



Regional integration: Lessons from Asia and Europe

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European Union



Background

- Formed in 1957 by the Treaty of Rome
- The founding members being Belgium, Germany, France, Italy, Luxembourg and the Netherlands.
- Traces from European Coal and Steel Community(ECSC) -1951 and the European Economic Community(EEC)
- Current membership is 28 countries – 1 July 2013 Croatia
- Combined population of over 500mil ie. 7.3% of total global population, 2014 nominal GDP \$18. 495 trillion constituting 24% of the global GDP thus generating GDP higher than any other economic union
- Perceived to be a **model of regional integration** and the best example showing **regional security** and governance in Europe (Magen, 2006).
- Europe's success story has showed that with regional integration comes a successful growth strategy and its spill over effects into other regions exposed previously unorganised countries to the risk of becoming victims of negative externalities resulting from being alienated from regional trade arrangements leading to 'trade diversion effect'(Choi, 2003)



European Union members



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- | | | | |
|----------------|--|----------------|--|
| Belgium | | Lithuania | |
| Bulgaria | | Luxembourg | |
| Czech Republic | | Hungary | |
| Denmark | | Malta | |
| Germany | | Netherlands | |
| Estonia | | Austria | |
| Ireland | | Poland | |
| Greece | | Portugal | |
| Spain | | Romania | |
| France | | Slovenia | |
| Croatia | | Slovakia | |
| Italy | | Finland | |
| Cyprus | | Sweden | |
| Latvia | | United Kingdom | |

The protocol order of the Member States is based on the alphabetical order of their geographical names in the original language.



➤ Decision making

- The need for a suitable, self-regulating supranational authority and mandatory regional institutions for example a single central bank, with a clear focus and realistic transition structure towards integration.
- The supranational authority should be adequately empowered with rules for **enforcing** and **penalising** errant behaviour by non-compliant members.
- **Court of Justice** in monitoring implementation, **European Commission**, **European Council**, **European Court of Auditors**, and **European Parliament** have been decisive in integrating the European Union market thus far. It is important to note that the powers of these institutions have been evolving because there has never been a static line between powers of these institutions and national government powers nor a fixed point beyond which regional integration could not go without national governments to pool their decision-making authority.
- Prioritisation in design of policy objectives, strategies and establishing appropriate institutions as well as assigning mandates at the national and regional levels.

Lessons from Europe cont'd

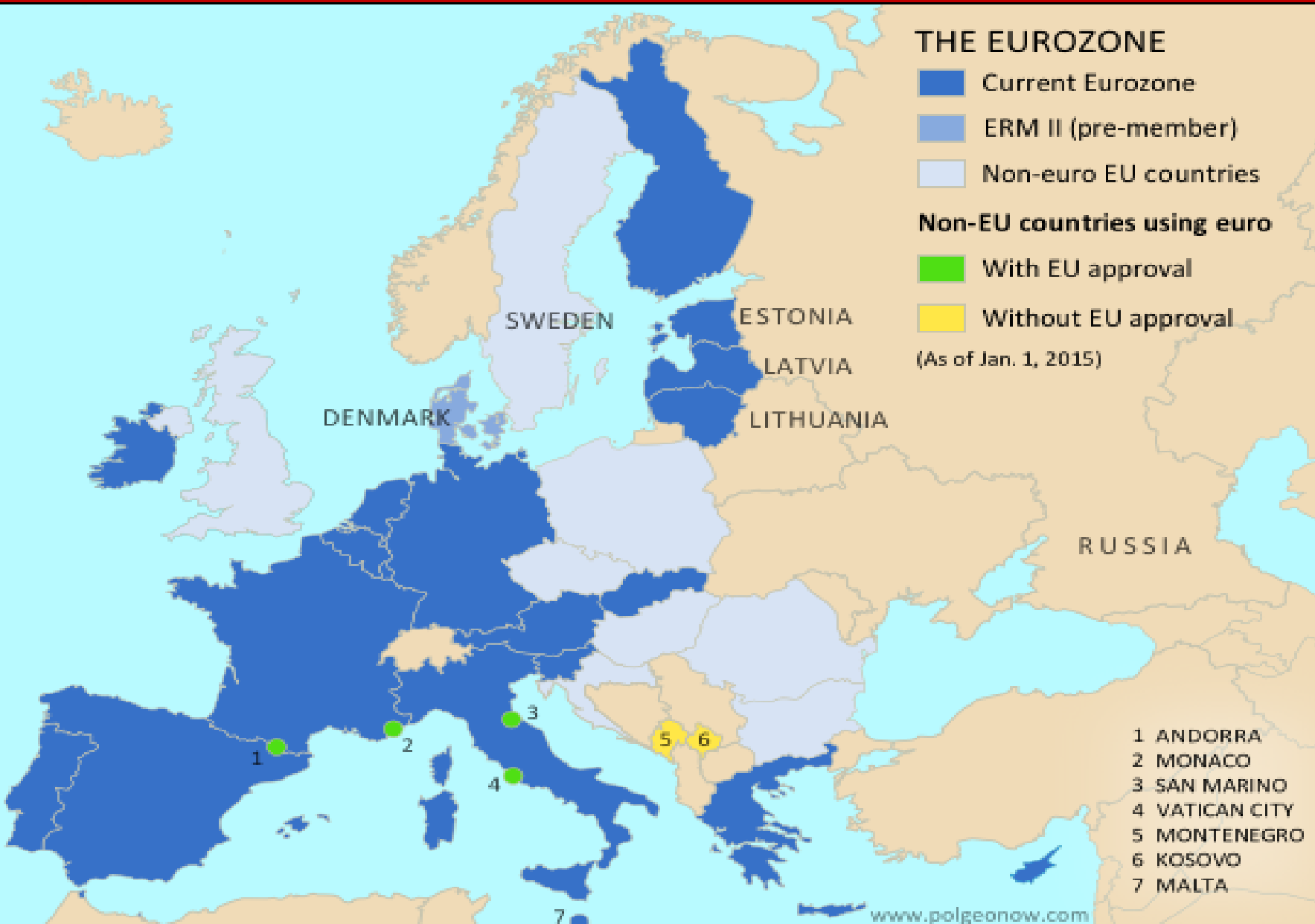


➤ Gradualism/Sequencing

- **Customs union** in 1968 with European integration in form of a free trade arrangement with focus on promoting intra-regional trade in goods and some services.
- **Single market** in 1993, whereby integration was extended to include the free movement of money and people.
- **Common currency** 1999. with the adoption of the euro in
- Eurozone-19 member countries



The Eurozone



EU members not using the Euro

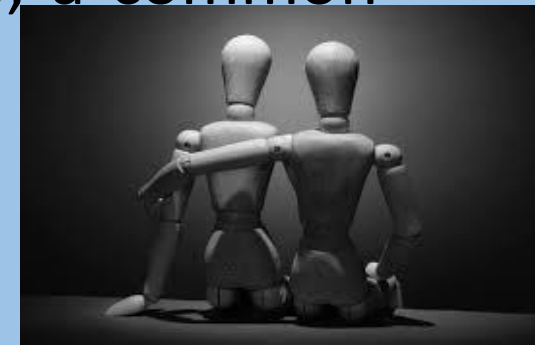
- Bulgaria
- Croatia
- Czech Republic
- Denmark
- Hungary
- Poland
- Romania
- Sweden
- United Kingdom



Lessons from Europe



- Importance of **historical reconciliation** for developing a necessary political will for cooperation and hence integration.
- The historical reconciliation between France and Germany was achieved by years of sustained political effort from the leaders of these countries. (Urwin, 2014)
- In contrast reconciliation has yet to be witnessed in other regions such as East Asia ie. between Japan and Korea / Japan and China.
- Only after historical reconciliation can countries proceed gradually along the various steps required to create regional community such as a free trade area, customs union, a single market, a single currency, a common passport area and common foreign policy.



Lessons from Europe cont'd



- A **consensus approach combined with solidarity and tolerance** is important.
- The EU approach is based on not isolating any member state if they have major problems (eg. Greece is the most recent crisis)
- Successfully promoted economic development in the less developed economies for example Spain and Portugal
- Hesitance to move forward with policies until the vast majority of member states are ready and a willingness to provide significant financial transfers to help poorer member states until they are ready to catch up with the norm.

Lessons from Europe cont'd



- European Neighbourhood Policy to **integrate neighbours into the regional group promoting stable democracies and reform.**
- It seeks to diffuse the idea of regional integration as a way of achieving peace, social welfare, economic development and exportation of regionalism by using its relations through political dialogue as well as creation of joint institutions for consultations and decision making in its neighbourhood and beyond.
- It persuades the third country to adopt EU's idea on regional integration through **external development assistance** which can either be technical or financial assistance (Borzal et al., 2008)
- Hence, in addition to influencing the direct projects and programmes, it also follows the ideas and mindsets of local elites (De Lombaerde et al., 2008)

Lessons from Europe cont'd



- The EU has an excellent record of **recovering from crises and moving ahead even stronger than before due to firm political will** (Cameron, 2010).

Failed plan for a European Defence Community in 1954 →
European Economic Community in 1957

Empty chair crisis of 1965 → de facto acceptance of QMV and
later de jure acceptance as a result of the 1986 Single
European Act

Currency challenges in the 1980s → European Monetary Fund
and eventually the Euro

Collapse of communism in Europe → The agreement on establishing
a common foreign policy thus widest enlargement in the EU
history

Lessons from Europe cont'd



- Thus history of integration in Europe shows that **creation of blueprints** and taking another step for integration even in the worst of situations is very important in making continued progress.
- The resounding lesson of the EU model, then, is the necessity of genuine **investment by member states** in the goal of regional integration. While not always politically expedient, national governments would be wise to put the long-term goal of cooperation above more immediate domestic priorities.
- Governments and publics should believe that it is in their vital interest but also important to involve the **private sector through supranational company law**. Without such commitment, regional groupings will crumble at the first bump in the long road to integration

Lessons from Europe cont'd



- **Expenditure programs** are an essential effort to support the integration process.
- Investment in the *Common Agricultural Policy introduced in the early 1960s* to support farmers and a similar arrangement would be essential for Africa where a large share of employment lies in the agricultural sector.
- *Structural and Regional Funds refined in the 1970s* to address the concerns of the region's low income countries. In this regard, while trying to address the concerns that less developed regions may be left behind in the process if not addressed, it is important to decide which regions should be assisted and in which areas that is whether in telecommunications, transportation, educational structures or any other.

Lessons from Europe cont'd



- **Political will to share sovereignty** and construct strong legally based common institutions to oversee the integration project.



Borders and
national
sovereignty

- Although some literature such as Lorenz (2012) argues that policy-makers in the SADC region have, over time, increasingly adopted EU-style institutional arrangements even though alternative institutional models are more suitable to their preferences for 'pragmatic', sovereignty-preserving cooperation available at various critical junctures of institutional evolution

Lessons from Europe cont'd



- However----- CHALLENGES----- relatively weak and unstable economies especially with the financial crisis which exposed the vulnerability of EU economies (Eichengreen, 2012). The Greece's economic budget deficit has resulted in weakening of EU's economic standing.
- Other countries that have been affected and requested international bailout from the European Central Bank (ECB) are Portugal, Spain, Ireland and Cyprus making them a total of five.

Lessons from Asia



- Quite a number of regional blocks for example
 - Association of South East Asian Nations (ASEAN),
 - Asia Pacific Trade Agreement (APTA)
 - Asia-Pacific Economic Cooperation (APEC) which is integration with the pacific
 - South Asian Association for Regional Cooperation (SAARC)
 - Economic Cooperation Organization (ECO), established in 1985, consisting of ten member countries of the central and western Asia which are Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkey, Turkmenistan and Uzbekistan (Wang, 2013).
- ASEAN for example has its own regional characteristics such as *sovereignty led, compromised governance, non-interference, informality* in consultation and consensus which are different from the above mentioned EU's example. However, ASEAN has increasingly learnt to build formal institutions from the EU to increase its international recognition (Bo"rzel and Risse, 2009)



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ASEAN



ASEAN, APTA, SAARC, ECO

SAARC Member Countries

The South Asian Association for Regional Cooperation (SAARC) was established on December 8, 1985 to organize and unite the governments of its seven original members: Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka to promote mutual progress and development.

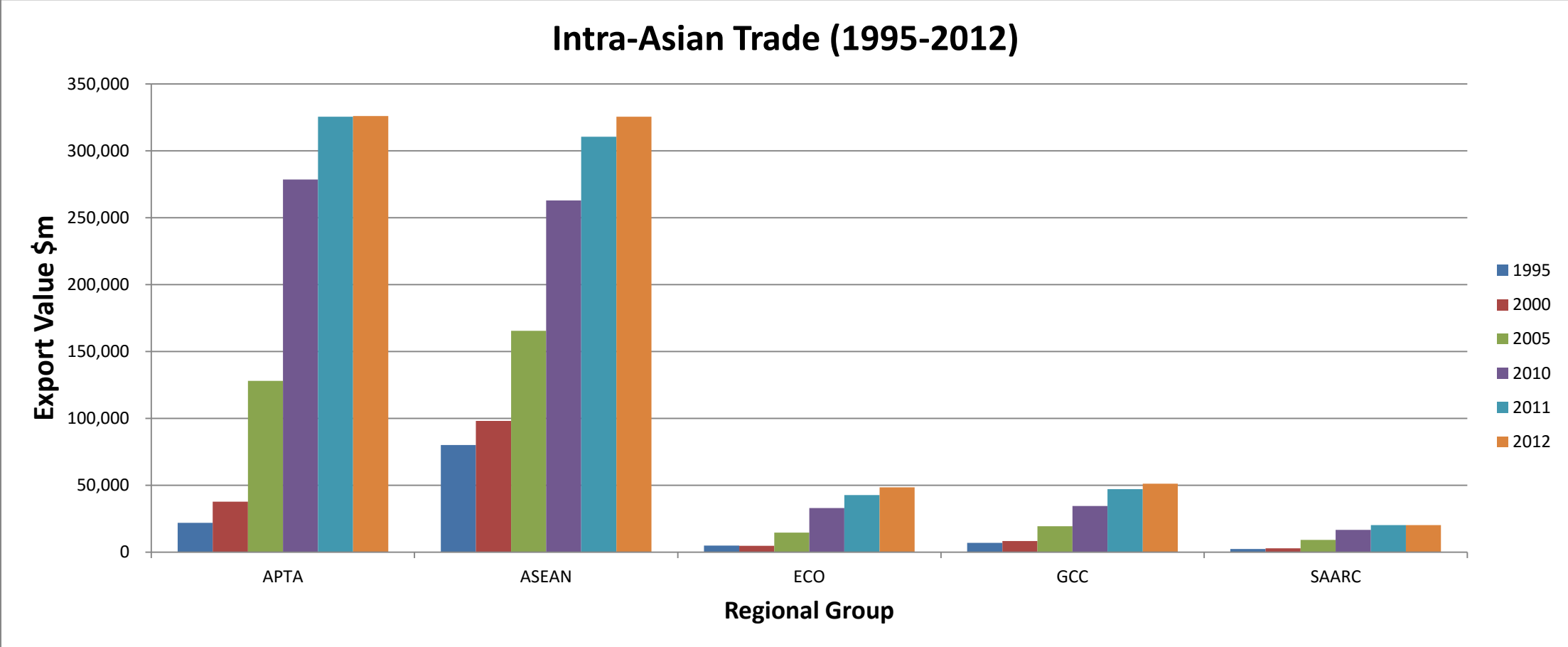


Lessons from Asia



- In terms of intra regional trade volumes, compared to the European Union, Asian regional trade has been trailing behind until 2008 as shown in Fig. 1 because of the financial crisis which required member countries to take the initiative of trading among themselves in compensation of lessening trade with European and American markets leading to strikingly large intra-trade volumes.
- In recent years while global trade with Asia has doubled since 2000, intra-regional trade has tripled because countries within economic-trade regimes such as [ASEAN](#) in [Southeast Asia](#) increased trade levels as well as commodity exchange among themselves hence reducing [inflation](#) and [tariff](#) barriers associated with foreign [markets](#) resulting in growing prosperity.

Lessons from Asia



Lessons from Asia



- As for Asia, it is such a **complex entity** and geological area without common legal systems and governance standards. This complexity goes some way towards explaining the nature of its regionalisation. Decisions are made under the procedure of consultation and consensus, **without any independent dispute settlement body or parliamentary assembly or a representation of societal interests**. The importance of monitoring implementation through a court of justice is therefore essential (Wang, 2013).
- Asian countries have lower levels of collective cultural identity and common political mission (Choi, 2003 and Crone, 1993), compared to the European experience.
- The weak formal institutions due to reluctance to institutionalisation restricts Asia from providing a coordinated regional response to global requirements in times of crisis. Some of these characteristics are somewhat similar to Africa's scenario

Lessons from Asia



- The new regionalism in especially in East Asia indicates that the **states use economic instruments to pursue political objectives**. In East Asia, economic and financial cooperation is largely shaped and boosted by political intentions of states. Since governments are largely worried about loss of behavioural autonomy and national sovereignty, they have constrained the economic cooperation to a shallow level (Ravenhi, 2009).
- They have chosen a regional integration which is less institutionally designed and more bilateral and inter-governmental. Unlike Europe, the institutions are lean and have limited supranational powers.
- Moreover, East Asian integration relies on a so-called **noodle bowl** of bilateral Free Trade Agreements that are **too cumbersome** making them difficult to be utilized by the private sector who are important stakeholders in the integration process (Langhammer, 2007). In overcoming this hurdle, there might be need to involve the private sector through supranational company law

Lessons from Asia



- Lack of nations or leaders that drive the integration process has slackened the growth of the Asian integration.
- This is unlike the European scenario where we see the leadership generated by the Franco-German axis. Despite many challenges, Paris and Berlin have been and still remain the driving force behind integration in Europe. Also, visionary politicians, such as Robert Schuman of France and Konrad Adenauer of Germany, who envisaged a new form of politics based on the supranational "community method" rather than the traditional balance-of-power model.
- Support from the United States was also crucial in the early years (Cameron, 2010).

Lessons from Asia



- On a positive note, Asian countries **complement each other** in terms of providing labour, technologies and different components needed in manufacturing of products.
- Competitive and comparative advantages among Asian countries enable them to promote economic integration through trade and investments.
- Such approach enabled the shift from a more vertical economic model centered on economic monopoly to a more horizontal model with more diverse economic actors and economic interests and influence. It includes intra-regional trade and capital flows.
- Greater regional trade has been possible with the reduction of tariffs between countries to enable movement of goods, labour and capital within Asia.
- Also, the Asian phenomenon of South-south trade expansion has increased notably, which has been greatly driven by their economic growth, success in production sharing schemes, as well as rising demand for natural resources from other developing regions.

Lessons from Asia



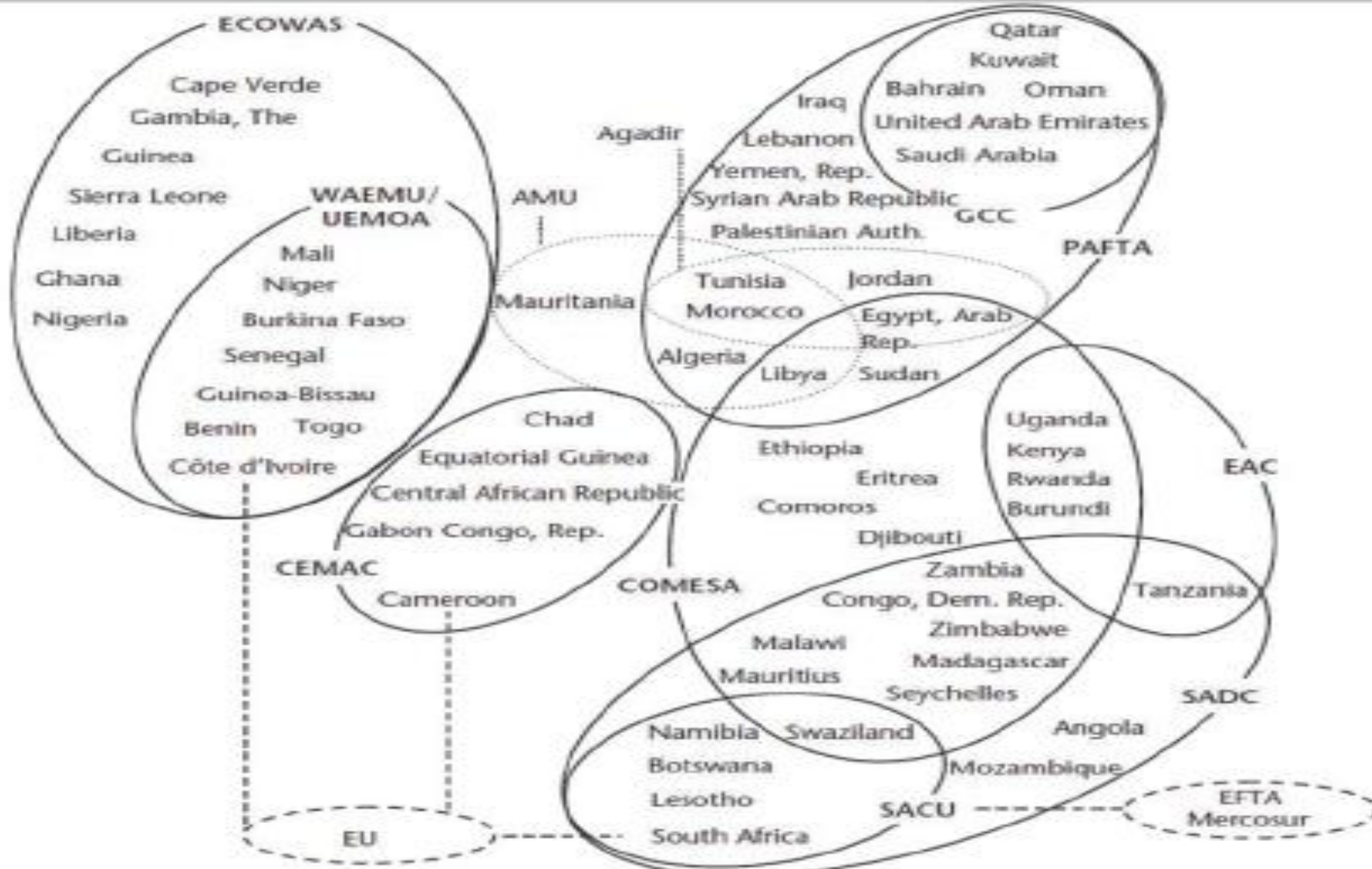
- However, it can be noted that in Asia, China plays a significant role in intra -Asian trade by importing from other Asian countries.
- Its growing power in economic and military area causes concerns with its neighbouring countries regarding hegemonic China (Choi, 2003).
- This has led to contrasts with its broader political ambitions within the region resulting in political and diplomatic tensions as well as economic consequences on Asia's integration.

Africa's trade



- Africa is still narrowly based on production and export of **unprocessed agricultural products**, minerals and crude oil. Due to relatively low productivity and technology, African economies have low competitiveness in global markets apart from crude extractive products. The low productivity of traditional agriculture and the informal activities continue to absorb more than 80% of the labour force as previously alluded to, hence growth remains vulnerable to external shocks.
- Thus, the continent still plays a **marginal role in the global market**, accounting for barely 3% of world trade.
- Moreover, **costly and cumbersome border procedures, inadequate infrastructure and administrative burdens** often raise trade-related transaction costs within Africa to unsustainable levels, creating a further barrier to intra-African trade.

Regional Trade Agreements in Africa



Source: Acharya et al. (2011, Figure 2.18); WTO Secretariat.

Africa's trade

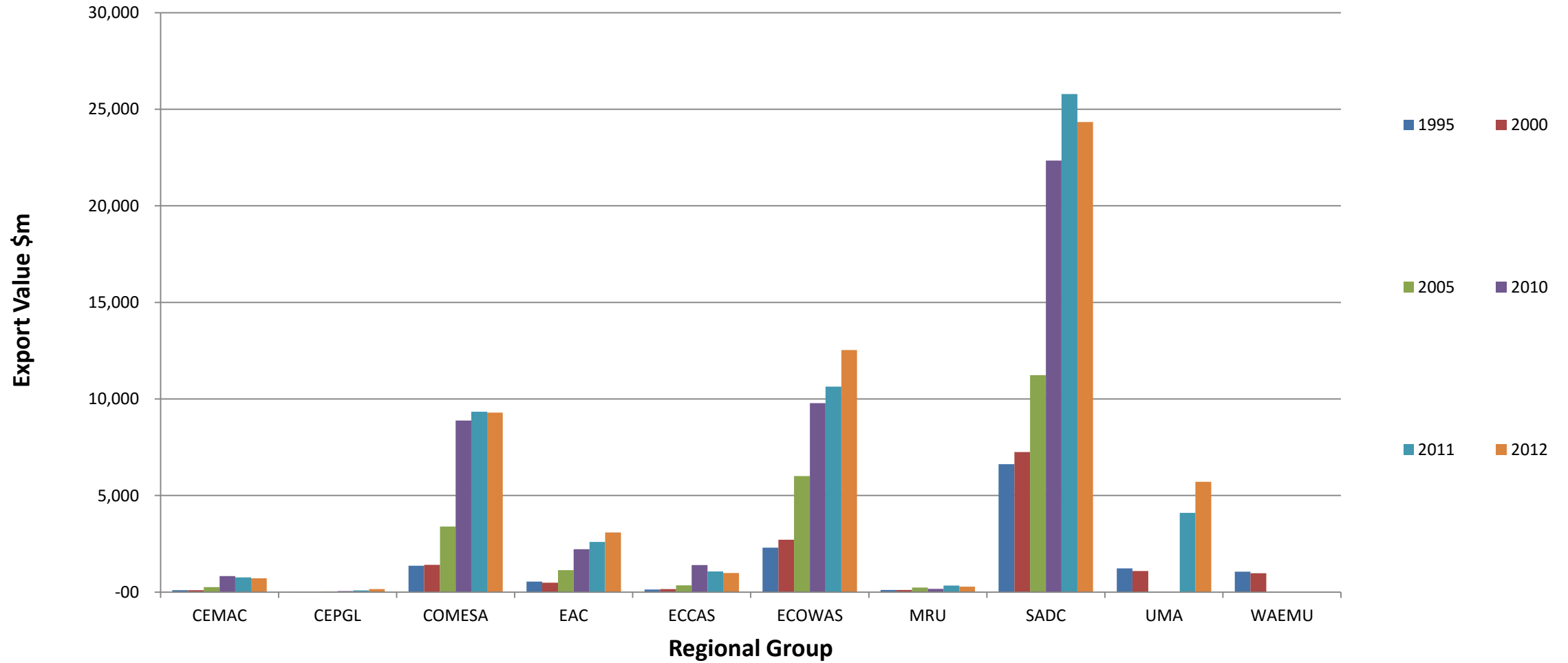


- In Africa's regional integration process with the trade values shown in Fig. 2, it could learn from Asia since there are also different Regional Economic Communities compared to the European Union, which is a single trading bloc. In the EU scenario, there is no overlapping of membership for its member countries.
- Hence, **integrating national policies with regional policies** should be key to driving greater integration in Africa based on regional political and economic institutions. This could lead to utilising the benefits that lie in intra-regional trade as exhibited in the Asian scenario.

Africa's trade



Intra- Africa Trade (1995-2012)





Africa's trade: COMESA-EAC-SADC Tripartite Free Trade Area



- 26 member countries comprising the three largest regional economic communities (RECs) in Africa that is the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), and the Southern African Development Community (SADC)
- Combined population of 632 million people which is 57% of Africa's population
- Total Gross Domestic Product (GDP) of USD\$ 1.3 Trillion (2014) contributing 58% of Africa's GDP



Africa's trade: COMESA-EAC-SADC Tripartite Free Trade Area



- Deal comes into force once ratification is attained by two-thirds of the 26 member states. The establishment of a TFTA will bolster intra-regional trade by *creating a wider market, increase investment flows, enhance competitiveness and encourage regional infrastructure development* as well as pioneer the integration of the African continent. The tripartite initiative is a decisive step to achieve the African vision of establishing the African Economic Community.
- Based on **developmental integration approach** built on three pillars
 - industrial development** to enhance competitiveness and address supply and productive capacity constraints
 - infrastructure development** for facilitation and enhanced connectivity, communication and movement of goods and persons thus reducing the cost of doing business
 - market integration** adopted in the Second Tripartite summit

WTO Trade Facilitation Agreement provides glimpse of hope ...



42 African countries are WTO members

Concluding.....

- In conclusion, besides having to come up with solutions such as *technological upgrading, reduction of infrastructure gaps, diversification of economic structure* that is of production and exports, the *improvement of the productivity of all resources*, including labour as well as enhancement of export competitiveness other challenges for African leaders as well as policy makers as discussed above from the lessons from Europe and Asia lie in the level at which governments are willing to **compromise sovereignty and political autonomy for the sake of regional integration**.
- The second is creation of mechanisms through which the “losers” and the “weak” within the region can be compensated.
- The third is the clear definition of which members can benefit from such mechanisms. These are the elements which are useful in propelling progress in furthering regional integration and institution building because they remove resistance and obstacles against functional spillovers.

Concluding.....

- There is need for **exposure to binding negotiations** on regional issues and accumulate necessary experience in solving the issues.
- Create forums for discussing region-specific but common issues such as intra-regional trade, intra-regional investment, environmental issues, developmental issues, gender, human security etc. within Africa's own capacity
- It took many years for Europe member states to acquire negotiation skills and to reach a stage of mutual understanding

Concluding.....

- In terms of financial integration in Africa, the challenges are undoubtedly daunting. First, the European Union implemented the integration of financial systems with the strong guidance and supervision of a supranational authority, which Africa does not have but indeed of.
- The existence of the European Commission, European Parliament and Court of Justice have been decisive in integrating the European Union market so far but Africa lacks adequate institutional structure that help accelerate integration in the continent.
- In addition, the “carrot and stick” system worked to enforce liberalization in the European Union, with the “stick” → sacrifices in adjusting domestic markets hence transitioning to a more competitive financial market and the “carrot” → benefits of belonging to the European Union.
- The benefits were strong enough to help accept the dismantling of protectionist barriers. In Africa, these benefits are presumed to be present but their magnitude is yet unclear. It remains to be seen if they are going to be sufficient to excite the region’s financial sector.



FEEDBACK



**QUESTIONS
AND
COMMENTS**