

# **Third CEPII-IDB Conference: The New Regionalism: Progress, Setbacks and Challenges**

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# **New regionalism: EU and Asia ways**

L.Fontagné & M.Fouquin

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# New Regionalism, the European Way: Enlargement and Deepening

- Europe has advanced since its beginnings through a two drive process: deepening and enlargement
- **deepening** process: from a Custom's Union (Common market) to a Single Market and a Single Currency
- It includes common policies such as the CAP and the Trade Policy and supra national institutions such as the European parliament and the European court of justice
- It's members share strong political values on human rights and democracy

# Enlargement and deepening cont...

- Europe's **enlargement** is also a routine:
- first to similar developed countries like UK,
- but since the eighties, it includes less and less developed countries such as Spain, Portugal and Greece first, to Romania and Bulgaria in 2007. It is considered as the best way to anchor democracy and peace in these countries
- The result of deepening and enlargement is a highly complex system which is difficult to understand for the citizen, which may explain the failure of the referendum for the Constitutional Treaty in France and Netherlands

# Enlargement and deepening cont...

- After the Constitutional Treaty rejection, EU is facing some major challenges of which we will consider three:
  - What are the limits of EU?
  - How to reform its decision making process?
  - What budget for an enlarged EU?

# European Neighbourhood Policy (ENP)

- Enlargement make the question of the “limits of Europe” a crucial issue notably for “new neighbours”
- Belarus, Moldavia, Ukraine and the CIS in the North
- Mediterranean countries in the South from Morocco to Turkey
- The temptative answer to these questions is the ENP

*Table 1. Categories of countries according their prospects for EU accession*

<b>Description</b>	<b>Countries</b>
1. EU candidate negotiating accession (pre-accession)	Bulgaria, Romania, Since October 2005, Turkey and Croatia
2. Potential EU candidate (pre-pre-pre-accession)	Serbia and Montenegro, Bosnia and Herzegovina, Macedonia, Albania
3. Non-EU candidate with accession aspirations	Ukraine, Moldova, Georgia, Armenia
4. Non-EU candidate with no accession chances	South mediterranean countries

## ENP Cont...

- ENP does not imply membership
- It's bilateral and differentiated by partners
- It translates into Action Plan derived from the standard agenda of the accession negotiation process
- It includes Copenhagen criteria for democracy and human rights
- as well as the “Acquis Communautaires” on freedom of movements of goods, services, capital but short on labour
- Extended to the law of the single market policy

## ENP Cont...

- It's a shift from the Barcelona process which include a vague intention to co-operate
- It prescribes harmonisation with EU norms or at least convergence toward them
- It comes on the top of the existing Association Agreements
- The question of incentive and conditionality is crucial
- For the new members conditionality was very precise and strongly binding but the stakes were integration into EU
- for the other country conditionality is not yet clearly defined

# Budget Battle

- EU budget is 80% about agriculture and poor regions
- With ten new countries and 75 million people
- New members on average have more farmers and more poor people or regions than the former members
- There is clearly a need to redefined the budget structure
- Some rich region get more receipts on a per head measure -LX, BL, DK, FL, FR- than others
- Some countries get net benefits LX, IR, PT, GR, SP, BL three are among the richest : LX, IR, BL

## Budget Battle cont...

- Two possibilities reduce spending or enlarge the system to the new members
- Amounts in 2005-2006 seem fair for the new members but in reality there are less well treated on structural funds as well as on agricultural subsidies (on average they get less than half per head what they would have gotten if rules similar to those applied to former members.
- Finally an agreement was reached in December 2005

# How to reform its decision-making process?

- European Institutions were set up by the founding treaties of the fifties made by and for 6 countries
- The major executive body is the Council of the EU: it represents member states and is attended by one minister according to the subject on the agenda
- It has six key responsibilities: pass EU laws, macro-economic co-ordination, conclude international agreement, decide EU budget, Common Foreign Policy and security, justice and police co-ordination

## Cont...

- Decision in the Council are taken by vote whether on Qualified Majority voting (QMV) or unanimity
- Unanimity is required on sensitive issues : Common Foreign Policy, Taxation, Immigration policies.
- With 25 members, unanimity is very difficult to achieve
- QMV: each country is given several votes in order to take into account its size; but that system could not work with 25 members
- Solutions was to introduce dual majority voting rules based on population and economic size with a weighting system

## Cont...

- EU governments were aware of the problem since 1996 and are since looking for a solution
- The Nice Treaty include an inadequate voting system
- Which was to be corrected by the Constitutional Treaty...
- For the moment no solution, but there is sense of urgency, no country want to be considered as responsible for the failure of EU, this makes (bad or good) compromise possible

# New Regionalism: The Asian Way

- Institutional Regionalisation has come late to Asia, Japan was the last among the developed country to sign a PTA
- Its pace has accelerated since the mid nineties due to various causes:
  - the financial crisis of 1997-98;
  - Chinese entry to WTO, and Chinese active economic diplomacy;
  - enlargement of EU;
  - FTAA project;
  - APEC failure;

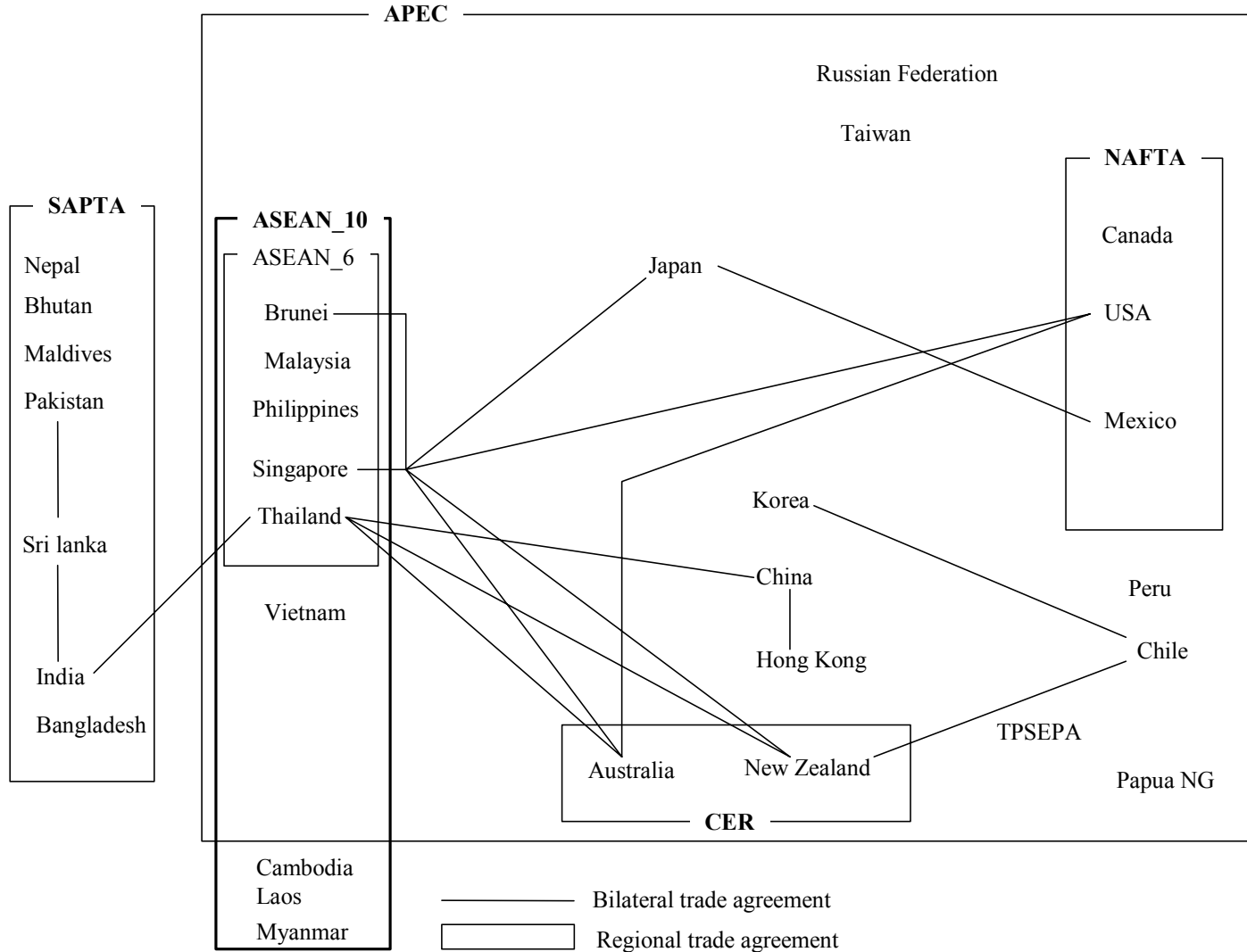
## Open Regionalism concept cont...

- First attempt at institutional regionalisation was APEC in the early nineties but both the US and Japan were reluctant to support an European like regional scheme.
- For Japan informal links were sufficient and the US wanted to avoid the creation of an Asian Trade Block.
- The concept of Open Regionalism emerged as the solution; it was an answer to trade diversion.
- No scientific definition no quantitative measure were given at first, it was a vague concept if not empty
- Frankel & Wei (1993) demonstrate that continental regionalism could be welfare enhancing

## Open Regionalism concept cont...

- Propose to include intercontinental transport cost threshold of 18% to allow for positive welfare effect
- Macmillan criteria was no reduction in the volume of extra regional trade
- Wei and Frankel (1998) consider relative liberalisation and find that a 4% decrease in extra regional trade is enough to preserve welfare gains

# Long Term Perspectives: From an ASEAN FTA to an ASEAN Community



# Realities of Asian regionalisation

- In principle ASEAN integration should be realised by 2003 for the old members and later for the new members
- What kind of a region is ASEAN : neither a Custom Union nor a true FTA.
- There are no common tariffs and tariff are still positive
- There are de facto as many agreements as there are bilateral agreements: exemption list for sensitive products are bilateral list as bilateral list are a cumulation of the two lists
- Complexity of the system makes it costly to operate

# Realities of Asian regionalisation

- The same is probably at work with China
- There is a common declaration between ASEAN and China but in reality there are as many negotiations as there are partners
- The degree of binding of these agreements are not clear as there is no dispute settlement procedure
- Things will be different with Japan and probably with Korea : rules will have to be more binding, that is probably the reason why negotiations are more time consuming to achieve
- Optimism however is possible and may induce real regionalisation

# Four Scenarios of Regional Integration in Asia

- SC1: Hub and Spoke ASEAN10+4 Global
  - ASEAN10 is fully integrated in 2010 in several steps
  - Liberalisation with Japan, Korea, India and China is realised in one shot in 2010
  - All sectors are included
  - No tariff change vis-à-vis the Rest of the World
- SC2: An “Asian Single Market”
  - Same as SC1 except that all bilateral relations are included between the ASEAN-10 and Japan, Korea, India and China
- SC3: Same as SC1 but Sensitive Products are Excluded
- SC4: Same as SC2 but Sensitive Products are Excluded

**Preferred scenario**

	<b>SC1</b>	<b>SC2</b>	<b>SC3</b>	<b>SC4</b>
ASEAN-10	1	2	3	4
Japan	3	1	4	2
Korea	4	2	3	1
China	2	1	4	3
India	4	1	3	2
<b>ASEAN-10 +4</b>	<b>14</b>	<b>7</b>	<b>17</b>	<b>12</b>
Hong Kong, Taiwan, Rest of East Asia	2	4	1	3
South Asia	2	4	1	3
<b>Rest of Asia</b>	<b>4</b>	<b>8</b>	<b>2</b>	<b>6</b>
EU - 25	3	4	1	2
EFTA	3	4	1	2
Russian Fed	2	4	1	3
North Africa	3	4	1	2
Rest of Europe	2	4	1	3
<b>Europe</b>	<b>13</b>	<b>20</b>	<b>5</b>	<b>12</b>
USA	4	3	2	1
Canada	4	3	2	1
Mexico and Central America	4	3	2	1
South America	3	4	2	2
<b>America</b>	<b>15</b>	<b>13</b>	<b>8</b>	<b>5</b>
Australia and New Zeland	2	4	1	3
Rest of the World	2	4	1	3
<b>ROW</b>	<b>4</b>	<b>8</b>	<b>2</b>	<b>6</b>
<b>Total (average)</b>	<b>2.78</b>	<b>3.11</b>	<b>1.89</b>	<b>2.28</b>

# Conclusions

- There is no tendency toward the creation of trade blocks even in the most regulated case of EU
- EU might be defined as a soft power its influence is more based on persuasion, shared interest and values, than military power.
- Asia starts its own regional effort but lack of “natural” leadership make ASEAN the only acceptable but weak leader. The process might remain lengthy, more on paper than real.