s by growing antipathy in many countries to the Reagan administration in Washington.

In other words, a particular and potentially unique set of factors came together in the mid-1980s in Western Europe to create the environment for political leaders to embark on an ambitious program of regional economic integration. Could something similar happen in East Asia? **Tables 1** and **2** present data on socio-economic and political characteristics of states in Europe and Asia, and citizens' preferences in the two regions. The most obvious inference from these data is that the level of heterogeneity in the size of states and economies is much smaller in the European Union than in East Asia (Kahler 2009). By global standards, the European Union has six medium-sized states of more or less equal size (Germany, France, UK, Italy, Spain, and Poland) and 21 small or very small states. In contrast, if one takes the 16 states in the East Asian Summit there is enormous diversity, including the two most populous countries on the planet (the People's Republic of China [PRC] and India); one state with a huge economy but a medium-sized population (Japan); six states with either medium-sized economies or medium-sized populations (Republic of Korea, Indonesia, Philippines, Thailand, Viet Nam, and Myanmar); two relatively small states with medium-sized economies (Australia and Malaysia); and the remaining five states with either very small economies or small populations, or both (Singapore, Cambodia, Lao People's Democratic Republic [Lao PDR], Brunei Darussalam, and New Zealand).

Table 1: Preference Heterogeneity in the European Union

Country	Popn (m)	GDP, ppp (\$m)	GDP/cap, ppp	GINI	Public spending as % GDP	Economic Freedom	Democracy (Polity IV)	Rule of law	Citizen of European Union	Religion is important	Environmental protection rather than growth	Wealth accumulation is okay
Germany	82.2	2,910,490	35,407	28.3	45.4	70.5	10.0	1.78	51.4	28.2	45.4	48.0
France	62.3	2,130,383	34,196	32.7	53.4	63.3	9.0	1.32	57.9	36.4		
United Kingdom	61.6	2,230,549	36,210	36.0	44.6	79.0	10.0	1.75	25.8	36.7		
Italy	59.9	1,814,557	30,293	36.0	50.1	61.4	10.0	0.43	60.1	72.1		56.3
Spain	44.9	1,396,881	31,111	34.7	38.6	70.1	10.0	1.12	54.3	50.1	57.5	28.3
Poland	38.1	666,052	17,482	34.5	43.9	60.3	9.6	0.28	66.2	83.9	50.6	48.6
Romania	21.3	270,330	12,692	31.0	31.6	63.2	8.4	-0.17	62.6	79.1	57.1	54.8
Netherlands	16.6	675,375	40,685	30.9	46.1	77.0	10.0	1.76	33.2	37.8		
Greece	11.2	341,127	30,458	34.3	42.3	60.8	10.0	0.65	36.4	68.3		
Portugal	10.7	235,904	22,047	38.5	46.4	64.9	10.0	0.95	51.3	76.1		
Belgium	10.6	389,518	36,747	33.0	48.9	72.1	9.8	1.52	65.8	47.6		
Czech Republic	10.4	262,169	25,209	25.4	43.6	69.4	9.6	0.77	41.0	21.4	59.3	33.0
Hungary	10.0	196,074	19,607	26.9	51.9	66.8	10.0	0.74	50.5	41.5	34.9	44.1
Sweden	9.2	341,869	37,160	25.0	55.6	70.4	10.0	1.90	43.6	35.0	78.2	56.1
Austria	8.4	328,571	39,116	29.1	49.3	71.2	10.0	1.90	42.0	54.9		
Bulgaria	7.5	93,569	12,476	29.2	37.1	64.6	8.7	-0.14	42.8	47.7	46.6	34.7
Denmark	5.5	204,060	37,102	24.7	51.5	79.6	10.0	1.95	43.8	27.0		
Slovakia	5.4	119,268	22,087	25.8	37.7	69.4	9.2	0.35	42.0	57.4	52.1	30.0
Finland	5.3	190,862	36,012	26.9	48.8	74.5	10.0	1.87	25.2	41.9	46.1	48.5
Ireland	4.5	188,112	41,803	34.3	34.2	82.2	10.0	1.77	49.9	76.2		
Lithuania	3.3	63,625	19,280	36.0	34.0	70.0	10.0	0.49	35.5	56.8	36.4	48.7
Latvia	2.2	38,764	17,620	37.7	37.2	66.6	8.0	0.57	45.3	34.3	52.8	71.6
Slovenia	2.0	59,316	29,658	28.4	45.3	62.9	10.0	0.84	49.9	36.5	49.8	41.4
Estonia	1.3	27,207	20,928	35.8	33.0	76.4	7.0	1.00	32.4	21.6	48.7	69.8
Cyprus	0.9	22,703	25,226	29.0	43.9	70.8	10.0	0.96	25.8	77.6		47.0
Luxembourg	0.5	40,025	80,050	26.0	39.0	75.2		1.85	62.0	43.8		
Malta	0.4	9,806	24,515	28.0	44.1	66.1		1.55	50.9	91.2		
Mean	18.4	564,710	30,192	31.0	43.6	69.6	9.6	1.10	46.2	51.2	51.1	47.6
Standard Deviation	23.2	794,102	13,206	4.3	6.6	6.0	0.8	0.66	12.0	20.3	10.5	12.6

Notes and Sources: Please refer to Table 2.

Table 2: Preference Heterogeneity in Asia

Country	Popn (m)	GDP, ppp (\$m)	GDP/cap, ppp	GINI	Public spending as % GDP	Economic Freedom	Democracy (Polity IV)	Rule of law	Citizen of Asia/ European Union	Religion is important	Environmental protection rather than growth	Wealth accumulation is okay
ASEAN												
Indonesia	230.0	908,242	3,949	34.3	20.0	53.4	6.7	-0.71	82.5	98.8	57.7	62.0
Philippines	92.0	320,384	3,482	44.5	17.5	56.8	8.0	-0.59		96.9	64.9	55.8
Viet Nam	88.1	240,364	2,728	34.4	27.5	51.0	0.0	-0.53	91.0	33.6	69.6	51.1
Thailand	67.8	546,095	8,054	42.0	17.7	63.0	7.4	-0.06	73.6	94.2	47.7	71.9
Myanmar	50.0	68,203	1,364		7.1	37.7	0.0	-1.41				
Malaysia	27.5	384,119	13,968	49.2	24.9	64.6	4.0	0.53		96.0	54.9	48.8
Cambodia	14.8	28,239	1,908	41.7	13.5	56.6	3.0	-1.06				
Lao PDR	6.3	13,792	2,189	34.6	18.5	50.4	0.0	-0.96				
Singapore	4.7	238,755	50,799	42.5	14.4	87.1	2.0	1.79		82.0	37.9	
Brunei Darussalam	0.4	19,683	49,208					0.30				
Others in EA Summit												
PRC (incl.HKG & Macau, China)	1353.3	8,223,494	6,077	46.9	19.2	53.2	0.0	-0.45	82.0	9.4	68.6	73.0
India	1198.0	3,288,345	2,745	36.8	27.2	54.4	9.0	0.10	63.5	80.7	60.0	45.0
Japan	127.2	4,354,368	34,232	24.9	36.0	72.8	10.0	1.39		19.5	60.9	35.0
Korea, Republic of	48.3	1,342,338	27,792	31.6	30.3	68.1	8.0	0.82	77.6	48.1	40.9	41.8
Australia	21.3	795,305	37,338	35.2	34.5	82.6	10.0	1.79	32.3	39.3	67.3	47.4
New Zealand	4.3	115,709	26,909	36.2	41.0	82.0	10.0	1.91		45.8	50.4	47.5
Inter-state mean (ASEAN)	58.2	276,788	13,765	40.4	17.9	57.8	3.5	-0.3	82.3	83.6	55.4	57.9
Inter-state std. dev. (ASEAN)	69.5	284,411	19,472	5.5	6.1	13.5	3.3	0.9	8.7	25.2	11.5	9.3
Inter-state mean (EA summit)	208.4	1,305,465	17,046	38.2	23.3	62.2	5.2	0.2	71.8	62.0	56.7	52.7

HKG = Hong Kong, China; Lao PDR = Lao People's Democratic Republic; PRC = People's Republic of China.

Notes and Sources:

Pop'n = population, in millions. Department of Economic and Social Affairs Population Division, 2009, World Population Prospects, Table A1, 2008 revision, United Nations.

GDP = gross domestic product, at purchasing power parity, in US\$ millions. International Monetary Fund, World Economic Outlook Database, data for 2008.

GDP/cap = GDP per capita at purchasing power parity (US\$); column 3/column 2.

Income inequality (GINI) = GINI index of income inequality, from Human Development Report 2007/08, United Nations Development Programme; except for Taipei, China; Cyprus; Luxembourg; and Malta, which are from CIA World Factbook.

Public spending as % GDP = total government spending as a percentage of GDP; Heritage Foundation 2009, Government Size indicator (converted back to public spending), from various sources.

Economic freedom = Heritage Foundation 2009, Overall Economic Freedom Score; scale ranges from 0 (lowest) to 100 (highest).

Level of democracy = Polity IV democracy score, mean score 1998-2007; Polity IV Project: Political Regime Characteristics and Transitions, 1800-2007, <http://www.systemicpeace.org/polity/polity4.htm>; scale ranges from 0 (lowest level of democracy) to 10 (highest level of democracy).

Rule of law = Worldwide Governance VI rule of law, 2007, <http://info.worldbank.org/governance/wgi/index.asp>; scale ranges from -2.00 (least rule of law) to +2.00 (highest rule of law).

Citizen of European Union/Asia = World Values Survey 2005, for Asian countries, with question for Thailand relating to ASEAN, percent who answered "agree strongly" or "strongly" to the question: "do you feel a citizen of ASEAN/Asia?"; Eurobarometer 68 (2008) for European Union²⁷, percent who said that they felt either "very attached" or "fairly attached" to the European Union.

Religion is important = World Values Survey, 2005 wave, except 2000 wave for Bangladesh, PRC, New Zealand, Philippines, Singapore, Viet Nam; and European Values Survey, 1999 wave, for European Union²⁷ except Cyprus; percent of respondents who said that religion was either "very important" and "somewhat important" for them.

Environmental protection rather than growth = World Values Survey, 2005 wave, except 1999-2004 for Bangladesh, New Zealand, Philippines, and Singapore; percent who chose "protecting the environment" rather than "economic growth" as a priority.

Wealth accumulation is okay = World Values Survey, 2005 wave, except 1994-99 wave for New Zealand and Philippines, Czech Republic, Estonia, Hungary, Latvia, Lithuania, and Slovakia; 10 point scale, where 1=People can only get rich at the expense of others and 10=Wealth can grow so there is enough for everyone, reporting percentage of respondents who answered 7 or higher on the scale.

However, these size imbalances may present more of a problem for the design of representative institutions, which is the subject of the next section, than whether there can be a convergence of basic economic, social, or political preferences in a region. On these issues, the data in Tables 1 and 2 present mixed evidence. Measured in terms of standard deviations from the inter-state means, there is not much difference in the level of heterogeneity in the European Union and East Asia. However, the difference between the highest and lowest values is larger in Asia than in the European Union for almost all measures. For example, the gap in GDP per capita (in terms of purchasing power parity) between the richest and the poorest three states in the European Union²⁷ is US\$39,000, whereas the same gap in East Asia is US\$44,000. Also, no European Union state has a GDP per capita of less than \$10,000, while 11 states in the East Asian Summit are below this level. Also, the level of income inequality within states is much higher in East Asia than in Europe. As a result, regional economic integration in East Asia must address issues relating to the alleviation of poverty and basic economic development, whereas these are secondary issues in the European Union.

The heterogeneity in terms of the political characteristics of states is also smaller in Europe than in East Asia. The average level of public spending in the European Union²⁷ is 43.6% of GDP, with only a 6.6 standard deviation and a gap of only 20% between the average of the three highest public spenders (Sweden, France, and Hungary) and the three lowest (Romania, Estonia, and Lithuania). In East Asia, the average level of public spending is 23.2% of GDP, with a 9.4 standard deviation and a gap of 26.5 between the average of the three highest spenders (New Zealand, Japan, and Australia) and the three lowest (Myanmar, Cambodia, and Singapore).

Moreover, the differences in public spending in the European Union are mainly related to economic development, with poorer states spending less than richer states, rather than ideological policy choices. In East Asia, in contrast, the difference in public spending between Japan, Australia, New Zealand, and India, on the one hand, and Singapore, on the other, reflects the different economic policy preferences of these two groups of states: between more social-democratic frameworks on one side, and more neo-liberal frameworks on the other. These differences in East Asia are also reflected in the different economic freedom scores of these states. These basic socio-economic policy differences will be difficult to reconcile in a common set of market regulations for the region, since despite similar levels of economic development, states like Japan, Australia, New Zealand, and India are likely to push for higher levels of environmental and social standards than a state like Singapore. On the other hand, such a conflict might not be so different to the battles that took place in building the European Union single market, between the more deregulatory preferences of UK governments and preferences for higher regulation of governments in France and Germany.

In terms of measures of democracy and the rule of law, the problem in East Asia may be less to do with the degree of heterogeneity than the fact that several states are not democratic, or do not have independent judicial institutions, or both. A democratic polity, in terms of free and fair elections, and a free press, is a prerequisite for European Union membership. This partly reflects some of the underlying political objectives of European integration: reinforcing democratic institutions against prior threats of fascism and Stalinism. However, democratic practices and independent courts are also essential for

the sustainability of economic integration, as they guarantee the equal treatment and protection of new market entrants without which the commitment to economic integration is not credible. While there are some on-going issues relating to the independence of courts and the judiciary in Bulgaria and Romania, these states are under pressure from the European Union to fix these problems, and all 27 European Union states are considered to be stable functioning democracies. In contrast, in the East Asian Summit only 9 states can be considered to be democratic in the weakest meaning of this term: Australia, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Republic of Korea, and Thailand. Singapore could be added to this list on the grounds that although elections are not as competitive, free, or fair as in most democracies, the courts and judiciary in Singapore are probably independent enough to support regional economic integration. The remaining six states (Brunei Darussalam, Cambodia, PRC, Lao PDR, Myanmar, and Viet Nam) are probably not democratic enough nor have they sufficiently independent judiciaries to credibly commit to regional economic integration beyond a free trade area.

Turning to individual citizens' values, where data are available (from World Values Surveys), the variance in citizens' attitudes to some key issues that might arise as a result of regional integration are almost as great in the European Union²⁷ as they are in East Asia. There are some significant differences between Europe and Asia. For example, Europe is largely a post-religious society, which has enabled the European Union to have common policies on a range of socio-political issues, such as equal treatment of women, the freedom to provide abortion services, and non-discrimination on the grounds of sexual orientation. Still, large sections of the public in Poland, Romania, Cyprus, Ireland, Portugal, and Italy remain devout Christians, which has led to opposition to some European Union social policies in these countries. Religious heterogeneity in Asia is far greater, however. On one side are the large populations of practicing Muslims, Hindus, Buddhists, and Christians in several countries, and on the other are the largely secular societies, such as the PRC, Japan, Australia, and New Zealand. This would suggest that common policies on something as basic as the equal treatment of women in the workplace would be much more difficult to achieve in East Asia than it has been in Europe.

Nevertheless, on attitudes towards protection of the environment and wealth accumulation, Europe and Asia look rather similar. On average, 51% of European Union citizens, compared with 45% of East Asians, believe that protection of the environment should be prioritized over economic growth. Furthermore, 48% of Europeans believe that wealth accumulation is socially acceptable and 57% of East Asians feel the same way, with the standard deviations around these averages are similar in Europe and Asia. These sets of attitudes suggest that there might be widespread support for common environmental standards in East Asia, as there has been in Europe, and that it would be reasonable to justify regional integration in Asia as a vehicle for economic growth and wealth creation.

Furthermore, significant populations in all East Asian countries reported in a survey in 2005 that they identified with a wider Asian community. Not surprisingly, of the countries included in the survey, Australians have the weakest Asian identity, but even in Australia 32% of respondents declared that they considered themselves to be "a citizen of Asia."

These figures compare favorably with the latest data on identification with the European Union amongst European citizens. On average, only 46% of citizens in an European Union state say that they feel they are a “citizen of the European Union.” Also, there is significant variance across the European Union, from over 60% of the public feeling this way in Poland, Belgium, Romania, Luxembourg, and Italy, to less than 30% in the UK. This suggests that there is a potential reservoir of support for economic integration in East Asia.

Overall, the level of political, economic, and ideological convergence is lower in East Asia than in Europe. Some of the huge differences in scale among the states and economies in the region could be addressed through the careful institutional design of representation in some common institutions, as the next section will explain. Nevertheless, it is doubtful whether there is sufficient convergence in terms of political practices, judicial independence, and public and elite attitudes towards individual economic rights to underpin an ambitious economic integration project encompassing all the states in East Asia.

There is one important caveat to this conclusion. Although a basic level of common preferences about the free market and minimum social and environmental standards might be a prerequisite for regional economic integration, convergence on a range of other issues and political practices might in fact be endogenous to regional integration. For example, it has been a conscious strategy in Europe to use European Union enlargement to extend and strengthen democratic government, the rule of law, free markets, and liberal social values. Therefore, the spread of democracy, the rule of law, free markets, and liberalism might be a product of, rather than a prerequisite for, economic integration in East Asia.

5. Rules for Adopting Policies: Weighted Council Voting and a Regional Parliament

Given the huge variance in the size of the states in East Asia, it may at first seem impossible to design a workable system of representation in a regional organization. However, it is possible to design a system of weighted voting in a council of states that both balances equitable representation for all states and constrains the PRC and India. In the 1940s, Lionel Penrose, an English mathematician, came up with what many scientists still consider to be the fairest system of allocating voting power to states in an intergovernmental body. Penrose’s starting assumption was that every citizen in every state should have an equal chance of being on the winning side in a vote. If votes are exercised en bloc, and coalitions between states are formed randomly, then Penrose proved mathematically that the only way to achieve true equality is if the voting power of each state is equal to some common divisor of the square-root of a state’s population (Penrose 1946).

To understand the intuition behind this proposition consider how powerful each state would be if each state had an allocation of votes in direct proportion to its population size. If this were the case, larger states would be far more likely to be on the winning

side than their population share would warrant. For example, a state with just over 50% of the population would be on the winning side 100% of the time if a simple majority were required. So, Penrose proposed that voting weights should be allocated to states in proportion to their size, but in declining proportions, through a system known in European Union circles as digressive proportionality. And the best way of applying a system of digressive proportionality is to use the square-root of each state's population.

Largely by chance, the European Union founding fathers designed a system of QMV in the European Union Council, which fits Penrose's logic almost perfectly (**Table 3**). Under the QMV system, which applied to the European Union¹⁵ between 1995 and 2003, each state had a certain number of bloc votes. There were 87 votes in total and a majority of 62 votes (71% of the total) was required for a decision to pass. Assuming that coalitions formed randomly, this system of QMV meant that the largest states had an 11.2% chance of being pivotal, while the smallest state (Luxembourg) had a 2.3% chance. Put another way, Germany, France, Italy, and the UK were about twice as powerful as the Netherlands, Greece, Portugal, or Belgium; and about five times as powerful Luxembourg (Banzhaf 1965).

Table 3: Representation in the European Union¹⁵ Institutions—The Rome Design

Member state	Pop'n(m)	Commissioners	MEPs	Votes	Voting Power	Inclusiveness
Germany	82.2	2	99	10	11.2	86.3
France	62.3	2	87	10	11.2	86.3
United Kingdom	61.6	2	87	10	11.2	86.3
Italy	59.9	2	87	10	11.2	86.3
Spain	44.9	2	64	8	9.2	80.0
Netherlands	16.6	1	31	5	5.9	69.1
Greece	11.2	1	25	5	5.9	69.1
Portugal	10.7	1	25	5	5.9	69.1
Belgium	10.6	1	25	5	5.9	69.1
Sweden	9.2	1	22	4	4.8	65.6
Austria	8.4	1	21	4	4.8	65.6
Denmark	5.5	1	16	3	3.6	61.7
Finland	5.3	1	16	3	3.6	61.7
Ireland	4.5	1	15	3	3.6	61.7
Luxembourg	0.5	1	6	2	2.3	57.4
Total	393.4	20	626	87	100.0	
QMV threshold in the Council				62 (71.3%)		

Note: "Voting power" is the normalized Banzhaf index, which calculates the proportion of times a state will be pivotal in a vote. "Inclusiveness" is a measure of the proportion of times a state is likely to be on the winning side in a vote. These indices are calculated using the voting weights in the Council in the table and the assumption that 62 votes are required for a qualified majority to be achieved.

Source: IOP2.0.2 software (Banzhaf 1965; König and Bräuninger 1998; Bräuninger and König, 2005).

Another way of conceptualizing the power of an actor in a decision-making body is to look at the proportion of all coalitions within which an actor would be on the winning side in a vote under a given set of rules. This is known as the Inclusiveness Index (König and Bräuninger 1998). As Table 3 shows, the Rome Design of QMV in the European Union Council meant that the largest states were in 86% of all potential winning coalitions, the majority of states were in at least two-thirds of all winning coalitions, and the smallest state (Luxembourg) was in 50% of potential winning coalitions. Put together, these two measures consequently illustrate how all European Union states felt that they had a reasonable chance of influencing policy outcomes in the main decision-making body at the European level.

However, the European Union has not kept the Rome model of voting in the Council. First, in the Nice Treaty, which entered into force in 2003, the member states changed the system in anticipation of European Union enlargement in 2004. In return for losing one of their two Commissioners, and because most of the prospective new member states were small, the large member states insisted that a new system of voting should be used to boost their power relative to the small states. The resulting system allocated 29 votes to the largest four states, and introduced a total of 345 votes and a QMV threshold of 255 votes (**Table 4**). However, this system meant that the largest states were still approximately twice as powerful as the medium-sized states and five times as powerful as the very small states.

In the process of negotiating a Constitution for Europe and the resulting Lisbon Treaty, the issue of voting weights in the Council became highly politicized. Germany felt that it was underrepresented, while many of the medium-sized states felt that Spain and Poland were overrepresented (as a result of the deal that Spain had secured in the Nice Treaty in return for giving up a Commissioner). The governments eventually agreed on a double-majority system, where to adopt a measure in the Council a majority must comprise 55% of the states (15 out of the current 27) as well as 65% of the total European Union population.

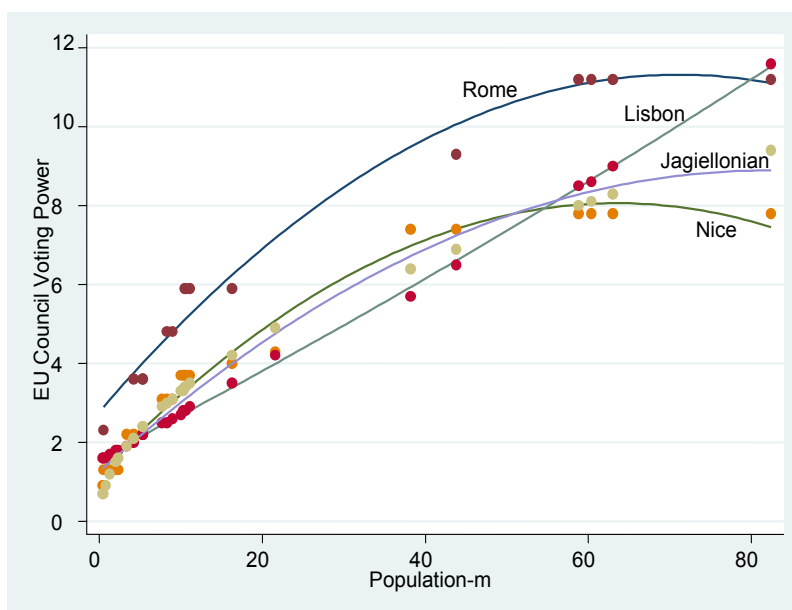
At face value this sounds like a simple way of balancing a majority of states and a majority of populations. However, in reality such a system over-represents the large states as well as the very small states. A majority based purely on population means that large states are more powerful than they should be (as Penrose discovered), and a majority based on one-state-one-vote means that tiny states have exactly the same power as all the other states. Realizing this, during the European Union treaty negotiations a large number of social and natural scientists supported a proposal by two Polish scientists, known as the Jagiellonian Compromise, to base the voting system in the Council on the ideas of Penrose. Sadly, the European Union governments refused to listen to the scientists. **Figure 5** illustrates the difference between the Rome, Nice, Lisbon, and Jagiellonian systems in the European Union.

**Table 4: Representation in the European Union27:
Nice, Lisbon, and the Jagiellonian Compromise**

Member State	Pop'n (m)	Commissioners	MEPs (Nice)	MEPs (Lisbon)	Council Votes(Nice)	Voting Power (Nice)	Voting Power (Lisbon)	Voting Power (Jagiellonian Compromise)
Germany	82.2	1	99	96	29	7.8	11.6	9.4
France	62.3	1	78	74	29	7.8	9.0	8.3
United Kingdom	61.6	1	78	73	29	7.8	8.7	8.1
Italy	59.9	1	78	73	29	7.8	8.5	8.0
Spain	44.9	1	54	51	27	7.4	6.5	6.9
Poland	38.1	1	54	54	27	7.4	5.7	6.4
Romania	21.3	1	35	33	14	4.3	4.2	4.9
Netherlands	16.6	1	27	26	13	4.0	3.5	4.2
Greece	11.2	1	24	22	12	3.7	2.9	3.5
Portugal	10.7	1	24	22	12	3.7	2.8	3.4
Belgium	10.6	1	24	22	12	3.7	2.8	3.4
Czech Republic	10.4	1	24	22	12	3.7	2.8	3.3
Hungary	10.0	1	24	22	12	3.7	2.7	3.3
Sweden	9.2	1	19	20	10	3.1	2.6	3.1
Austria	8.4	1	18	19	10	3.1	2.5	3.0
Bulgaria	7.5	1	18	18	10	3.1	2.5	2.9
Denmark	5.5	1	14	13	7	2.2	2.2	2.4
Slovakia	5.4	1	14	13	7	2.2	2.2	2.4
Finland	5.3	1	14	13	7	2.2	2.2	2.4
Ireland	4.5	1	13	12	7	2.2	2.0	2.1
Lithuania	3.3	1	13	12	7	2.2	1.9	1.9
Latvia	2.2	1	9	9	4	1.3	1.8	1.6
Slovenia	2.0	1	7	8	4	1.3	1.8	1.5
Estonia	1.3	1	6	6	4	1.3	1.7	1.2
Cyprus	0.9	1	6	6	4	1.3	1.6	0.9
Luxembourg	0.5	1	6	6	4	1.3	1.6	0.7
Malta	0.4	1	5	6	3	0.9	1.6	0.7
Total	496.2	27	785	751	345	100.0	100.0	100.0
62%=	307.6				255			

Note: The qualified majority voting rules in the European Union Council under the various treaties are as follows: (i) Nice Treaty: (a) 255 out of 345 votes plus (b) 50% of the member state (14 out of 27), which (c) must constitute at least 62% of total European Union population; (ii) Lisbon Treaty: (a) 55% of the member states (15 out of 27) and (b) 65% of total European Union population; and (iii) Jagiellonian compromise: This was a proposal put to the European Union governments by a number of natural and social scientists, where the voting weight of a member state would be proportional to the square-root of the member state's population, and the required threshold would be 61.6% of the total votes (Słomczynski and Zyczkowski 2007). "Voting power" is the normalized Banzhaf power index, calculated using the IOP2.0.2 software (Banzhaf 1965, and Bräuninger and König 2005); Voting power in the European Union institutions from Felsenthal and Machover (2001, 2007).

Source: Calculated using the IOP2.0.2 software (Banzhaf 1965, König and Bräuninger 1998, Bräuninger and König, 2005).

Figure 5: Voting Power in the European Union Council


Note: The graph shows the normalized Banzhaf Voting Power of an European Union member state in the European Union Council under the Rome Treaty, Nice Treaty, Lisbon Treaty, and the proposed Jagiellonian Compromise (based on the square-root of a country's population). The lines in the figure are bivariate quadratic regression lines.

Source: Author's calculations based on Eurostat (as in Table 1) and various EU treaties (see Table 4).

East Asia can learn a lot from the experience of the design of representation in the European Union. Table 5 presents three possible representational designs for an East Asian Economic Union: (i) 10 states in the Association of Southeast Asian Nations (ASEAN);¹ (ii) 13 states in the ASEAN+3 arrangement (ASEAN plus the PRC, Japan, and Republic of Korea); and (iii) 16 members of the East Asian Summit. First off, an independent Executive should have representatives from every state, with perhaps an extra representative from the largest state or states in each organization. Second, the number of bloc votes in a Council and seats in a Parliament should be allocated in proportion to the square-root of each state's population, following Penrose's logic. To keep things simple, each of these designs assumes a total of 100 votes in a Council with a winning threshold of 67 votes (two-thirds majority), and 250 seats in a Parliament. In the table, the voting power of a state in the Council is the proportion of times a state is pivotal in turning a losing coalition into a winning coalition (Banzhaf 1965), and inclusiveness is the proportion of times a state is on the winning side out of all potential coalitions that could form in the Council (König and Bräuninger 1998).

¹ ASEAN comprises Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam.

Table 5: Possible Representation in an East Asian Economic Union

Country	Popn (09)	ASEAN					ASEAN+3					EAST ASIAN SUMMIT (ASEAN+6)				
		Exec	Cncl	Parl	Voting power	Inclusive- ness	Exec	Cncl	Parl	Voting power	Inclusive- ness	Exec	Cncl	Parl	Voting power	Inclusive- ness
Indonesia	230.0	2	24	59	24.0	93.8	2	13	32	14.7	76.1	1	9	24	7.7	63.9
Philippines	92.0	1	15	38	15.2	77.7	1	8	20	8.2	64.6	1	6	15	5.3	59.6
Viet Nam	88.1	1	15	37	15.2	77.7	1	8	20	8.2	64.6	1	6	15	5.3	59.6
Thailand	67.8	1	13	32	13.1	73.9	1	7	17	7.2	62.7	1	5	13	4.4	58.0
Myanmar	50.0	1	11	28	11.0	70.1	1	6	15	6.1	57.3	1	5	11	4.4	58.0
Malaysia	27.5	1	8	21	7.7	64.0	1	4	11	4.1	55.2	1	3	8	2.7	54.9
Cambodia	14.8	1	6	15	6.1	61.1	1	3	8	3.0	55.2	1	2	6	1.8	53.3
Lao PDR	6.3	1	4	10	4.0	57.3	1	2	5	2.0	53.5	1	2	4	1.8	53.3
Singapore	4.7	1	3	8	2.7	55.0	1	2	5	2.0	53.5	1	1	3	0.9	51.6
Brunei Darussalam	0.4	1	1	2	0.9	51.7	1	1	1	1.0	51.7	1	1	1	0.9	51.6
PRC (incl. HKG & Macau, China)	1353.3						2	31	77	28.1	99.8	2	23	57	26.0	97.2
Japan	127.2						2	9	24	9.3	66.5	1	7	18	6.1	61.1
Korea, Republic of	48.3						1	6	15	6.1	60.9	1	4	11	3.6	56.5
India	1198.0											2	22	54	25.5	96.2
Australia	21.3											1	3	7	2.7	54.9
New Zealand	4.3											1	1	3	0.9	51.6
<i>Total</i>	<i>3548.5</i>	<i>11</i>	<i>100</i>	<i>250</i>	<i>100.0</i>		<i>16</i>	<i>100</i>	<i>250</i>	<i>100.0</i>		<i>18</i>	<i>100</i>	<i>250</i>	<i>100.0</i>	

HKG = Hong Kong, China; Lao PDR = Lao People's Democratic Republic; PRC = People's Republic of China.
Popn = Population, Exec = Executive, Cncl = Council, Parl = Parliament.

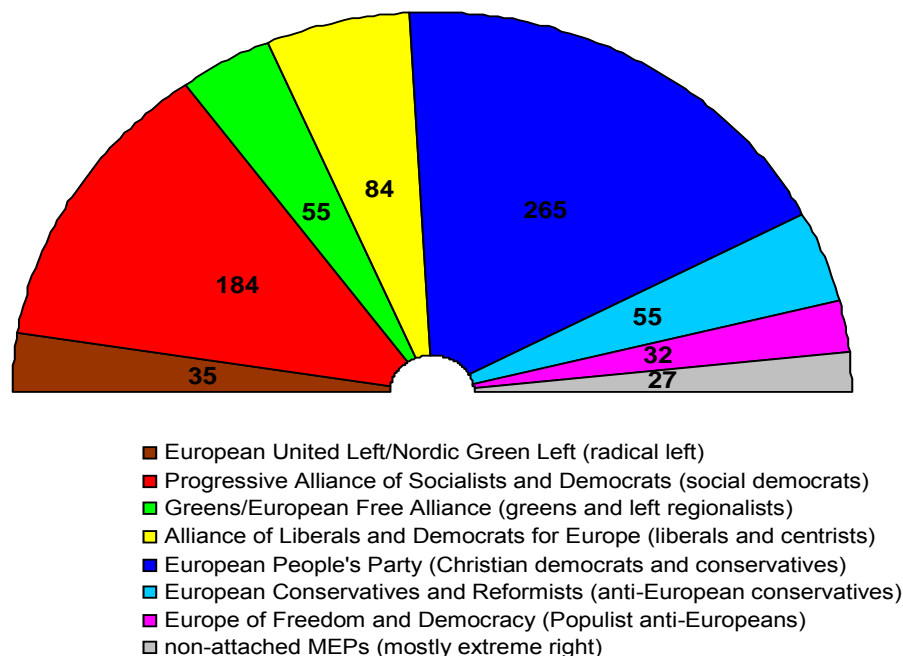
Note: "Voting power" is the normalized Banzhaf index, which calculates the proportion of times a state will be pivotal in a vote. "Inclusiveness" is a measure of the proportion of times a state is likely to be on the winning side in a vote. These indices are calculated using the voting weights in the Council in the table and the assumption that a two-thirds majority (67 votes) is required for a qualified-majority to be achieved.

Source: Calculated using the IOP2.0.2 software (Banzhaf 1965, König and Bräuninger 1998, Bräuninger and König, 2005).

Regarding representation in a Council, the most important conclusion to draw from Table 5 is that it would be possible to design a system of weighted bloc voting in East Asia that would both fairly represent each state and also prevent the PRC and/or India from dominating the organization. For example, in the scenario of an East Asian Summit organization, the PRC and India would have approximately five times more voting power than Japan, the Philippines, and Viet Nam, but together the PRC and India would need at least two other medium-sized states, or all eight of the smallest states, to join them to reach the 62 vote threshold. At the other extreme, even the smallest states could expect to be on the winning side in about 50% of the coalitions that could form.

Finally, to maximize the degree of consensus in the adoption of policies, an East Asian regional organization should also have a Parliament, perhaps based on delegations from national legislatures as the European Parliament was before 1979. An East Asian Parliament should operate through transnational political groups—again, like the European Parliament—rather than through national delegations. This might seem fanciful, but with a little creativity it might not be impossible to achieve in East Asia and could even lead to more checks and balances in the adoption of policies proposed by an independent Executive. Such a Parliament would also be an important counter-weight to a qualified majority in a Council. This is why the European Union founding fathers set up an assembly at the European level, composed of delegates from the national parliaments (Rittberger 2005). The powers of the European Parliament were also extended in the mid-1980s at the same time as QMV was extended in the European Union Council, as the states realized that increasing the power of the European Parliament would present a check on a Council majority and the new agenda-setting power of the Commission. Also, by establishing a supranational Parliament, it increases the probability that a section of the elite from a state would be on the winning side somewhere in the decision-making system. For example, if a center-left government voted against a proposal to liberalize a particular market in a Council, the representatives from the opposition center-right party from the same state would be likely to vote in favor of the proposal in a Parliament.

Figure 6: Political Groups and MEPs in the 2009–14 European Parliament

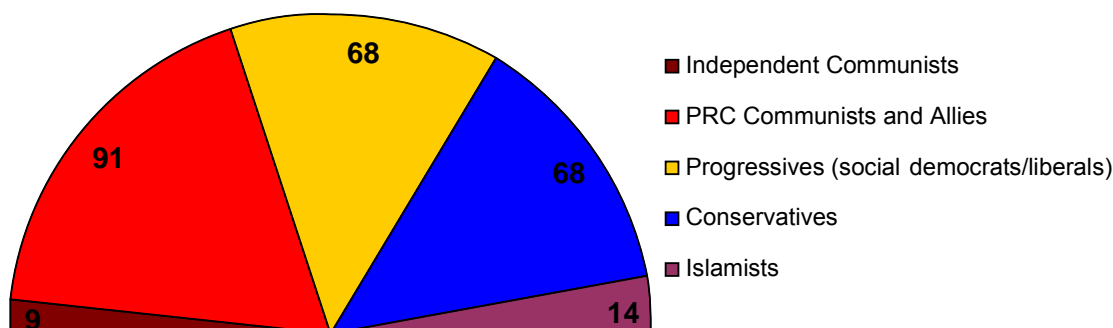


Source: Author's calculations based on European Parliament data.

Figure 6 shows the composition of the current European Parliament after the direct elections in June 2009. The European People's Party, which comprises most of the mainstream parties on the center-right in Europe, is the largest political group, and the Progressive Alliance of Socialists and Democrats, which brings together all the parties on the center-left in Europe, is the second largest political group. Together, these two groups dominate politics in the European Parliament. However, the centrist Alliance of Liberals and Democrats is often pivotal in the formation of a center-right majority on market liberalization issues, and a center-left majority on environmental and civil liberties questions.

A Parliament broadly modeled on the pre-1979 European Parliament could be set up in East Asia, as a counter-weight to a Council and an Executive, as **Figure 7** illustrates. To produce this figure, three assumptions have been made: (i) each state has the same allocation of seats as listed in the Parliament column of the East Asian Summit representation design in Table 5, (ii) seats are allocated to national parties in proportion to their current representation in national parliaments, and (iii) national party delegations would choose to sit with like-minded politicians from other countries in political groups. This last assumption is not inconceivable since many parties in East Asia are already members of an international party union, such as the Council of Asian Liberals and Democrats, the Socialist International, the International Democratic Union, or the Centrist Democratic Union.

To illustrate how this might work, the 54 Indian members of the Parliament would comprise 28 members from the Congress Party, who choose to sit in a group of Progressives; 17 from the Bharatiya Janata Party, who choose to sit in a group of Conservatives; and 9 members from the Communist Party of India, who choose to sit separately from the PRC Communists and their allies. The overall result would be a fairly evenly-balanced assembly, with three main groups: a center-right group (Conservatives), a liberal/center-left group (Progressives), and a group representing the PRC Communist Party and its allied parties. There would also be several Islamists from Indonesia as well as Independent Communists from India. These political groups are unlikely to be as cohesive in their voting behavior as the political groups in the European Parliament. Nevertheless, creating a Parliament which brings together elected representatives from across the region could play a critical role in facilitating the compromises and deals that would need to be made to move economic integration forward. Still, one tricky issue would be where to locate such a Parliament!

Figure 7: Make-Up of a Hypothetical East Asian Parliament


Country	Political Group					Total
	Independent Communists	PRC Communists and Allies	Progressives	Conservatives	Islamists	
PRC		57				57
India	9		28	17		54
Indonesia			5	5	14	24
Japan			12	6		18
Philippines			3	12		15
Viet Nam		15				15
Thailand			7	6		13
Myanmar		11				11
Korea, Rep. of			3	8		11
Malaysia			3	5		8
Australia			4	3		7
Cambodia		4	1	1		6
Lao PDR		4				4
Singapore			1	2		3
New Zealand			1	2		3
Brunei Darussalam				1		1
Total Seats	9	91	68	68	14	250
Percent	3.6	36.4	27.2	27.2	5.6	

PRC = People's Republic of China.

Note: The numbers of seats are calculated on the basis of the proportion of seats held by each political party in each state's national parliament. The membership of the political groups is determined by the policy positions of national political parties and their membership in international party organizations, such as the Council of Asian Liberals and Democrats, the Socialist International, the International Democratic Union, or the Centrist Democratic Union.

Source: Authors' calculations based on data from national parliaments' websites and election results..

6. Current Institutions in East Asia and the Chiang Mai Initiative Multilateralization

This discussion might seem rather abstract and unrealistic to policy-makers in East Asia and to economists and political scientists who are regional experts. Furthermore, East Asia is one of the regions in the world with the least developed supranational institutions when compared with Europe, South America, or Central America. ASEAN, ASEAN+3, and the East Asian Summit remain intergovernmental arrangements as opposed to supranational institutions. Despite the goal of creating a European-style economic community among ASEAN members by 2015, there has been little institutional progress in terms of either the delegation of agenda-setting and enforcement to an independent body, or the introduction of majority-voting between the governments to enable legislation to be passed to facilitate the creation of a genuine single market. Many of the governments in ASEAN are clearly reluctant to take the next step. One possibility is that delegation and supranational design-making, which inevitably involves the formalization of rules and a degree of majoritarianism, is fundamentally incompatible with the highly consensual and informal nature of decision-making in ASEAN, ASEAN+3, and the East Asian Summit.

Beyond these three multilateral intergovernmental structures, a dense network of bilateral free trade agreements has developed rapidly in the last decade between ASEAN and third states, and between individual members of ASEAN and other states in the region and beyond. These bilateral free trade agreements, if implemented, would further liberalize trade in the region, and perhaps make the need for a European-style single market program redundant.

There are, however, several reasons to believe that these bilateral free trade deals are not a substitute for genuine economic integration in East Asia. First, the aggregate benefits from these agreements are likely to be limited given the low levels of tariffs and the exclusion of certain politically-sensitive sectors in most arrangements (Ravenhill 2009). Second, even if these bilateral trade deals do promote further trade liberalization, removing barriers to the free movement of goods and services is likely to increase pressure for the adoption of some common standards to prevent distortions in competition or to establish a level playing field in terms of social and environmental standards, as was the case in Europe. The pressure for common standards is likely to come from the states with the highest domestic standards, such as Japan, Australia, and New Zealand, who fear a race-to-the-bottom.

Furthermore, the Chiang Mai Initiative Multilateralization (CMIM) demonstrates that with sufficient incentives, the states in East Asia are willing to allow the development of genuinely supranational institutional arrangements in the region. The CMIM is an initiative under the ASEAN+3 framework that establishes a system of bilateral swap arrangements. The Chiang Mai Initiative was set up after the 1997/98 Asian financial crisis to manage short-term liquidity problems in the region and to facilitate the work of other international financial arrangements, such as the International Monetary Fund. In February 2009, ASEAN+3 members agreed to pool US\$120 billion for this purpose, and also introduced some new decision-making rules.

The memo from the meeting of the ASEAN+3 Finance Ministers in May 2009 states: “On [the] decision-making mechanism of the CMIM, the fundamental issues will be decided through consensus of members of ASEAN+3, while the lending issues will be decided through majority.” The specific rules governing how this majority decision-making will operate are still unclear. However, this is a historic agreement, as it is the first time that sovereign states in East Asia have allowed majoritarian decision-making rules to govern any aspect of their relations. Although the CMIM is in the area of financial integration, and although the majority decision-making aspect of the CMIM is restricted to currency lending issues, the establishment of this majority-based mechanism suggests that East Asian states might be willing to allow similar rules to be used on other technical aspects of economic integration, such as on the harmonization of product standards, packaging and labeling, or health and safety in the workplace.

Table 6 presents an analysis of representation and state power under the potential decision-making rules of the CMIM. Each group of columns assumes a different structure of decision-making, where a majority threshold of 60.01 out of 120 is required and voting weights are either based on the (i) contributions to the CMIM fund, (ii) square-root of the population of each state, (iii) square-root of the nominal GDP of each state, or (iv) square-root of the currency reserves of each state (the Penrose formula).

If decision-making were based on the contributions of the states to the CMIM fund and votes cast by individual states rather than by regional blocs, then the three states with the largest contributions (the PRC, Japan, and Republic of Korea) would have far more voting power than their share of contributions would suggest. For example, Republic of Korea has contributed slightly more than four times what Indonesia has contributed to the CMIM fund—US\$19.20 billion compared with \$4.77 billion—yet voting weights based on these amounts would mean that Republic of Korea would be 15 times more likely to be pivotal in decision-making than Indonesia. However, the picture is very different if one assumes that the 10 ASEAN states vote as a single bloc. If this were the case, then Republic of Korea would have zero power, as it would never be pivotal, since coalitions of ASEAN–PRC, ASEAN–Japan, or PRC–Japan would each comprise a majority without Republic of Korea. Furthermore, a coalition of Republic of Korea with any other state would need a third actor to form a majority. Nevertheless, Republic of Korea would be on the winning side in 50% of the coalitions that could be formed between these four actors. The power relations might be different under alternative representational arrangements. For example, if voting were based on population size, the PRC would of course dominate proceedings, while decision-making based on GDP size or currency reserves would be very similar to decision-making based on the CMIM contributions.

**Table 6: Representation under the Chiang Mai Initiative
Multilateralization (CMIM)**

	CMIM contributions (US\$bn)	CMIM contributions (%)	Basic votes	Votes based on contributions	Total votes (no.)	Total votes (%)	Voting power	Inclusive- ness
By country								
PRC	38.40	32.00	1.60	38.40	40.00	28.41	29.10	77.16
Japan	38.40	32.00	1.60	38.40	40.00	28.41	29.10	77.16
Korea, Rep. of	19.20	16.00	1.60	19.20	20.80	14.77	22.07	70.60
Indonesia	4.77	3.98	1.60	4.77	6.37	4.52	3.49	53.26
Malaysia	4.77	3.98	1.60	4.77	6.37	4.52	3.49	53.26
Singapore	4.77	3.98	1.60	4.77	6.37	4.52	3.49	53.26
Thailand	4.77	3.98	1.60	4.77	6.37	4.52	3.49	53.26
Philippines	3.68	3.07	1.60	3.68	5.28	3.75	2.55	52.38
Viet Nam	1.00	0.83	1.60	1.00	2.60	1.85	1.35	51.26
Cambodia	0.12	0.10	1.60	0.12	1.72	1.22	1.06	50.99
Myanmar	0.06	0.05	1.60	0.06	1.66	1.18	1.04	50.96
Brunei								
Darussalam	0.03	0.03	1.60	0.03	1.63	1.16	1.03	50.96
Lao PDR	0.03	0.03	1.60	0.03	1.63	1.16	1.03	50.96
By group								
ASEAN	24.00	20.00	16.00	24.00	40.00	28.41	33.33	75.00
PRC	38.40	32.00	1.60	38.40	40.00	28.41	33.33	75.00
Japan	38.40	32.00	1.60	38.40	40.00	28.41	33.33	75.00
Korea, Rep. of	19.20	16.00	1.60	19.20	20.80	14.77	0.00	50.00
Total	120.00	100.00	20.80	120.00	140.80	100.00	100.00	

Note: 'Voting power' is the normalised Banzhaf index, which calculates the proportion of times a state will be pivotal in a vote. 'Inclusiveness' is a measure of the proportion of times a state is likely to be on the winning side in a vote. These indices are calculated using the Dollar contributions as the voting weights and the assumption that decisions require a simple majority (70.41 out of 140.80 votes) to pass. These indices were calculated using the IOP2.0.2 software (Banzhaf 1965; König and Bräuninger 1998; Bräuninger and König, 2005).

7. Conclusion

In the early 1980s it would have been hard to imagine that in 25 years there would be a single market in Europe stretching from the Atlantic to the border of Russia and encompassing almost 500 million people. It would have been equally difficult to predict that (i) the European Commission would be a powerful supranational executive, (ii) 27 European Union governments would take most decisions by a majority vote, and (iii) the European Parliament would have co-equal power with governments in the adoption of rules governing Europe's single market.

Could something similar happen in East Asia in the next 25 years? One big difference between these two regions is that in Europe in the mid-1980s there was a convergence of preferences amongst governments, businesses, and citizens around the goal of creating a single continental-scale market. This enabled the governments to unanimously agree to delegate new agenda-setting powers to the Commission, and to change the rules of engagement in the Council and between the Council and the Parliament, to allow for more majority decisions, but with new checks and balances.

East Asia may be too heterogeneous in terms of population, economic size, wealth, democracy, the rule of law, and citizens' values—let alone the deep historical rivalries and suspicions in the region—for states to converge around such an ambitious project. Nevertheless, states in East Asia need not fear delegation to an independent agent if the institutional arrangements are designed carefully to limit the independent authority of an independent body, ensure a high level of consensus, and provide equitable representation between the states involved.

If a group of states in the region can agree on a common economic integration project, it is not beyond the wit of a woman to design an institutional architecture to fit the East Asian environment. The basic elements of the architecture might include (i) an independent Executive, responsible for policy initiatives and the oversight of policy implementation; (ii) a set of mechanisms to limit the autonomous action of this body, such as unanimous agreement amongst the states before delegating to this body and representation of all states in the Executive; and (iii) a legislative authority, including a Council acting by a system of weighted-bloc voting, and a Parliament composed of delegates from national parliaments.

Indeed, the experience of Europe in the past 25 years suggests that regional integration is at least partly endogenous to the institutional design of the project. When signing the Single European Act in the mid-1980s, most European governments could not have predicted how quickly the new institutional framework would get to work, or how far European integration would reach into other policy areas. If a group of states in East Asia could start the ball rolling, economic integration beyond a free trade area could become a genuine prospect for the region.

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Regional economic integration involves the removal of barriers and the establishment of common rules. Common rules can be facilitated by delegating policy initiative to an independent executive agency. Several Asian governments oppose any such delegation. However, the lesson from the European Union is that a supranational agency can be tightly controlled if it is carefully designed. The paper assesses the prerequisites for such a design in Asia: specifically whether national preferences have converged, and whether an equitable system of representation can be established. Several institutional scenarios for an "Asian economic union" are considered.

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