

**N° 2003 - 02**

**EUROPEAN AND ASIAN  
INTEGRATION  
PROCESSES COMPARED**

**ROBERT BOYER**

CEPREMAP-ENS, CNRS, EHESS  
48, Boulevard Jourdan 75014 PARIS, France  
Phone: (33-1) 43 13 62 56 — Fax: (33-1) 43 13 62 59  
e-mail : [robert.boyer@cepremap.cnrs.fr](mailto:robert.boyer@cepremap.cnrs.fr)

Web Site: <http://www.cepremap.ens.fr/~boyer>



## EUROPEAN AND ASIAN INTEGRATION PROCESSES COMPARED

Robert BOYER

### Abstract

A retrospective analysis of European integration shows how political factors and economic opportunities /constraints have interacted in the progressive design of an unprecedented form of federalism. Political reconciliation of former enemies (France and Germany), modesty of the first steps of economic integration (a market for steel and coal, then of manufactured goods, prolonged by an extension to agricultural products), creation of an institution in charge of defending the common market and the general interest of Europe as such (European Commission), trial and error process in order to preserve the single European market in the era of financial instability (from EMS to euro), progressive building of political institutions in order to get legitimacy and approval by the citizens (European Parliament). Should the same strategy and criteria apply for contemporary economic integration processes, as observed in Latin-America (Nafta versus Mercosur) but also in Asia? Can an economic integration take place at the only initiative of multinational firms and is it possible to build new supranational coordinating mechanisms in the era of financial globalization? Paradoxically enough, regional integration is more necessary than ever but it has never been so difficult to achieve. The paper concludes that, given the current instability of global finance, the promotion of regional monetary stability and an adequate management of short term capital flows might be the required starting points for contemporary integration processes.

## LES ENSEIGNEMENTS DE L'UNION EUROPÉENNE POUR L'INTÉGRATION ASIATIQUE

Robert BOYER

### Résumé

L'analyse historique fait ressortir combien objectifs politiques et facteurs économiques sont imbriqués dans le long processus qui conduit à l'Union Européenne, analysée comme forme originale de fédéralisme. Réconciliation politique entre la France et l'Allemagne, modestie des premières étapes de l'intégration économique (de la CECA au Marché commun), création d'une institution en charge de défendre les intérêts communautaires, recherche tâtonnante des moyens de préserver le grand marché européen à l'ère de l'instabilité financière (du serpent monétaire à l'euro), construction des institutions politiques favorisant la légitimation de la construction européenne auprès des citoyens, constituent autant d'ingrédients de l'UE. Pour autant, la même stratégie et des critères identiques devraient-ils s'appliquer en Amérique du Nord et en Amérique du Sud ? En Asie, l'intégration économique peut-elle résulter de la seule initiative des firmes transnationales, ou est-il nécessaire de construire un minimum de mécanismes institutionnels de coordination ? Il apparaît que l'intégration régionale est à l'ordre du jour mais qu'elle n'a jamais été aussi difficile à réaliser. Compte tenu de l'instabilité que généralise la finance internationalisée, la promotion d'une stabilité monétaire au niveau régional et le traitement adéquat des mouvements de capitaux à court terme apparaissent comme deux points de départ prometteurs pour les tentatives contemporaines d'intégration régionale.

**MOTS CLES :** Théorie de l'intégration économique – Construction européenne – Fond Monétaire Asiatique – Euro – Marché commun – globalisation financière – régionalisation versus mondialisation.

**KEYWORDS :** Economic Integration Theory – European integration – Asian monetary fund – Euro – Single market – Global finance – Regionalism versus globalisation.

**J.E.L. CLASSIFICATION :** F15 – F36 – O16 – O 52 – O53.

**Internet :** Consulter le WEB : <http://www.cepremap.cnrs.fr>



# EUROPEAN AND ASIAN INTEGRATION PROCESSES COMPARED

Robert BOYER

## Contents

INTRODUCTION .....	1
A COMMON FALLACY ABOUT SO-CALLED GLOBALIZATION .....	1
Regionalization more than globalization.....	1
The nestedness of levels of “régulation” .....	3
WHAT CAN BE LEARNT FROM THE PROCESS OF EUROPEAN INTEGRATION? .....	3
Launching economic integration: the role of polity .....	3
The process of integration: promoting and extending the single market .....	5
The institutionalization of integration: trading, litigating, legislating, and lobbying .....	7
THE PARADOX OF CONTEMPORARY REGIONAL INTEGRATION .....	7
The national State has become too small, the world is too diverse and unbalanced to display an integrated governance .....	9
The uncertainty of social sciences: what concepts, tools, and theories for the analysis of regional integration? .....	10
Some conditions for a successful regional integration.....	13
FINANCIAL GLOBALIZATION HAS CHANGED THE STRATEGIES FOR REGIONAL INTEGRATION.....	15
Nafta, Mercosur, Asean: not the repetition of the European experience .....	15
Monetary integration might be a good starting point .....	16
Monetary stability: the core public good within a new strategy for regional integration? .....	18
CAN ASIAN INTEGRATION SUCCEED? .....	21
The more dynamic region in terms of trade... ..	21
...But quite large heterogeneity in size, standard of living, political objectives .....	21
Reinterpreting the failure of the Asian Monetary Fund .....	23
A lot of pragmatism and flexibility, but no hard core of integration .....	25
Charms and limits of a pragmatic and ad hoc integration process .....	26
Towards new growth regimes and regulation modes .....	29
China, the factory of the world, versus Japan the savior of last resort.....	29
CONCLUSION .....	33
Regional integration, as an alternative to globalization .....	33
Monetary and financial stability: a key objective in a troubled world .....	34
The symmetric challenges addressed to Europe and Asia .....	34
REFERENCES.....	34

## INTRODUCTION

Is there a clear and common definition for globalization? The novelty of the term that has replaced the usual notion of internationalization calls for an analytical approach, whereby alternative definitions are given and tested against institutional and statistical data. Does globalization imply that multinationals are totally governing the international division of labor and thus dictate their will to national States? Or does it mean that the socio-economic groups that benefit more from the current stage of globalization do invoke a pure deterministic process and use this rhetoric within the domestic political arena in order to redesign the tax, credit and welfare systems? Surprisingly enough, the more common and accepted definitions of globalization do not fit with the major stylized facts.

The analysis then focuses upon a common fallacy in the contemporary literature: the process of globalization is perceived to affect quite any country, whereas the evolution of trade and foreign direct investments (FDI) and still more the concentration of financial intermediation suggest that one major trend relates to the emergence and strengthening of regional blocks such as European Union (EU), Nafta, Mercosur, Asean. The core argument is that Regional Trade Agreements (RTA) display a dual aspect. For the tenants of free trade, this is the first step towards an integral liberalization of trade, investment, and finance operating at the world. For social democratic governments, the same process is governed by the objective to work out common public interventions and regulations that cannot be implemented at the world level, given the inability to build political compromises among countries so heterogeneous in terms of standards of living, social traditions, economic interests and political intermediation.

In this context, the long process of European integration gives a noticeable example of a subtle mix of political objectives and economic concerns. Even if largely open to the world economy – the accusation of “fortress Europe” is rather obsolete – the old continent tries to defend a conception of social solidarity and culture, by the progressive design of supranational rules of the game. They are in between the preservation of the autonomy of each national State and the institution of a world new order that had proven to be so difficult to reach after Seattle. Clearly the national State has become too small to be autonomous, whereas the world is too heterogeneous to be governed by the equivalent of a government.

Finally, what are the prospects for a successful regional integration? The present analytical framework is mobilized in order to spell out both the similarities and the large differences between a political led EU and an Asian economic integration at the initiative of large multinationals. Its explanatory power is compared with more conventional approaches such as public choice theory or optimum currency area theory. Given the leading role of financial globalization, the slow process of integration via trade is not necessary the only path for economic integration in Asia, since it can be argued that a form of cooperation in terms of monetary and exchange rate policies could be a good starting point for a more formal integration process.

## A COMMON FALLACY ABOUT SO-CALLED GLOBALIZATION

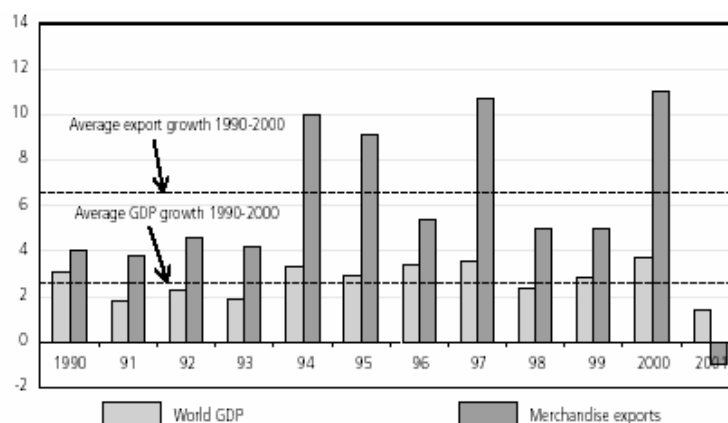
Implicitly or quite implicitly Globalization is frequently assumed to define a new stage of the internationalization system in which any country interact with any other one via the leading role of large trans-national that are bound to promote a new accumulation regime operating at the world level. Space would then become homogenous and economic relations instantaneous and egalitarian. Quite a fancy indeed when the contemporary trends are compared with the previous stages of internationalization (Bairoch, 1996; Hirst, Thompson, 1996; Boyer, 1999).

### Regionalization more than globalization

The confusion associated with the word ‘globalization’ reaches its height when it is used to describe a *regional integration project* (definition 10). A typical globalization would imply first that the surge of exports or grow far more quickly than domestic market and second that they are directed towards each country according to the competitive hedge of each national sector of firm. Basically it would mean in the long run a complete disconnection between national supply on one side, domestic demand of the other (graph 1). A closer look at the direction of exports delivers a different message: typically the contemporary world

economy is organized along three poles, respectively North America, Western Europe and Asia. A very large fraction of external trade takes in place among countries belonging to the same region. This is specially so for Western Europe where in the year 2000 nearly 70 % of external trade is *de facto* internal to the Single Market. Even Asia that traditionally exports towards North America and Europe displays a significant intra-regional trade (table 1). The same picture would emerge from the analysis of FDI mergers and acquisitions (Fligstein and Mérand, 2002). Furthermore, the percentage of interregional trade within North America shows a positive upward trend during the last two decades. Many statistical evidences convey the general hypothesis that the current internationalization phase has been deepening economic exchanges within countries belonging to the same region. The more so, the more intense, the institutionalization of a common market (Fligstein and Sweet, 2002).

**GRAPH 1.** EXPORTS OF GOODS GROWTH FASTER THAN THE WORLD GDP



Source: World Trade Organization (2002), *Annual Report*, p. 11.

**TABLE 1.** SHARE OF INTRA REGIONAL AND INTERREGIONAL TRADE FLOWS OF MERCHANDISE EXPORTS

Origin	Destination								Total
	North America		Western Europe		Asia		Rest of world		
	1993	2000	1993	2000	1993	2000	1993	2000	
North America	35,6	39,9	20,2	19,4	25,0	21,1	19,2	20,6	100
Western Europe	8,0	9,9	68,9	69,1	8,8	7,5	14,3	10,3	100
Asia	26,4	26,3	17,6	18,1	46,5	46,6	14,2	9,0	100

Source: 2000 from Fligstein Neil and Mérand Frédéric (2002), p. 13.  
1993 from Fligstein (2001), p. 200, Table 9.2.

A second major difference between globalization and regional integration precisely concerns the respective role of economic factors and of political interventions. If globalization is assumed to be led by the private strategies of firms, a common market and still more a common currency explicitly require collective intervention in order to implement rules of the game that replace the domestic ones.

Indeed, regionalization relates to a political construct initiated by governments that intend to set the rules of the game imposed on firms. Therefore, we find ourselves at the opposite extreme from the idea of an anonymous, worldwide competitive market, since the objective is, by contrast, to increase the density of economic exchanges within a particular area. This error in analysis is clearer still when the construction of the European Union is assimilated with the process of globalization: of course, competition now relates to the whole area, but the real issue is only that of reconstructing a group of institutional forms on a plurinational basis (definition 11). The corresponding political compromises are certainly subject to the arbitration of international financial markets, but they display very notable areas of autonomy and initiative. The political and the economic interact across an extensive geographical space which is no longer that of the nation-state, but it would be excessive to believe that the economy – or more precisely, finance – lays down the law for the political by setting the whole of the latter's agenda. According to this conception, the current phase does not mark the end of the political, but its territorial reconstruction (Dehove, 1997; Théret, 1997; Boyer, 1998a).

## The nestedness of levels of “régulation”

But debate abhors a vacuum: what concept should replace the notion of globalization, which is so ambiguous? Two ideas may contribute here.

- Firstly, *a new form of interdependence* between nations has replaced the earlier one, and has caught a lot of the actors by surprise, even the best informed. Thus, during the Summer of 1997, Alan Greenspan thought that the Asian crisis did not directly concern the United States, and therefore monetary policy did not have to change. In October 1998, the troubles of several American ‘hedge funds’ highlighted the fact that, ultimately, the American economy has become dependent on markets which only yesterday were considered to be emergent. If this interdependence was not perceived by any of the best informed actors of modern finance, one can easily imagine the surprise and disarray of managers in Asian countries in the face of the crisis, when it hit them.

- Next, and above all, rather than presuming a unifying global mechanism, we should think about whether there has been *an interweaving of levels of régulation* (figure 1). Indeed, the loss of autonomy of national accumulation regimes has resulted in a multiform search for institutional arrangements. Some of these relate directly to the international level, such as the World Trade Organization, while others are internal to the management of large multinational groups and to the partnership operations which link them together. In other cases again, governments have negotiated framework agreements on external trade, bringing in, for example, self-regulation procedures, such as those that applied to the European automobile industry until 1 January 2000. A comparison with the organization of world oil trade shows how idiosyncratic these arrangements are, and how they are tailored to the distribution of powers and the type of specialization (Kébabdjian, 1998). Yet another configuration allows nations to introduce common management of an area of competence, which was previously national: the Euro is a good example of such a transfer. But this is an entirely different development from the one which has transferred some responsibilities for education and infrastructures from the central state to the regions; this is often done in the aim of developing the collective investments required for competitiveness, at a level where the decision is relevant – that is to say, at a lower level than that of the nation-state.

We can understand why, faced with the intertwining of these decisions, managers of firms and government officials prefer to use a term which may be mistaken, but is very seductive – ‘globalization’. Nevertheless, the political is always present, if only implicitly, although at very different levels and involving very different interdependencies from those which used to apply in the nation-state. The following sections focus upon the various processes of regional integration starting from the European case. The aim is to derive from it some general conditions for a successful pattern of integration. According to the general interpretation of the fallacy of the concept of globalization, the analysis deals simultaneously with political and economic factors, without giving an exclusive role to either polity or economy. Consequently, institutional factors are to be brought into the picture precisely because they are the interface between the political and economic spheres.

## WHAT CAN BE LEARNT FROM THE PROCESS OF EUROPEAN INTEGRATION?

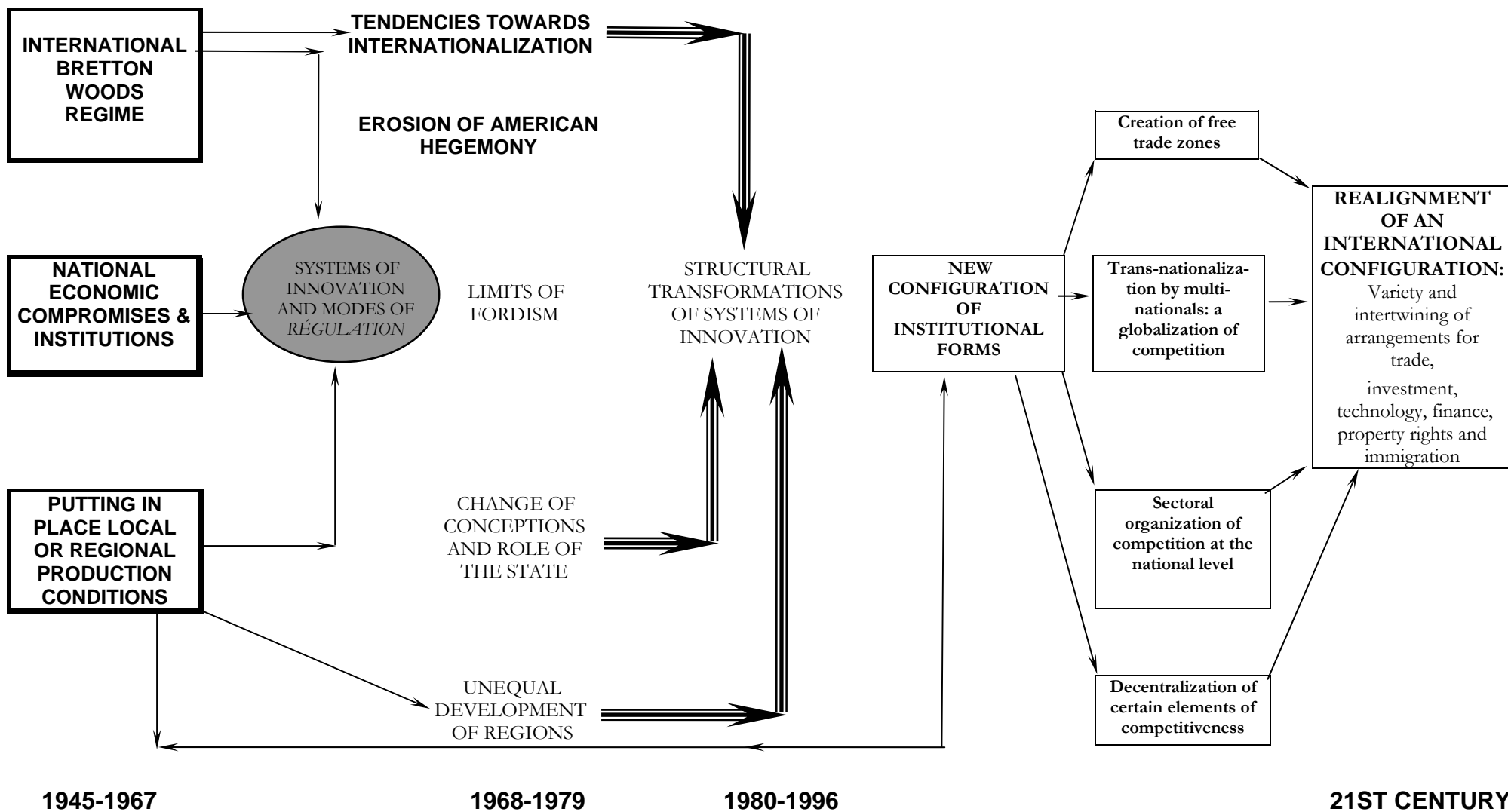
Since this is the more advanced process of regional integration in contemporary world, it might be enlightening to try to derive some broad hints or hypotheses about the conjunction of factors that have allowed the process not to be stuck by the status quo and furthermore that have overcome the crises of European integration that took place since the launching of the Rome Treaty.

### Launching economic integration: the role of polity

A brief historical retrospect suggests that the European project launched by Jean Monnet was clearly a political one. In order to prevent the repetition of the dramatic German/French conflicts, why not to organize and coordinate the economic activity of the key sectors such as coal and steel? Given the success of this first initiative, the project was extended by the creation of the Common Market by the Treaty of Rome, which in turn has been triggering a slow process of economic integration among the founding members (Figure 6). The breaking-down of the Bretton Woods system brought a lot of exchange rate instability among



FIGURE 1. POLITICS AND ECONOMICS COMBINE IN THE NEW INTERNATIONAL CONFIGURATION: AN INTERTWINING OF PRINCIPLES AND LEVELS OF REGULATION



European currencies, hindering the on going process of economic specialization across national borders. The European Monetary System (EMS) was precisely designed in order to remove this source of discrepancy, but the success was difficult to achieve in front of the huge move towards financial deregulation. The dramatic 1992 and 1993 episodes brought a confirmation about the project contemplated by the Maastricht Treaty: a single common currency would be a definite solution to the recurring instability among European currencies. This project was frequently presented as a purely economist strategy, whereas it is clearly a political project, put forward by France and Germany after the collapse of the Soviet empire and specially the German reunification (Vernet, 1998). Here comes a dazzling paradox: *the Euro is presented as a purely functional device reducing transaction costs and removing exchange rate uncertainty, whereas it is basically a political enterprise*. During the early years of the European project, economics was a means and political integration the objective, whereas nowadays the political will is assumed to be applied to purely economic, not to say monetarist, objectives.... Quite a paradox indeed!

Thus, European integration is neither the outcome of a pure economic determinism, nor the result of the exertion of political will and leadership. This brief historical account contradicts the postulates of many conventional economic theories of integration: basically they rely upon the existence of increasing returns to scale, the reduction of transportation and transaction costs, or the symmetry of macroeconomic shocks, in order to assess the likelihood of a successful regional integration. After World War II, none of these prerequisites were fulfilled by the founding members of European Community. But conversely, political initiatives are not sufficient to propel a successful economic integration, if they are unable to create a set of constraints and incentives promoting the deepening of exchanges between countries. Consequently, regional integration has to be analyzed by a mix of various tools belonging to political science, law, and of course economics.

### The process of integration: promoting and extending the single market

Given the complex interactions of political and economic factors that shape the integration process, the achievements of the European Union have to be explained. *A priori*, many informed analysts would have forecast the exhaustion of the integrating forces and even the collapse of the European institutions due to the resurgence of conflicting national interests. More recently, have not some American economists stated that the launching of the Euro would end-up into a war between France and Germany (Feldstein, 1997)? *De facto*, the process of economic integration has been quite uneven indeed: quite rapid during some periods followed by a quasi stand still or even a major crisis. But in quite any of these circumstances the general principle stated by the Rome Treaty about the creation of a common market has been put into operation in order to overcome the obstacles blocking the European integration. In a sense, the principle of free movement of goods has been extended from steel and coal, then to manufactured goods and the very Common Agricultural Policy (CAP) has organized a specific market for agricultural products, in a sense relatively disconnected from the world trends.

There is a theoretical reason for this primacy of competition on the Single Market among the multifaceted interventions of Brussels. The very defense and promotion of competition have spill-over effects on many domains of public intervention: the definition of the quality of the goods, indirect taxation, distribution networks, stability of exchange rates, commercial laws, not to speak about corporate governance. This is no more than the basic functionalist vision of European integration: any new stage in trade liberalization calls for an adjustment of the existing domestic regulations that in turn creates a need for other coordinating mechanisms. This is one of the readings of the process previously described (figure 2). For some political scientists the main factor behind European integration is the challenge addressed to each national political elite to respond to the growing interdependence and externalities associated to the launching of the common market (Moravcsik, 1998).

A pair wise comparison of the economic and financial integration of the United States on one side, the European integration process on the other side, exhibits a converging but quite surprising result (Boyer, Dehove, 2002). Many analysts insist upon the strong opposition between the explicit definition by the American Constitution of the competences attributed to the federal level and the very complex and indirect distribution of competences in the European Union. Nevertheless, a closer look suggests that the legal conceptions are initially very different but actually the evolution of the jurisprudence is putting a stronger and stronger emphasis upon the preservation of the public good associated with the mobility of labor and capital and the competition on the product market. Therefore, the US and the EU both share the same central role of the preservation and extension of the internal market. Furthermore, this compari-



son delivers another important message about the factors governing the success of a common or Single Market.

### The institutionalization of integration: trading, litigating, legislating, and lobbying

For conventional pure economic theory, a regional integration might succeed only if pre-existing economic conditions prevail: intensity of trade relations among potential member States, complementarity of specializations, importance of increasing returns to scale, symmetry of macroeconomic shocks. Thus the task of politicians would first be to perceive the potential gains associated to the liberalization of trade among the countries participating to a free trade zone or a custom union; second to convince public opinion and interest groups that such a move would be beneficial for all. This might mean the implementation of redistributive mechanisms in order to compensate the firms or individuals that may be hurt by such a trade liberalization. In this idealised world, the absence of any institutional barrier is good for the welfare of the societies.

The researches inspired by the contemporary economic sociology deliver a quite different understanding of the process of economic integration on both sides of the Atlantic.

- *For the US*, it has been shown that the organization, ownership and control of large American firms is not the pure mechanical result of a successful mobilization of scale and scope economies (Chandler, 1977; 1990), but that the design of the legal structure governing the creation of firms plays a determinant role since it shapes the organizational choices of the managers (Fligstein, 1990). The new institutionalism shares the same view: the nature of the rights embedded into a constitutional order defines the constraints and incentives governing the organizational choices of the firms (North 1990). But of course, the process of globalization conceived as the rapid increase of world trade is frequently supposed to totally erode such an institutional embeddedness of market relations. At the theoretical and empirical level, many objections can be addressed to such a vision that does not fit with historical observation (Bairoch, 1996; Boyer, 1995) and does not provide a clear picture of the economic factors that would imply an automatic extension of world trade (Fligstein, 2001, chapter 9).

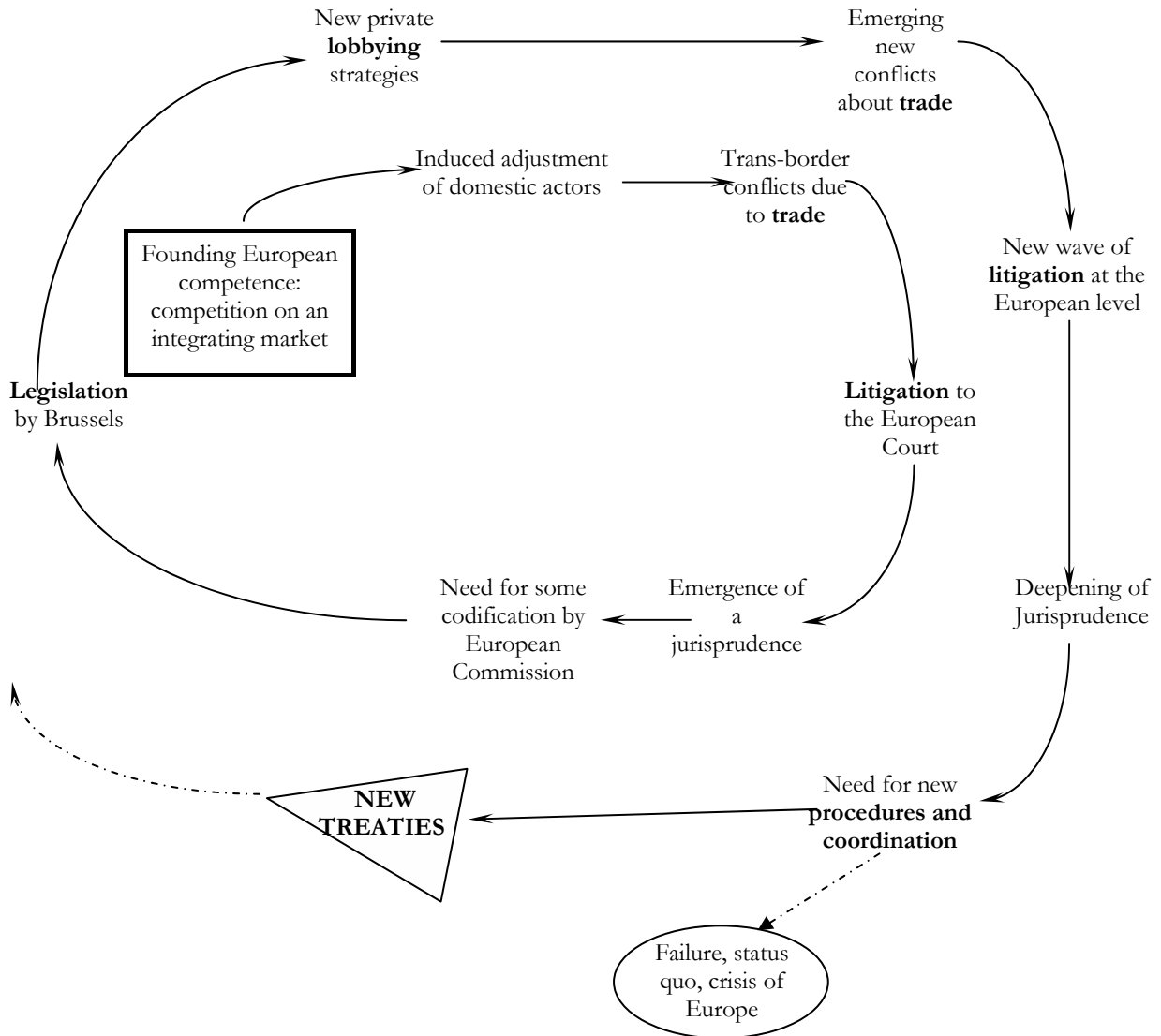
- Concerning *the European Union*, a careful investigation of the evolutions observed from 1958 to nowadays exhibits a clear sequencing of the steps that promote economic integration (Fligstein, Sweet, 2002). The first step is about the negotiation of a free trade treaty among member States. As a result, the increase in external trade among countries triggers more frequent trans-border conflicts that call for a settlement by the European Court of Justice. But the multiplication of such jurisprudence may deliver a quite unsatisfactory outcome, considering for instance the rising costs of litigation. This is an incentive for the European Commission, i.e. the institutional body in charge of applying the Rome Treaty to draft directives defining the rules of the game for inter-States trade. But the impact of such legislation might be such that various lobbyists have interest in interacting with the European commission during the process of elaboration of the directives. When a new directive is drafted, trade is facilitated and therefore increases again...But of course new trans-border conflicts emerge and the litigation process has to intervene again. This is the spiral of European integration (figure 3). Basically, trade, litigation, legislation and lobbying are integral parts of this process and it would be therefore very difficult to conceive a successful regional integration without such an institutionalization.

The questions to be addressed are now two fold. First, are these findings sufficiently general to apply to other contemporary regional integrations, such as Nafta, Mercosur, Asean? Second, is regional integration a mere transition towards the implementation of free trade at the world level or is it a long lasting phenomena and an alternative to a complete globalization?

## THE PARADOX OF CONTEMPORARY REGIONAL INTEGRATION

One could conceive the US and the EU as exceptions in a world governed by the erosion of national borders. This is precisely the diagnosis put forward by the analytical tools most frequently used by the economists. But the observation of the multiplication of Regional Trade Agreements (RTA) is then to be explained. It might be interesting to test the analytical framework elaborated for the European Union against some of the main attempts of regional integration in Latin-America and Asia.

FIGURE 3 – THE SPIRAL OF EUROPEAN INTEGRATION: TRADING, LITIGATING, LEGISLATING AND LOBBYING



## The national State has become too small, the world is too diverse and unbalanced to display an integrated governance

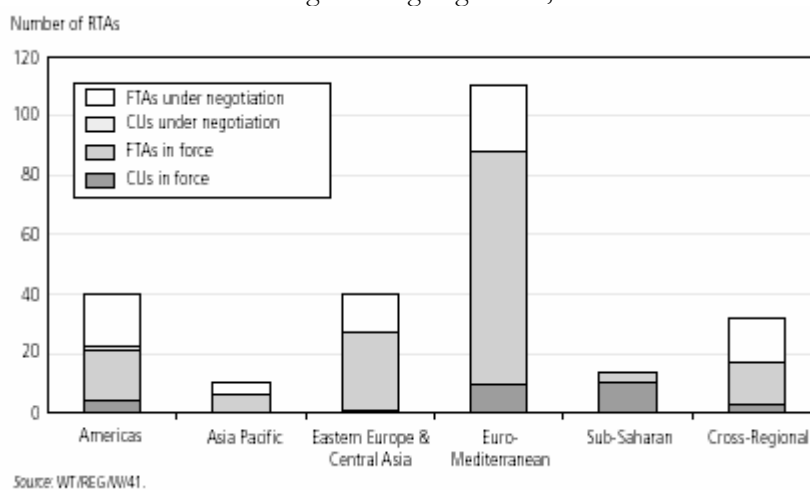
Actually, this statement might be a short summary of the contemporary conception of many politicians, decision makers and experts about the current state of the international economy.

- On one side, the old growth patterns – let it be industrialization by import substitution for developing countries or Fordism for advanced capitalist economies – have been eroded by their very success. For industrializing countries, specially Asian NICs, the progressive liberalization of world trade has given a premium to export-led growth regimes, whereas for already industrialized countries, the search for scale and scope economies has triggered an endogenous trend towards a rapid increase in exports, followed by a surge of Foreign Direct Investment (FDI) and finally an unprecedented spatial extension of financial flows. The faster growth of the countries able to follow such a strategy has been associated with a stronger dependency with respect to the vagaries of the world economy, specially, of global finance. Contrary to what was expected with financial liberalization, the promise of a more efficient capital allocation has been associated with frequent financial instabilities: first a large inflow of portfolio investment followed by a brutal outflow of financial capital and finally the vanishing of external credit. The many countries that have suffered from a major financial collapse – Mexico in the early 90, the Asian countries in 1997, Russia in 1998, Brazil and Turkey in 1999 and finally Argentina in December 2001 – have painfully realized that the insertion into the world economy brought costs as well as benefits. In isolation, none of these countries were able to overcome their economic and financial crisis.

- On the other side, the international institutions inherited from the Breton Woods system, but largely transformed by trade and financial liberalization, have proved unable to prevent the repetition of these crises and sometimes have even been accused of aggravating them (Stiglitz, 2002a). The new institutions such as the World Trade Organization (WTO) have been perceived as defending the interests of developed world and the primacy of free competition at the world level, at the possible detriment of the production of other public goods such as global environment, national cohesion, fight against poverty and security (Kaul, Grunberg, Stern, 1999). The other international institutions – IMF, World Bank, Bank of International Settlements (BIS) – seem to have been unable to adjust their objectives and tools to the multiplication of private innovations especially in the field of finance. Thus, many experts in Europe agree that the world governance is at stake and calls for more or less drastic reforms (Jacquet, Pisani-Ferry, Tubiana, 2002). Simultaneously, the so-called anti-globalization movements have put a severe pressure on the very organization of the world summits designed in order to discuss about possible reforms of the decaying international order. But the drama is precisely that these efforts have not succeeded in restoring a form of predictability and stability in the international relations. This quite poor and uncertain state of the world economy is widely recognized even by the most pro-market analysts (Woodall, 2002). Thus, many countries are trapped into the following dilemma: they accepted to open to the international economy and initially gained from such a strategic move, but now they are hurt by the large instabilities of world trade, FDI and financial flows.

This is the first and strong reason for the growing interest for *regional integration*. Many evidences support this statement. First is it not surprising to observe that the same country that has been promoting multilateral trade agreements and the opening to international finance, i.e. the United-States, has been negotiating a free trade agreement first with Canada and then with Mexico, the Nafta treaty. *De facto*, during the 90s, the North America trade has been growing faster than exports to the rest of the world, whereas the intra-trade within Western Europe on one side, Asia on the other side, has represented a nearly constant share of total export (see table 1, supra). Second, from a statistical standpoint, the WTO most recent report emphasizes the significant number of RTA: in 2001, the more active zones are the Euro-Mediterranean and the Americas, not to forget the agreements within Eastern Europe and Central Asia. Some cross regional agreements have been negotiated or are being elaborated, but they do not represent such a large bulk (graph 2). Clearly a process of regional integration is taking place under the umbrella of WTO, since any of such RTA has to fulfill some general conditions checked precisely by this international organization.

**GRAPH 2.** THE GEOGRAPHICAL DISTRIBUTION OF REGIONAL TRADE AGREEMENTS  
Existing or being negotiated, 2001



Source: WTO (2002), p. 44

Clearly, the more recent evolutions confirm the previous remark about the need for a clear distinction between an undifferentiated globalization and the deepening of interactions within various regional zones. The question is then: do economic theories deliver adequate analytical tools in order to assess the conditions for a successful regional integration? The general answer is that private and collective actors have been innovating more deeply and faster than academic research and expertise have developed new analytical frameworks in order to understand the rationale of contemporary strategies.

The uncertainty of social sciences: what concepts, tools, and theories for the analysis of regional integration?

It is out of reach of this paper to present a fully fledged survey of the abundant literature on this issue might be useful nevertheless to sketch out what are the main findings of some contemporary research (figure 4).

- The *theory of public goods* can be mobilized in order to assess what are the relative merits of a universal free trade with respect to those of a *custom union* or a *common market*. Basically, most theories of international trade conclude that the principle of free competition should operate at the world level, because the welfare of each country would be enhanced or at least preserved by operating at the global level...provided that a complete set of conditions is fulfilled: flexibility of price, mobility of factors within each country, equal access to the same technologies, absence of increasing returns to scale. But precisely, nominal rigidities of prices and wages are frequently observed, labor mobility is quite limited especially in the 90s, new technologies are patented and appropriated by large firms belonging to the developed world. Regional integration precisely aims at taking into account these specificities and tries to develop the production on a more limited regional space, frequently with the hope that the enhanced competitiveness will help to the opening to the world competition during a second phase. According to this kind of analysis, regional integration take into account some idiosyncratic interdependencies between member countries and it is probably why it has proved difficult to work out a satisfactory general theory of such a process.

- The success of a common market may feed the project of a further deepening of integration i.e. the launching of a *Single Market*. The difference is that tariff reduction among member-States and some minimal adjustments are sufficient to initiate a custom union, whereas the stage of a Single Market calls for a whole set of *governance rules* and consequently institutions: agreements on the quality of the goods, the mobility of labor and capital, a common set of rules for litigating, or some form of indirect tax harmonization. The supra national institutional content is thus larger than within a typical FTA. The evolution of European integration is a typical example of such a pattern and the teaching from *economic sociology* will not be presented again, but they are especially important. Regional markets, as well as national

markets, are social constructions embedded into a web of legal, conventional and even political institutions.

- Generally the next stage is an *Economic Union* built upon a common currency. Stimulated and challenged by the process of European integration, some economists have tried to develop a specific framework: the theory of optimum currency zones (TOCZ). Today this analysis puts forward the conjunction of five distinct requisites for a successful *common currency*.

- First, the member countries should be characterized by an *intensive intra zone trade*, in order to bring some compatibility between trade and financial flows. This condition might explain why the Argentina's currency board failed due to the limited direct trade link between this country and the US.

- A second condition relates to a satisfactory or even complete *flexibility of prices and wages formation*. But such a feature is rarely fulfilled in really existing economies. A more theoretical level such a condition is associated with a complete neutrality of the monetary policy and consequently the exchange rate should play no role at all. Why then to bother with a common currency? (Buiter, Grafe, 2002: 117).

- A third condition for the viability of an optimum currency zone (OCZ) states that only *symmetric macroeconomic shocks* should be observed, i.e. they should be common to all member States. Such a condition has been intensively discussed before the launching of the Euro, and many analysts therefore concluded at the non-viability of a common European currency (Feldstein, 1997). The evolutions from January 1<sup>st</sup> 1999 to October 2002 suggest a more balanced view: many of the asymmetric shocks used previously to come from contrasted national monetary policies and exchange rates regimes. With the institution of the European Central Bank (ECB) and the irreversibility of the internal exchange rate among the twelve members of Euro-land, most of these asymmetric shocks have vanished. Of course, some divergences in the evolution of national competitiveness or unexpected natural events – such as the floods in Germany during the 2002 summer – might create some forms of asymmetry. They can be dealt by the use of national budgetary policy, provided that the excessive public deficit clause of the Maastricht Treaty is fulfilled.

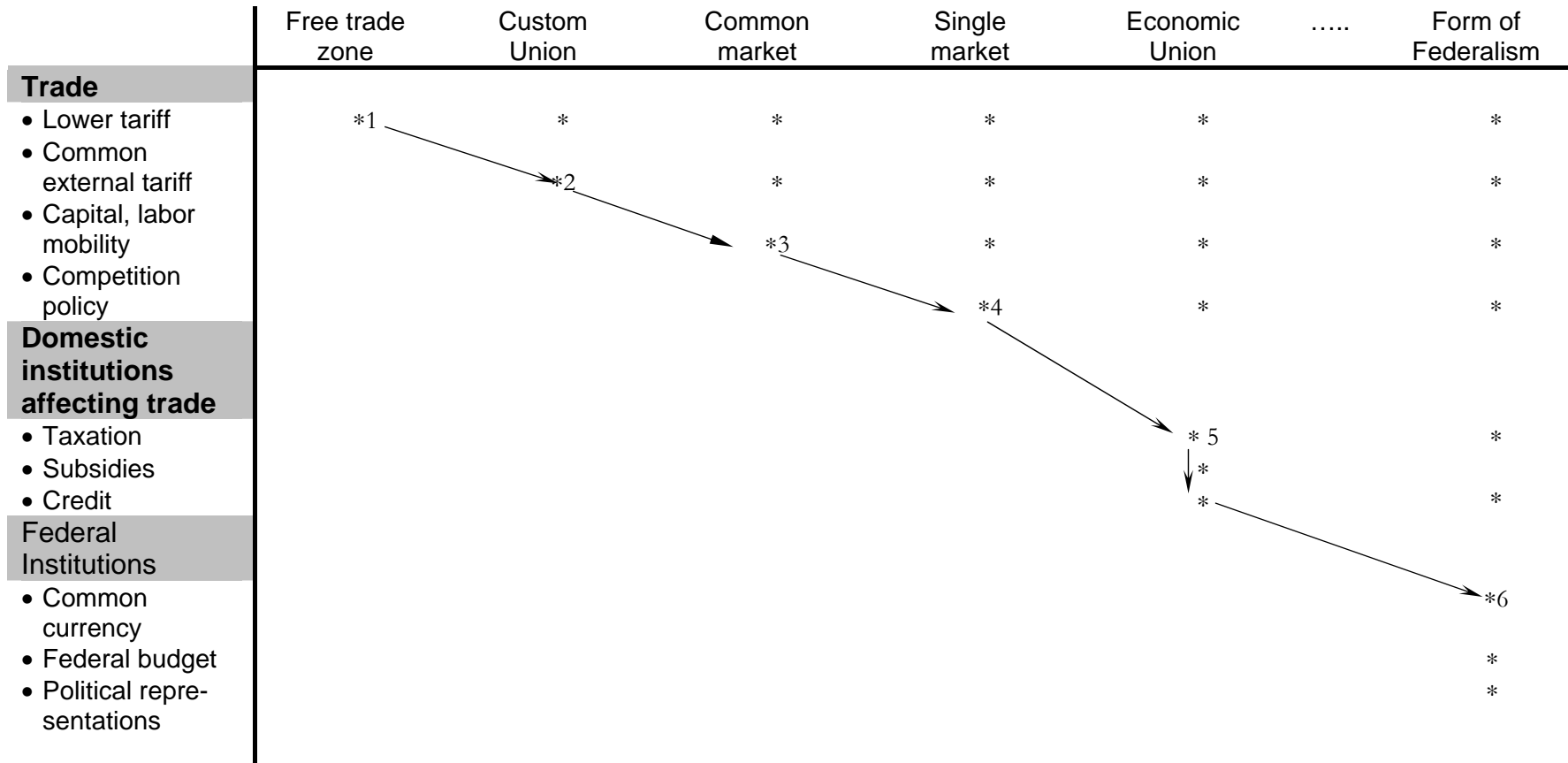
- A large *labor and capital mobility* is frequently considered to be a fourth and essential condition for a viable OCZ. Given the strong contrast between a significant labor mobility across American States and the relative immobility of European labor, some observers have forecast major difficulties for a smooth functioning of the Euro. But they seem to confuse the long term and permanent real adjustment with purely transitory and asymmetric shocks: actually the US display a clear labor mobility in response to the long run prospects of different States but not necessarily a strong cyclical component in response to macroeconomic shocks. Basically, there is a need of a clear distinction between structural and long term mobility – migration flows and capital investments following the evolution of relative wages profitability and demand – and the need for short run adjustments that can be provided by totally different tools – wage moderation, real interest evolutions, short run efforts in terms of productivity.

- A *supranational fiscal stabilization* defines a fifth condition frequently invoked by the specialists of monetary integration. Given the fact that there is not anymore a national monetary policy that can react to idiosyncratic shocks, the equivalent of a Federal budget should try to smooth such national unbalances by transferring income from booming States to depressed ones, or at least accept to go into debt for absorbing these national macroeconomic shocks. But it can be pointed out that lower-tier fiscal authorities can achieve such an inter-temporal stabilization program (Buiter, Grafe, 2002: 121). For instance, the Finish government has created such a stabilization fund at the national level, in order to cope with the large fluctuations typical of the transition of the productive system and trade relations of this country.

- *Political scientists and jurists* are the best experts in the comparative analysis of the diverse configurations for federalist States (McKay, 2001) and more generally for *federalism*. The core issue is no more and exclusively the question of public good supply, redistribution via taxation and welfare and macroeconomic stabilization (Musgrave, 1959). Basically, the central question is the organization of checks and balances among the federal government and States governments, in order to implement the democratic principles and thus deliver legitimacy and transparency in direction of the citizens. In contemporary Europe, the task of the Convention headed by the former president Valery Giscard d'Estaing is precisely to tentatively work out the general principles of a new definition of competences at various levels. After all, the task is not different from the drafting of a constitution for a federal or confederal Europe (Badinter, 2002).



FIGURE 4. THE DIVERSITY OF REGIONAL INTEGRATION: FROM ECONOMIC ANALYSIS TO POLITICAL SCIENCE



This too brief panorama delivers at least two major teachings. On one side, regional integration is such a complex and multifaceted process that it cannot be captured by any single discipline of the social sciences. On the other side, economic theory is lagging with respect to the advances and specific features of contemporary regional integration experiments. The past experiences nevertheless can be useful in order to explicit what we know and what we don't know and thus analyze what should be investigated along new hypotheses.

## Some conditions for a successful regional integration

In retrospect, the many analyses of the historical process of Europeanization deliver a series of key-factors explaining the progressive evolution from a simple sectoral free trade agreement to a quasi-federal, or at least confederal, configuration (table 2).

- The founding block is no less than the recognition by the German and French governments of the dramatic and devastating impact of the two World Wars. The crucial *common political objective* was to promote peace within the old continent, even if the recognition of economic interdependence and free trade for steel and coal was the strategy used in order to overcome a long tradition of political conflict.

- Even if in the past the German economy was larger than the French one, the *relative size* and still more the respective *political power* for France and *economic strength* for Germany were not that unequal. Furthermore, both countries have been negatively affected by the destructions of the World War II and needed to rebuild their economic systems. The strategy was to organize a common market for the two typical commodities that were supposed to have been at the origin of the two previous wars between France and Germany.

- Other historical experiences have shown that too ambitious projects of economic or political integration have failed, for not organizing *progressive steps* in the process of integration. Quite on the contrary the first decisions in Europe have been quite modest, even if the treaty between former enemies had a strong symbolic impact. This is especially clear for European monetary integration. The first official report dates back to the early 70s but it took no less than three decades to actually institute a common currency.

- Contrary to many contemporary researches made by economists, without a third party it is very difficult to sustain in the long term a cooperative strategy among competing Nation States. Therefore, the institution by the treaty creating a free trade zone or a custom union calls for the institution of a *supranational organization* in charge of controlling the actual fulfillment of the clauses that have been agreed upon. Furthermore, some politicians have to associate their career to the success of regional integration and no more within the domestic political arena. This has been essential in the constitution of the European Union that has not resulted only from a series of inter governmental bargaining episodes and agreements. At some crucial moments, the initiative from European community, i.e. the body in charge of building expertise and executing European Council decisions, has been quite instrumental in defending the merits of regional integration, against the frequent re-emergence of national conflicting interests.

- The benefits of a free trade zone or a custom union can only be reaped if capital and labor are reallocated according to the new distribution of comparative advantage, let it be static as in the genuine classical conception or dynamic according to the so-called new international theory. Consequently, the political economy of the opening of the economy shows that the economic and social groups that loose income and status may block the political process, unless they get compensated by monetary transfers from the winners of such an opening to more competition. In Europe, the common agricultural policy cannot be understood without a reference to such a *compensating mechanism directly associated to regional integration*. Nevertheless, such a solidarity principle may express itself at the domestic level. It is specially so for small open economies with social democratic institutions, such as Sweden, Denmark, Finland.

- The competition on the common market calls for a series of *complementary interventions* concerning labor mobility, indirect taxation, technical norms, mutual recognition of diploma and competences of workers. This leverage has been intensively used for all successful national or regional integration processes. But this functionalist argument is far from sufficient to provide and warrant the political support for such a transformation of a growing number of organizations, institutions and rules that used to be perceived as typically domestic. This is precisely why some efforts of regional integration failed by lack of political leadership at the trans-national level. This complementary between a principle of free competition and a series of other rules governing economic and social activities precisely explains the

TABLE 2. ARE THE REQUISITES OF EUROPEAN INTEGRATION BINDING FOR CONTEMPORARY STRATEGIES?

Entity	European Union	NAFTA	FTAA	MERCOSUR	ASEAN	APEC
1. Shared broad political objectives	Prevent European wars	Not clear, except liberalization of domestic/international relations	Promotion of free trade	Loosening dependence from the world economy	Fight against Communism (1967), then liberalization	Liberalization as a key strategy
2. Not too unequal size, power and standards of living	Co-existence of medium size and small open economies	Significant heterogeneity but complementary specialization	North-South type of economic integration	Significant asymmetry between Brazil and Argentina, and still more Uruguay and Paraguay.	Low complementarity, macroeconomic imbalances, thus a form of South-South integration	Impressive heterogeneity (Japan, China, Indonesia, US)
3. Modest initial steps, long term approach	Market for steel and coal	Only 65 % of trade is covered by the agreement, many exceptions	Building upon existing regional zones	Yes, reduction of tariffs and special arrangements	In 1995, statement about the completion of a common market in 2003	15 and 25 years to complete a free trade zone respectively for the developed and developing countries
4. Creation of a multinational entity in charge of defending economic integration	From European Community to ECB	No, absence of supranational body	None	Quasi exclusively intergovernmental coordination	None but inter-parliamentary organization (AIPO)	None for fear of excessive power from the leading country
5. Mechanism for compensating the losers (budgets, nested negotiation transfers)	Structural funds, articulated negotiations	Not explicit, but existing (Mexican bail out in 1994)	Not present	None	Not present	None
6. Use the competition on the common market as a leverage for other public goods supply	From a common market to a common currency	Foreign Direct Investment common rules	Extension to FDE, intellectual property rights, banking	Mention of the need to coordinate macro economic and exchange rate policies	Emerging concern for monetary and financial stability after 1997	Possible but forthcoming
7. Create a common jurisdiction, in order to solve conflicts between domestic legacy and common rules	European Court of Justice key role in the evolution of jurisprudence	No, litigation only via national courts	Not yet considered	Seemingly none	Not present	Not contemplated

coexistence, on one side, of successful integrations via the constitution of a virtuous spiral (see figure 3), and the other side of the inability of some other experiments to overcome some punctual crises and the subsequent decay of integration according to a vicious circle.

- Last but not least, such a complex process is not devoid of conflicts between various members of the free zone or custom union or more deeply between former domestic rules and emerging principles at the trans-national level. In this context, the creation of a *common jurisdiction* is necessary in order to overcome these potentially blocking factors. Thus, through time and the succession of cases, the jurisprudence may help in shifting from a pure *negative integration* – whereby the domestic legal and institutional system is removed from the direct or indirect barriers to trade – to a *positive integration*, i.e. a process of common rule creation at the trans-national level (Scharpf, 1996). These seven conditions have proved to be essential for European integration but it is difficult to draw any general conclusion out of a single case, however interesting and challenging it might sound. Can this framework be useful in understanding the contemporary strategies aiming at economic integration?

## FINANCIAL GLOBALIZATION HAS CHANGED THE STRATEGIES FOR REGIONAL INTEGRATION

One of the major findings of the research developed along “regulation” theory is to stress that the same cause does not necessarily have the same consequence, given the evolution through time of “regulation” modes and the diversity across nation States of institutional architectures and distribution of power. Nevertheless it might be useful to review how the framework elaborated for the European Union is able to cast some light on the contemporary evolution of North American, Latin-American or Asian integration processes.

### Nafta, Mercosur, Asean: not the repetition of the European experience

If the building of Europe was perceived during the 60s as a kind of reaction to American hegemony, conversely, the *North America Free Trade Agreements* (Nafta) might be interpreted as a response to the fear of a “fortress Europe”. More recently, the launching of the *Free Trade for Americas Agreements* (FTAA) has extended such a strategy to various South American economies. A comparison with the European Union (see table 2, supra), suggests a quite different process indeed.

- Whereas European governments were pursuing political goals via economic means, *the Nafta* seems to adopt an opposite sequencing: let us promote a free trade zone without explicitly aiming at a deeper monetary and political integration. The inclusion of Mexico into the Nafta agreement is introducing a strong complementarity in productive systems along a North/South dividing line, whereas the European integration is mainly intra-branch, via quality and innovation differentiation (Maurel, 1999). The initial steps in launching the North American Free Trade zone have been rather limited since only 65 % of total trade was covered by the reduced tariffs. Recurrently, the US authorities have unilaterally decided subventions to their domestic uncompetitive producers or conversely imposed high tariffs for some imported goods from Canada or Mexico. The asymmetry of bargaining power is more acute for Nafta than within EU. Furthermore, the degree of institutionalization is quite different indeed across the Atlantic. On one side, firms and more recently citizens can suit their government for not applying European laws and directives, whereas such an access to the judge is not warranted by the Nafta Treaty. No supra-national body in charge of administering the agreement has been created. There is no explicit agreement for a trans-border compensation of the losers of the economic integration. But in the US workers for instance, may ask for compensation to their own government for being hurt by the shift of production out of American territory. A last and important difference is about the absence of a clear cumulateness from the common market principle of free competition to the production of related or even complementary public goods. Nevertheless, facing a severe Mexican financial crisis, the American government has been keener at bailing out the government and banking system, but the decision has been perceived as contingent and idiosyncratic. It was not at all embedded into a general principle of trans-border solidarity.

- Nearly the same features are observed within the *Mercosur*. One observes too a significant asymmetry between Brazil and Argentina on one side, these two countries and Uruguay and Paraguay on

the other side. The Argentinian firms have a strong interest in stabilizing their relations with the Brazilian market but conversely the Brazilian producers have a more diverse distribution of their external markets. Nevertheless the common interest of the four countries of the Mercosur seems to reduce their dependency from the world economy by deepening their internal relations, and of course the American interests are less important within Mercosur than for Nafta. The reduction of tariffs is not general and some special agreements such as the auto pact organize special relationships between Brazil and Argentina, partially in response to the demand of the car industry multinationals. The Mercosur is built exclusively on intergovernmental agreements without any supranational entity in charge of defending and promoting the emerging free trade zone. Given the contrasted exchange rate regimes between the former Argentina *currency board* and the crawling peg adopted by the Brazilian central bank, some dramatic events such as the devaluation of the real in 1999 and the collapse of the peso in December 2001 have put on top of the agenda the need for a coordination of macroeconomic policies of the countries associated to Mercosur. But the perception of a clear complementarity between exchange rate stability and the deepening of regional integration does not imply that governments are able to coordinate their strategy. Such a coordination is specially difficult at the climax of dramatic financial crises in Brazil or Argentina. It is not a surprise thus to note a quasi absence of institutionalization of the Mercosur and the inexistence of any special jurisdiction in charge of overcoming trade conflicts or disciplining the opportunistic behavior of one government. Clearly Mercosur is not a repetition of European integration, even if it was inspired by.

- *Asian integration* is still exhibiting another configuration. The initiative is up to large multinationals, either Japanese or American and to lesser extend European ones. At the origin, the model of the flying-geese has been binding: facing rising manufacturing costs at home, the Japanese firms for instance have been transferring some of their production facilities to low wage countries, not so far from Japan (Kwan, 2002). The political power has not played any significant role, that was simultaneously a trump – the process of integration is highly flexible – but a drawback when emerging problems call for a kind of harmonization and coordination of the countries involved in the process than shapes Asian division of labor. The political problems are far from clear, specially when Japan, Korea and more recently China become interested in joining Asean or at least negotiating with this emerging free trade zone. The legacy of the Second World War is still binding and limiting the emergence of trust among the various governments. It is then no surprise if the degree of institutionalization of Asean and Asean + 3 is fairly low. Nevertheless, the Asian 1997 financial crisis has pointed out the limit of such a flexible and ad hoc integration process: the inability to coordinate the defense of the various currencies has been perceived as a clear weakness of South Asian countries. But again similarly with Mercosur, the perception of a lack of coordination is not sufficient to convince governments to undertake a more ambitious and collaborative approach to Asian integration. Last but not least, the complexity of geo-politic issues in terms of defense is not devoid of adverse consequences in the emergence of the political trust that is the key ingredient for further steps in economy, monetary and financial integration.

Furthermore, the destabilizing role of finance is nowadays a brake and a hindrance to the slow process of integration by trade and FDI. Hence why not to turn this weakness into an asset? This is the basic idea developed by the two next sections.

### Monetary integration might be a good starting point

In many instances, the regional integration by trade liberalization is challenged and even blocked by the mobilization of the interest groups representing the producers who are negatively affected by the implementation of a free trade agreement (Drazen, 2000). Of course the losers could be compensated by the winners via the national budget, but frequently the opening of the economy is associated with a strengthening of the so-called external constraint. Hence the imperative of competitiveness generally calls for by unit production cost reduction, hence a limitation to the ability to tax producers via indirect or direct taxation. This is not necessarily an obstacle, as far as monetary coordination among national central banks is concerned. After all public opinion generally expresses – with the exception of major financial crises – few concerns about the management of the national currency and the negotiations about possible swaps among currencies, in order to defend stable but adjusting exchange rates. This is the first advantage of an approach of regional integration by the monetary side (Table 3).

TABLE 3. MERITS AND DIFFICULTIES OF MONETARY INTEGRATION

Merits	Obstacles
<ul style="list-style-type: none"> <li>• Less domestic vested interests than those governing trade liberalization</li> </ul>	<ul style="list-style-type: none"> <li>• Possible divergence of national interests and conceptions of monetary policy</li> </ul>
<ul style="list-style-type: none"> <li>• Proximity of visions and interests of central bankers</li> </ul>	<ul style="list-style-type: none"> <li>• Distance with respect to citizens aspirations</li> </ul>
<ul style="list-style-type: none"> <li>• A direct response to the repetition of banking and exchange rate crises of the 90</li> </ul>	<ul style="list-style-type: none"> <li>• In the era of capital mobility, loss of autonomy of national monetary policies</li> </ul>
<ul style="list-style-type: none"> <li>• Positive spill over financial integration</li> </ul>	<ul style="list-style-type: none"> <li>• Possible lack of credibility with respect to the international financial community</li> </ul>
<ul style="list-style-type: none"> <li>• A trump for economic integration via trade</li> </ul>	<ul style="list-style-type: none"> <li>• The social reluctance to full trade liberalization remains</li> </ul>

A second positive factor relates to the proximity of conceptions and visions of the world of many contemporary central bankers that seem to have promoted the idea of the superiority of an independent agency in charge of defending monetary and financial stability. Furthermore benefiting from a similar expertise and facing nearly identical challenges in the management of interest rate, exchange rate and credit, the central bankers of a same region could more easily agree than national governments that generally have to represent much more diverse interests. But the other face of the coin is of course that the Central Bank does not necessarily represent the key aspirations of the citizens and may lack legitimacy, when confronted with possible breakthroughs in building intra-regional coordination. It has to be reminded that in the European case, the first steps of monetary integration have been quite technocratic but with the march towards a common currency, inter-governmental negotiations delivered an agreement and ultimately the national parliaments, or the citizens themselves via the organization of referenda, have had a say upon the Euro...and some countries such as Denmark and Sweden have refused to join the monetary integration. Nevertheless, for South Asian countries and Latin-American ones, the first stage of a monetary integration should not run into dramatic obstacles, while possibly delivering a better macroeconomic stability.

The frequency and repetition of severe financial crises in Mexico, Asia, Russia, Turkey, Argentina have pointed out the instability associated with the liberalization of international flows of capital, and correlatively, the loss of power from isolated Central Banks to counter exchange rate crises and bank runs. The loss of autonomy of the domestic monetary policy is precisely linked to the need to defend the country against brutal inflow and then outflow of short run capital, at the cost of ups and downs in the level of activity. Since this is generally admitted, pooling monetary sovereignty or at least the management of reserves is not perceived as a new deterioration of the ability of the country to govern its own economic activity. Quite on the contrary, a successful limitation of the fluctuations of the exchange rate could help in the management of the domestic economy. Nevertheless, even the pooling of reserves by the member-States of a regional monetary union might be insufficient to fight against the decisions of the financial international community. Actually, the huge volume of capital moved by a limited number of traders can shift the economy from boom to burst. The issue of the slowing down of short run capital movements, is still on top on the agenda, whatever experts might think about the relevance of the Tobin tax (Davanne, 2000). Furthermore, there exist more clever substitutes such as the compulsory deposit of a fraction of capital inflow into an account devoid of any interest payment. Such a preventive strategy against the repetition of severe financial crises should be preferred to the exposition of the defaulting countries to the danger of a complete loss of their sovereignty. This last solution has seriously been discussed within the institutions of the former Washington consensus (Krueger, 2002).

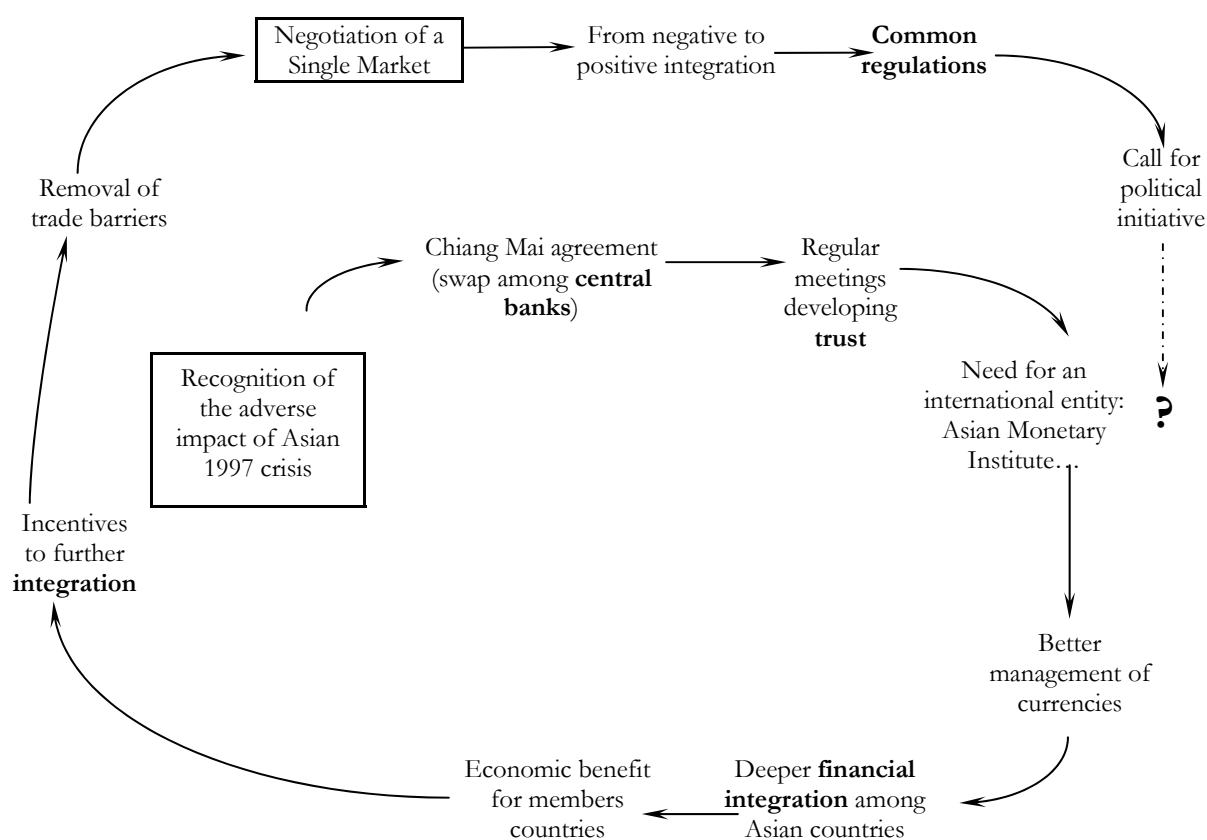
It is now widely recognized that the recent financial crises do result from the discrepancy between the weakness of domestic financial intermediation on one side, the financial liberalization that gives an access to assets and credits expressed in foreign currency, i.e. mainly the dollar on the other side. The progressive constitution of an integrated monetary zone would counteract this adverse trend and provide an incentive for a reorganization of the various domestic financial markets. The objective would be to progressively reduce the external dependency and organize accordingly the allocation of capital at the level of the regional zone and no more within each country. Of course, this is a very slow process as evidenced by the

pattern of European integration: the issue of financial intermediation has emerged only after the launching of the Euro and the stabilization of internal exchange rates. Given the fact that some regions such as Asia exhibit very high saving rates makes such a scenario more likely than for some Latin-American countries that traditionally suffer from an insufficient saving with respect to the need of both private investment and public infrastructures.

### Monetary stability: the core public good within a new strategy for regional integration?

Let us develop the previous argument with a special reference to Asian integration. It has to be remembered that the Asian governments proposed in 1997 to launch an Asian Monetary Fund (AMF) as a method for dealing with the financial instability observed within the region (Sakakibara, 2000). This project was blocked by the IMF officials, under the strong pressures of the American Department of Government (Stiglitz, 2002a). But this does not mean that such a proposal had not any interest, quite on the contrary. One understands quite well why an international organization should not easily accept the competition of an alternative regional entity...that could eventually outperform the Washington consensus precisely because it can mobilize the idiosyncrasies of the political and economic regional context to push forward a more efficient form of intervention. A second advantage is to give more power to the national governments by contrast to the conventional IMF structural adjustments programs that recurrently and mechanically imposed privatization, liberalization, budgetary cuts, transparency and macroeconomic austerity measures. In a sense, the asymmetry between each country and the regional monetary funds would be reduced and the outcome likely to be better, both in term of macroeconomic management, political accountability and social justice.

FIGURE 5. REGIONAL MONETARY STABILITY AS THE CORE PUBLIC GOOD: THE ASIAN EXAMPLE



Consequently, Asian experts express more and more confidence into monetary stabilization as a starting point for regional economic integration (Moon, Rhee, Yoon, 2000; Aoki, 2002; Rhee, Moon, 2002; Yosano, 2002). *De facto*, the rather traumatic episode of the 1997 Asian crisis has promoted the

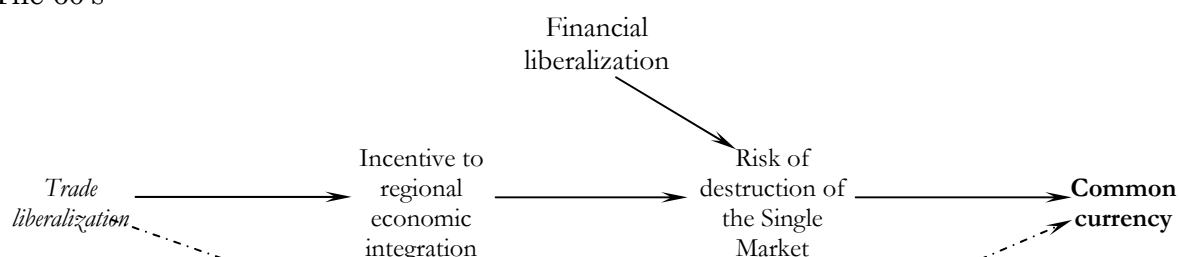
Chiang Mai agreement that organizes a currency swap among the Central Banks of the regions. It might be hoped that the frequency of contacts among high rank civil servants and experts will develop trust as well as the creation of the equivalent of the European Monetary Institute (EMI) that has been preparing the launching of the Euro (Figure 5). One could imagine that a better stabilization of exchange rate would propitiate a deeper financial integration. A possible better allocation of capital would help in considering a faster removal of the remaining trade barriers. But the European experience suggests that emerging trade conflicts between partners generally call for a form of another of arbitrage or jurisdiction. When the problems become too severe or widely diffused to be dealt with by a series of law suits, the Asian governments will be induced to possibly negotiate the equivalent of a common and ultimately single market.

Hence a strong contrast between two regional integration processes. In Europe, the spiral of virtuous integration took place starting from a modest and careful liberalization of trade to converge nearly a half a century afterwards towards a single European monetary currency (figure 7, supra). In Asia, and probably in other regions of the world, the contemporary high degree of financial globalization prevents the strict repetition of such a pattern. Quite on the contrary, it might be fruitful, even if risky, to start from a monetary stabilization between member States and progressively forge the cooperation in the domains of finance and ultimately trade. The culmination of the process would then be the creation of a single market (figure 5). Such a divergence of strategy may sound strange for any theoretician that would think that there is a universalist and a-historical theory of economic or monetary integration. But it is not at all a contradiction within an institutionalist and historical approach. Different epochs call for different strategies, since they exhibit quite distinctive regulation modes at the national level and contrasted interactions among nation-States. After all this is the central message of a quarter of century of research along the line of *regulation* theory (Boyer, Saillard, 2001; Boyer, 1998a). The whole argument of the present paper can thus be summarized very simply (figure 6).

FIGURE 6. TWO EPOCHS, TWO STRATEGIES FOR REGIONAL INTEGRATION

Integration by trade, integration by monetary cooperation: trading places?

The 60's



The 2000's

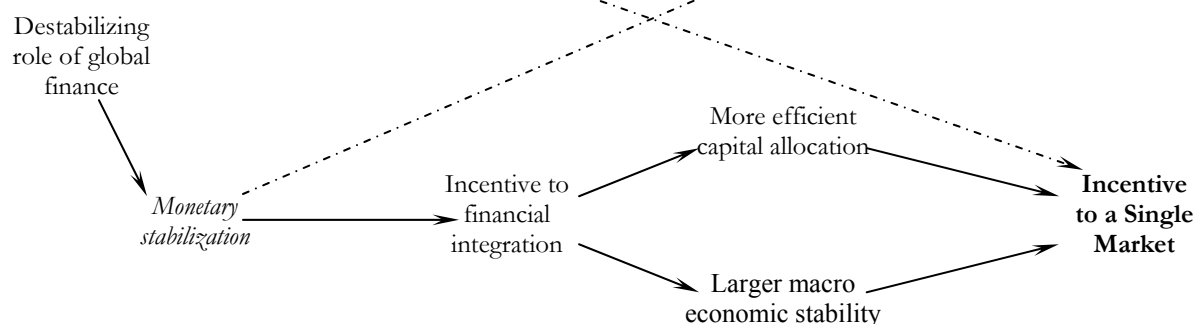




TABLE 5. THE LARGE HETEROGENEITY OF ASIAN COUNTRIES: SIMULTANEOUSLY A POSITIVE AND NEGATIVE IMPACT ON REGIONAL INTEGRATION

Countries	GDP in \$	GDP PPA	Population (millions)	GDP PPA per capita (\$)	Index of human development	Growth 1990–2001 average annual (%)			Share of invest in GDP	Export / GDP
	2000	2001	2001	2001		GDP PPA	Population	GDP/Capita	2000	2000
<b>Asian NICs and Japan</b>										
Japan	4765	3090	127	24378	0,933	1,2	0,2	0,9	27	11
South Korea	457	772	48	16116	0,882	5,7	1,0	4,7	29	45
Indonesia	155	860	228	3765	0,684	4,1	1,8	2,3	18	39
Malaysia	90	254	22	11416	0,782	6,4	2,2	4,1	26	125
Philippines	75	219	83	2640	0,754	2,8	2,2	0,6	18	56
Singapore	93	125	4	29097	0,885	6,7	3,3	3,3	31	180
Taiwan	308	494	22	22063	Na	5,3	0,9	4,4	Na	Na
Thailand	124	469	62	7584	0,762	4,1	1,1	3,0	23	67
<b>CHINA and VIETNAM</b>										
China	1080	6679	1273	5246	0,726	9,9	1,0	8,8	37	26
Hong Kong	163	188	7	26058	0,888	4,1	2,2	1,9	28	150
Vietnam	3	171	80	2134	0,688	7,3	1,7	5,5	27	Na

## CAN ASIAN INTEGRATION SUCCEED?

Let us now push the analysis a step forward by focusing on the contemporary trends in Asia. The region has a very specific role in the world economy, since its industrial dynamism has been impressive during the last two decades, even after the Asian crisis. It is important to diagnose both the trumps and the hindrances of Asian countries.

### The more dynamic region in terms of trade...

Whereas the share in world trade of manufactured goods has decline for Latin-America, Africa, Middle-East, Eastern Europe and Asia is the only region to display more than a doubling of its share from 1980 to 1999. This is a chance for integration because the new industries that have been created do correspond to the current trend of innovation and the productive systems. Furthermore, most of Asian countries are NICs with highly flexible organization and few inherited lagging institutions (table 4).

TABLE 4. THE SHARE OF WORLD MERCHANDISE TRADE BY REGIONS : 1980-1999

	1980	1985	1990	1995	1999
North America					
Exports	14.4	16.0	15.4	15.9	17.0
Imports	15.5	21.7	18.4	18.7	21.8
Latin America (with Mexico)					
Exports	5.4	5.6	4.3	4.6	5.2
Imports	5.9	4.2	3.6	4.9	5.6
Western Europe					
Exports	40.2	40.1	48.3	44.8	43.0
Imports	44.8	39.6	44.7	43.5	42.2
Eastern Europe (with CIS)					
Exports	7.8	8.1	3.1	3.1	3.8
Imports	7.5	7.4	3.3	2.9	4.0
Africa					
Exports	5.9	4.2	3.0	2.1	2.0
Imports	4.7	3.5	2.7	2.4	2.2
Middle East					
Exports	10.6	5.3	4.0	2.9	3.0
Imports	5.0	4.5	2.8	2.6	2.2
Japon					
Exports	6.4	9.1	8.5	9.1	7.5
Imports	6.8	6.5	6.8	6.7	5.3
Asia					
Exports	9.2	11.7	13.3	17.5	20.0
Imports	9.9	12.3	14.5	18.3	17.7

Source: World Trade Organization, Annual Report (1996: Tables III.1, III.2; 2000: Table III.1).

Source: Fligstein, Mérand (2002), table 1, p. 13.

Note that in the 90s the share of North America is decreasing whereas that of Western Europe is declining.

### ...But quite large heterogeneity in size, standard of living, political objectives

Nevertheless, the Asian region suffers from a large heterogeneity in quite all the basic characteristics of the domestic societies and economies (table 5).

- In terms of size, the very small City-States such as Singapore and Hong-Kong is at the other extreme of the giant Chinese economy. The co-existence in Europe of Luxembourg, Germany and France within the same European Union means that such an heterogeneity of size is not a complete obstacle. Provided the standards of living are not too dissimilar and the industrial specializations complementary.

TABLE 6. THE ASIAN MONETARY FUNDS (AMF) IN THE LIGHT OF THE THEORY OF OPTIMUM CURRENCY ZONES AND EUROPEAN CONVERGENCE CRITERIA

	Theory of optimum currency zone	Convergence criteria of the EU (1992-1996)	
Symmetry of shocks	As similar shocks as the EU	Only three countries: Japan, Taiwan, Singapore	Inflation
Mobility of factors • labor  • capital	Significant migration more important than in the EU More important FDI inflow/Regional GNP than the EU and the US	Significant discrepancy  Yes except Japan and Philippines	Interest rates  Budget deficit
Large openness of the economy	Yes largely openness	Except Japan and Singapore	Public debt/GDP
<p>Significant reasons to form a monetary union but major political problems</p> <ol style="list-style-type: none"> <li>1. Lack of solidarity, political distrust</li> <li>2. Wide development levels divergence</li> <li>3. Japan and China: two competing hegemons</li> </ol>			

- Actually, the discrepancy of standards of living is quite impressive between the very rich Singapore, Hong Kong and Japan on one side, the quite poor Vietnam, Philippine and Indonesia on the other side.

- This implies a form of North/South integration whereby the less developed countries export agricultural products and natural resources, intermediate countries export basic components or standardized industrial products and finally the richest economies trade in innovative goods and the sophisticated services.

- Adding to the complexity of any strategy of economic integration, strong opposition in terms of economic and political systems do not facilitate the building of a common understanding and the recognition of similar interest. On one side, market economies with well established democracy on the other side countries emerging out of communist regimes and strong public interventions in the economy.

- But may be the major imbalance relate to the opposition between an ageing stagnating Japan with an uncertain strategy, both at home and internationally and a young, dynamic China with significant geopolitical ambition. If Japan seemed to be the rising Asian hegemon in the 80s, it has been replaced by the new and emerging regional power of China.

These difficulties are quite serious and mere explain the slow process of formal and institutionalized integration in Asia. The Asian 1997 crisis has displayed any of these weakness

## Reinterpreting the failure of the Asian Monetary Fund

Actually, the breaking down of the exchange rate regimes and the dual crisis of the domestic banking systems and of the inflow of short run capital has put at the forefront of the agenda of Asian countries the issue of regional monetary and financial stability (Sakakibara, 2001). This was the basic idea of the Asian Monetary Fund (AMF). But the project failed and the interpretations vary from the economist's side and the political scientist's one.

- For the monetary theoreticians, the countries involved were not displaying the features required for an optimum (Table 6, right hand side). A first cut analysis suggests that the Asian countries were not so dissimilar with respect to the economies now belonging to the European Union. The symmetry of shocks is quite similar and the mobility of capital and labor seems higher than in the old continent. The degree of regional integration of Asian trade (46,6 %) lies in between the European rate (69,1 %) and the American one (39,9 %). The European Union has a common currency whereas Nafta operates under the regime of flexible exchange rates. Therefore, Asian is not necessarily in bad position, knowing that when monetary integration started, none of the successful experiences did fulfill all the conditions put forwards by the theory of optimum currency zone.

- For the specialists of comparative analysis, it has been enlightening to check if Asean countries do fulfill the conditions of Maastricht criteria: low public deficit, modest total public debt compared to total production, relative homogeneity of inflation rates and near stability of exchange rate during a significant period (Moon, Rhee, Yoon, 2000). It comes out that only a small sample of the countries would be able to join such a stability pact (see table 6, left hand side).

- For the political scientists, specially the international political economists, the rebuttal of AMF is basically an issue of geopolitics: the IMF officials did not like the idea to loose the monopoly of the international management of currency crises, and the American officials wanted to impose a Washington consensus style structural adjustment program, for the alleged benefits of the Asian countries and for sure the profits of the international financial community (Stiglitz, 2002).

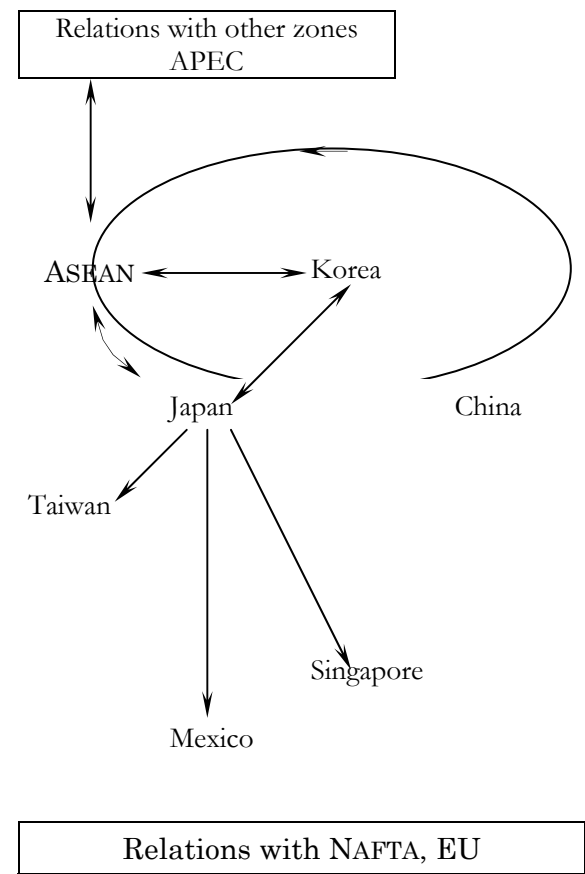
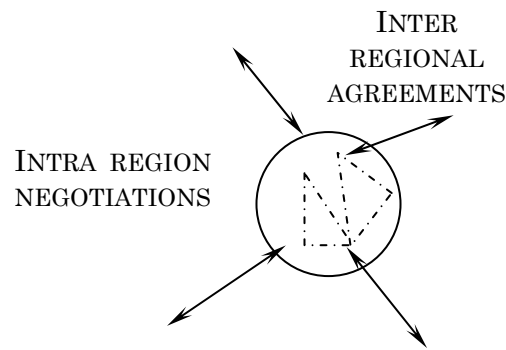
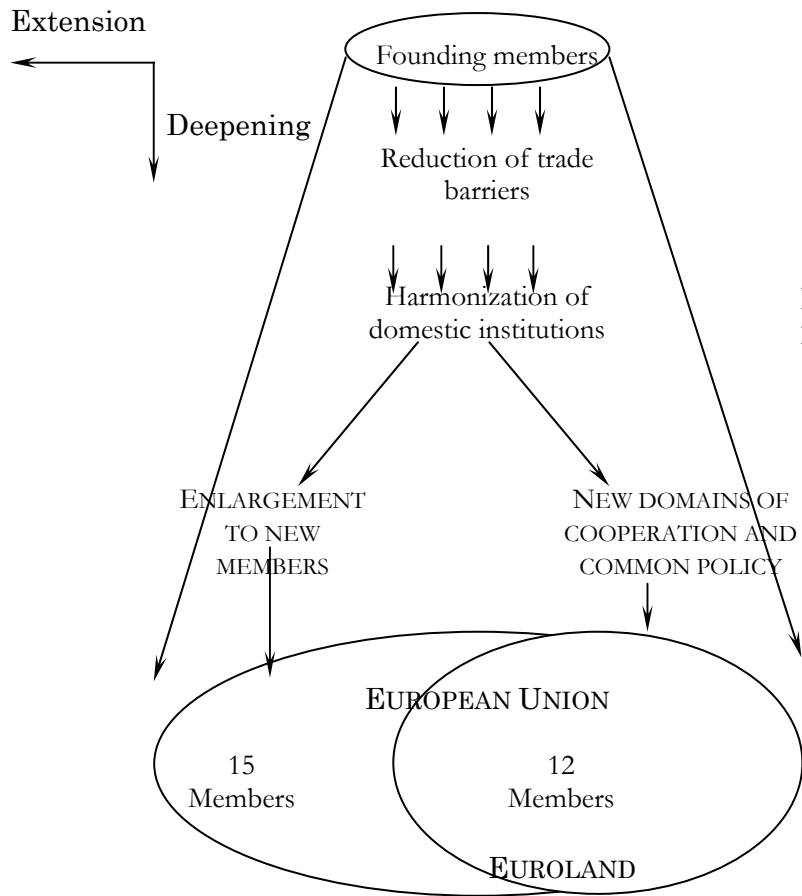
Nevertheless, the internal factors blocking the integration process are not to be underestimated. There is a lack of political trust between Japan, Korea, China and small countries fear of foreign hegemony. The large heterogeneity in development strategies and conception of the polity generate multifaceted conflicts. The Asian regional system is unstable due to the rivalry of two competing hegemonic powers: a decaying one and an emerging one.

A second remark relates to the sequencing of institutional reforms. When the South Asian economies were booming and attracting an excessive mass of foreign capital, the time was ideal for launching common principle in exchange rates regime and monetary policies. Possibly, some reforms slowing down the entry of foreign capital would have been welcome and easy to implement. When the financial crisis burst out in 1997 it was too late to design and implement counter measures and a kind of coordination. Again, Asian integration suffers from a weak institutionalization. But this is frequently perceived as strength. Such a puzzle deserves some discussion.

FIGURE 7. TWO STRATEGIES FOR ECONOMIC INTEGRATION

EUROPE: Deepening relations between core members and then progressive enlargement

ASIA: Free trade negotiations and monetary initiatives between varying partners in order to enhance bargaining power of each Nation-State



## A lot of pragmatism and flexibility, but no hard core of integration

Conversely, the institutions and processes of the European Union are frequently blamed for curbing down the initiative and the innovations of private agents and consequently, they are accused of hindering the efficiency of European firms. By contrast, it was frequent before 1997 to praise Asian countries for their pro-market and proactive economic policies and the honesty and foresight of their learned bureaucracies (World Bank, 1993). Actually, both strategies have pros and cons. The current situation of European institutions will not be discussed here, even if one could argue that many sources of mismanagement of European interventions are up to a too small number of bureaucrats in Brussels!

In any case, one observes a strong opposition between two conceptions of economic integration (figure 7).

- *Europeans* have created a small club of funding members and have continuously extended and deepened their internal relations, from trade to labor mobility, from capital flow to monetary integration, substituting common rules to their scattered domestic legislation. The membership has been extended very carefully with a major concern to preserve what is called “*acquis communautaire*”. By the way, the new enlargement from 15 to 25 or 30 members is not without challenging this preservation of the integrality of the previous institutions.

- *Asians*, quite on the contrary, develop an open and pragmatic process of trade agreement negotiations with a large spectrum of countries. Most of the projects or treaties are negotiated bilaterally and the clauses are weakly implemented. The strategy of Japan during the last few years is illuminating under with respect (table 7). Initiatives have been launched in direction of Singapore, Mexico, Asean,

TABLE 7. THE MULTIFACED STRATEGY OF JAPAN: WISE PRAGMATISM...OR FEAR OF GLOBAL APPROACH?

Initiatives	Current Status	Prospects
Japan – Singapore Economic Partnership Agreement	To be approved by the Japanese Diet	A limited impact upon Asian integration
Japan – Mexico June 2001	Joint expert group to investigate a possible free trade area	A tactical move to get into NAFTA?
Japan + Asean September 2001	Expert group	The crucial issue of agricultural goods trade
Asean + 3	East Asia study group	Significant economic gains, a lot of unsolved political conflicts
Japan - Korea	FTA Business Forum	Similar economic specialization, political legacy of the interwar
Japan – China – Korea 2002	Trilateral initiative Study group and government level meeting	Rather unstable triadic interactions
Japan – Chinese Taipei	Possible private sector forum	Large political obstacles

Source: Kaoru Yosano (2002)

Korea, China and Taiwan, simultaneously but independently. Each of these agreements seems to be negotiated in order to gain a bargaining power that would be partially or totally lost within a multinational forum. Such a strategy is not devoid of dangers. First it develops simultaneously intra and inter-regional agreements, with the drawback of a rather weak core, at least in terms of institutional initiatives. Second, from

an economic standpoint, the Chinese economy has become the engine of Asian growth. By the way, the involvement of China into regional trade integration is rather recent and used to seem less important than the negotiations in order to have access to WTO (Hochraich, 2002).

According to this analytical framework, the two regions are facing contrasted challenges during the current decade.

- The European Union might face major problems in coping with enlargement towards Central and Eastern European countries, previously governed by a Soviet type regime. It will be of course more difficult to make collective decisions and the coalitions of member-States will vary from one issue to another. Actually the Treaty of Nice has codified new voting rules and weight for each country, but it might imply a shift away from the “*méthode communautaire*” i.e. the decision by unanimity due to shared objectives. In more technical terms, a multilateral and multi-period cooperative game was usually played with explicit re-distributive rules it is now a typical non-cooperative game that is performed.

- The Asian countries are typically playing a series of bilateral non-cooperative games, with no cumulateness of institution building, nor re-distributive rules between countries. The positive side of this strategy is clear: many potential arrangements are contemplated according to a pragmatic trial and error process. On the other side, the lack of common objectives, pursued over a long periods, makes the whole process of regional integration uncertain and potentially chaotic. Furthermore, geopolitical concerns introduce other sources of instability and conflict. Whereas Japan was leader of regional economic integration back in the 80's, in 2002 the dynamism of China, in contrast with the slow motion of Japan, gives, *de facto* the leadership to the Chinese government. And to make the situation even more complex, both Japan and China have to take into account the strong concern of the United States for the security and the opening of Asian countries to world trade.

Even though the European integration is in no way a canonic model and is itself not devoid of problems, the lack of intensive relationships between stable actors and on the contrary the surge for alternative configurations for regional integration might put severe obstacles to a successful regional integration.

## Charms and limits of a pragmatic and ad hoc integration process

Another difficulty facing Asian countries relates to the style and nature of integration. None is perfect and all of them are partial (table 8). Governments and firms seem to hesitate between a series of alternative strategies.

- The negotiations of a *large free trade area* between Asean, Japan, Korea and China would probably push a step forward the complementarity between less developed countries providing agricultural products and natural resources, whereas the already industrialized would provide equipment and consumer goods. Among industrialized and industrializing countries, the specialization should be drawn according to the degree of sophistication, the intensity of research and the level of development and the quality of servicing. Some businessmen do contemplate a strong integration of the value chain and thus of productive systems when they declared that “Japanese company excel in quality control and technology and the Chinese private firms are now the factory of the world” (Nikkei Weekly, 2002). The motto would then be: “made in China by Japanese firms”. On their side, governments have a more difficult task: how to convince their domestic producers and public opinion that they will be better off after a period of more or less difficult structural adjustment?

- *An ad hoc cooperation for development* is another strategy that tries to foster the convergence of standards of living and aspirations via significant subsidies from the richest to the poorer member States of the region. During the 80s and a large part of the 90s, this has precisely been the vision of Japanese government that has used ODA in order to initiate an extended cooperation. When the economy is booming, public opinion does not disagree and the domestic interests of the producers are not directly threatened. But this is no more so when the economy is stagnating. Furthermore, many researches in international trade suggest that the opening of domestic markets to the products of the less developed countries is generally more efficient than the increase of subsidies without trade opening. A self-sustaining development process may take place via regional integration, a rare configuration for public subsidies.

TABLE 8. THE PROS AND CONS OF ALTERNATIVE STRATEGIES FOR ASIAN INTEGRATION

NATURE OF INTEGRATION	POSITIVE FACTORS	NEGATIVE FACTORS
<b>FREE TRADE ZONE ASEAN + JAPAN + KOREA + CHINA</b>	<ul style="list-style-type: none"> <li>• Mutual interest in the deepening of economic integration</li> <li>• China's WTO membership and emerging strategy</li> <li>• Changing attitude of Washington towards Asian integration</li> <li>• An incentive to reform domestic institutions (ex: Japan, Singapore FTA and reform of Japanese agriculture)</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult negotiations (agriculture) and multiple FTA negotiations, but only bilateral, or partial</li> <li>• Problems with the exclusion of Taiwan</li> <li>• Slow Japanese political moves</li> <li>• Is it not sufficient to join WTO to get such incentives?</li> </ul>
<b>AD HOC COOPERATION FOR DEVELOPMENT</b>	<ul style="list-style-type: none"> <li>• European style integration is not a starting point</li> <li>• No need for common general objectives</li> <li>• A complement to trade and FDI</li> </ul>	<ul style="list-style-type: none"> <li>• Complex system of interrelated but not necessarily coherent arrangements</li> <li>• Not sufficient to respond to future crises and challenges, few impact on growth</li> <li>• Less funding of ODA by Japan</li> </ul>
<b>ASIAN MONETARY FUND</b>	<ul style="list-style-type: none"> <li>• More independence from IMF and American unilateralism</li> <li>• Teachings from the 1997 crisis</li> <li>• A response to the globalization of finance</li> <li>• The launching of the Euro and extended exchange rate instability</li> </ul>	<ul style="list-style-type: none"> <li>• Still distrust from the US and IMF</li> <li>• What about internal banking / financial crises?</li> <li>• Even pooling large central banks reserves might not be sufficient to bring exchange rate stability</li> <li>• Still structural unbalances of the post Breton-Woods system</li> </ul>
<b>REGIONAL ECONOMIC INTEGRATION</b>	<ul style="list-style-type: none"> <li>• Required to share to costs and adjustments linked to FTA</li> <li>• Required by the spill-over created by trade and FDI</li> <li>• More incentives after the 1997 crisis</li> <li>• Interest of a third Asian pillar to the world economy along with the States and the EU</li> <li>• Improve competitiveness of Asia</li> <li>• Should generate a stable and efficient order in Asia</li> <li>• Inability to workout new rules of the game at Seattle</li> </ul>	<ul style="list-style-type: none"> <li>• Defense of each domestic culture and economic specialization</li> <li>• Lack of adequate regional institutions</li> <li>• Lack of common vision and objectives</li> <li>• Role of political initiative</li> <li>• Unequal distribution of the benefits</li> <li>• Build trust among members is not easy</li> <li>• Political problems and conflicts are present at the regional level too</li> </ul>

• *The creation of an Asian Monetary Fund* would have the merit to directly address to one of the sources of instability within the region. The argument has largely been developed previously. Let us recall that the early steps of such a coordination of monetary policies are not conflicting with the domestic interests but of course, as long as this coordination is successful, the launching of a common currency might appear on top of the agenda. However, this is then no more a purely technical issue to be discussed among Central bankers sharing the same vision of the world, but a matter of pooling monetary sovereignty. Governments and public opinions are necessarily involved. Furthermore, any implicit or explicit distrust among partners may be a blocking factor. This seems to be still the case in Asia, especially when the relations between Japan, Korea and China are taken into account.

*A fully-fledged regional integration* would of course be the culmination of the conjunction of the previous strategies. The evident need of organizations, institutions, and rules of the game is not commonly perceived by Asian countries that prefer pragmatism and flexibility, and this theme has recurrently be developed by the present paper. It has to be reminded that even within the European Union in 2002, many problems arise about the required, but difficult, reforms of the distribution of competences, and



TABLE 9. SOME IMPACTS OF ASIAN INTEGRATION UPON MODES OF “RÉGULATION” AND GROWTH REGIMES

	Present configuration	Transformations implied by Asian integration	Possible long run outcome
INSTITUTIONAL FORMS <ul style="list-style-type: none"> <li>• Financial regime</li> <li>• Insertion into the world economy</li> <li>• Form of competition</li> <li>• Wage labor nexus</li> <li>• State               <ul style="list-style-type: none"> <li>○ Monetary policy</li> <li>○ Tax, public spending</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Close bank / Industry relations</li> <li>• Large openness to foreign capital, productive and financial</li> <li>• Trade related specialization (mainly towards the US and the EU)</li> <li>• Rather oligopolistic competition on each domestic market</li> <li>• Generally reactive to economic evolution and shocks (Korea after 1997)</li> <li>• Embryonic public welfare: firm / family solidarity</li> <li>• Governed by the financial credibility of each country</li> <li>• Minimalist spending, but significant public interventions</li> </ul>	<ul style="list-style-type: none"> <li>• Learning to monitor banks and finance</li> <li>• Cautious management of short term capital movements</li> <li>• Deepening of intra-Asian trade</li> <li>• More integrated approach of competition</li> <li>• Likely bent towards more individualized and segmented labor contracts</li> <li>• Need to build some forms of welfare, more collectively organized</li> <li>• Taking into account interdependency across countries</li> <li>• More public spending (infrastructure, research)</li> </ul>	<ul style="list-style-type: none"> <li>• Resilient banking / financial systems</li> <li>• Less dependence; a say of Asia about the “new world order”</li> <li>• Highly integrated production systems within Asia</li> <li>• Asian single market</li> <li>• More mobility within Asia</li> <li>• Limited, but significant welfare states</li> <li>• Coordinated and ultimately common monetary policy (ACB)</li> <li>• Complementarity of public infrastructures and harmonization of some taxes</li> </ul>
NATURE OF THE GROWTH REGIMES	Export led growth regimes, via price competitiveness	More balance between exports and internal consumption	A set of interdependent but complementary national regimes

they are not uniquely due to the enlargement to new members. For the time being, such a vision is far from common among political leaders. Paradoxically, the businessmen who experience every day the de-localization of factories are more prone to recognize the need for such an integration...that would nevertheless leave them the maximum degree of liberty.

## Towards new growth regimes and regulation modes

A more structural approach starts from the basic question derived from regulationist researches: what could be the impact of Asian integration upon the various growth regimes? Will it bring the emergence of a genuine model or will it favor persisting diversity among national economic institutions and social organizations?

Before 1997, in spite of a significant diversity, most Asian economies have been characterized by an export-led growth regime, mainly via price competition. Industry and banking used to maintain strong and stable links (Aoki, 1988; 2000), most economies were and still are widely open to trade and direct foreign investment, but competition was largely oligopolistic on each domestic market. Many experts praised Asian countries for the flexibility of their labor markets and the modesty of the welfare state. Similarly, total public spending and taxation were maintained at very low levels by international standards (table 9).

This model is affected by various domestic structural changes and not only by the possible transformations in the insertion of each economy into the world system. The internal evolution of Asian societies has not to be underestimated, specially concerning the demographic transition, the transformations of family structure and move of the population from rural to urban areas. The changes in productive systems play a role too via the maturation of ICT technologies, the shift of the manufacturing of typical standardized products from high wage to low wage countries. Finally the very transformations of political systems might be important, specially but not only for continental China. All these factors might be much more important than an acceleration of Asian regional integration.

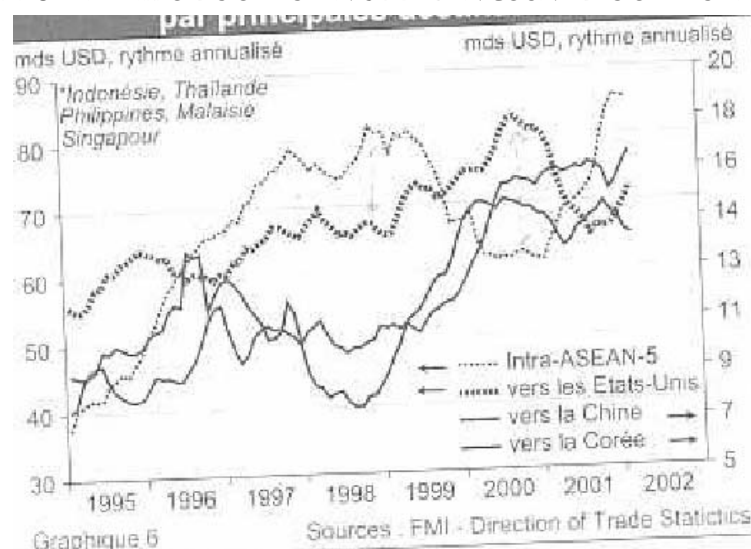
Nevertheless, the Asian crisis and the subsequent partial reorientation of trade flows can have a significant impact. First, the resilience of financial and banking systems is been improved in order to prevent the repetition of the dramatic episode of 1997. Second, the subsequent surge in unemployment and poverty calls for the institution of a more formal welfare, the more so the more segmented the labor market and the individualization of labor contracts. The lowering of tariffs will change the relevant arena for competition and probably make apparent the need for common rules about fair competition, that do not have necessarily to be identical to the rules emphasized by WTO. If countries decide to coordinate their monetary policies, this is another component of domestic "regulation" modes that would be affected. Last but not least, Asian countries would be entitled to adopt a common strategy concerning the conditions offered to FDI and possibly limit the degree of freedom for typically short run capital flows, that have proved to be quite detrimental to Asia and Latin-America.

A possible outcome, after one or two decades, could well be an integrated Asian region, that would be able to negotiate with North America and Europe a possible redesign of the institutions of the international system. Hence, in the long run, a series of interdependent but different "régulation" modes and growth regimes could emerge. But this rosy scenario may find many economic and political obstacles, due to the very specific distribution of economic and political power in Asia.

## China, the factory of the world, versus Japan the saver of last resort

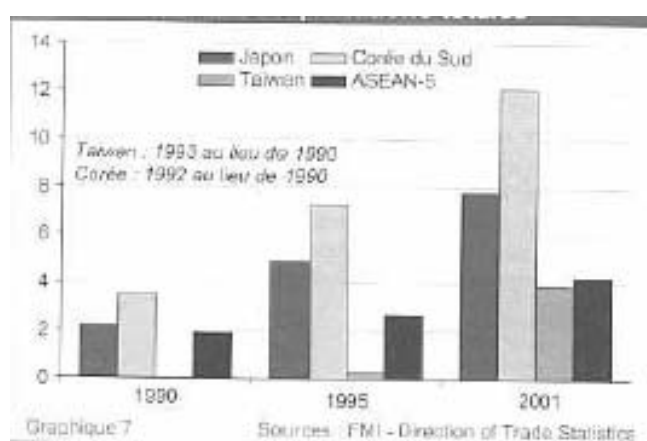
The recent development of Asian exports shows a significant development of intra-Asean countries trade after 2000 and symmetrically a decline of the exports of Asean to the United-States (graph 3). But it is difficult to interpret this inversion as a structural break since this decline of exports to the US is mainly linked to the American slowdown that takes place after March 2000. Simultaneously, the exports toward China and South Korea have been booming after 1998, due to the fast growth of these two countries. Basically, the potential growth of Asian countries remains faster than that of most economies belonging to any other region and this is a good news for the deepening of intra-Asian trade.

GRAPH 3. THE EXPORTS OF ASEAN-5 BY MAIN COUNTRIES OF DESTINATION

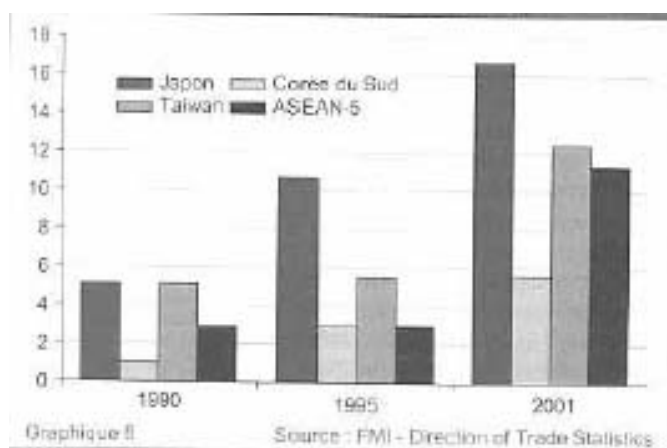


A closer look at the exports to China (graph 4) and import from China (graph 5) delivers another diagnosis. On one side, the boom of Chinese imports has benefited mainly to the most industrialized Asian countries: South Korea and Japan and to a lesser extent Taiwan. By contrast, the Asean-5 have not similarly enjoyed the pull factor associated to the dynamism of the Chinese economy all over the 90s. On the other side, Japan and Taiwan have massively imported from China during the same period and this is probably the consequence of the de-localization of many Japanese and Taiwanese manufacturing firms to China. Paradoxically, the Asean countries have been deeply penetrated by the Chinese imports, more rapidly than they benefited from the growth of Chinese imports. Clearly, China is capturing a larger market share at the detriment of mature economies such as Japan and Taiwan but also less developed Asian countries. This asymmetry may create frictions and conflicts among governments about the regional integration process. Only Korea seems to resist to the penetration of Chinese exports, quite an original configuration indeed.

GRAPH 4. SHARE OF EXPORT OF ASIAN COUNTRIES TO CHINA WITH RESPECT TO TOTAL EXPORTATION OF EACH COUNTRY



GRAPH 5. PENETRATION OF CHINESE IMPORTATIONS IN ASIA

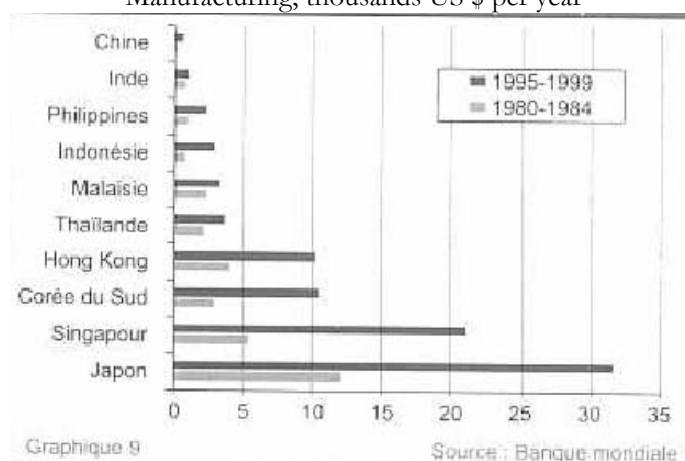


Source: Crédit Lyonnais, Conjoncture, Septembre (2002: 12, 14)

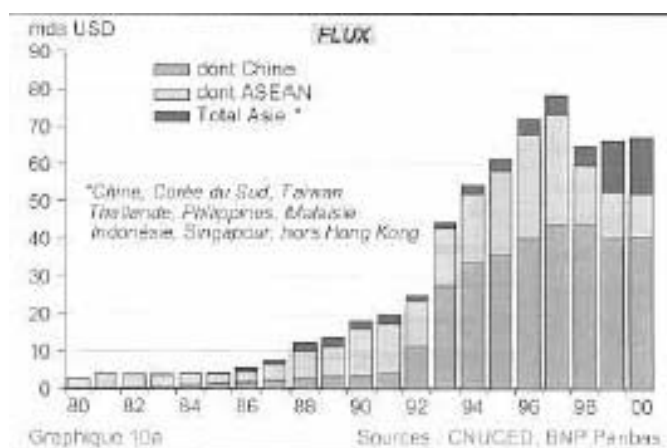
The same strong asymmetry between China and the rest of Asia is observed concerning the geographical distribution of FDI (graph 7). During the 80s, most of foreign investment went to Asean countries but after 1991 the boom of FDI has mainly benefited to China. After the 1997 crisis, the investments directed to China have been kept nearly constant whereas it has strongly declined for other Asian countries. Thus, the transfers of technologies have been mainly benefited to China and not so much to other less developed economies. Furthermore, many experts think that Chinese firms will not necessarily invest massively in Asian for a rather strong reason. Given the large heterogeneity of wages and incomes between the coasts and the hinterland, Chinese managers would logically prefer to invest within China in less developed regions than to take the risk to invest abroad with wage significantly superior (graph 6). The huge pool of surplus labor available in the public sector and in the most rural regions may legitimate a development model "à la Lewis" for China.

GRAPH 6. AN IMPRESSIVE HETEROGENEITY OF UNIT LABOR COSTS

Manufacturing, thousands US \$ per year



GRAPH 7. CHINA CAPTURES A GROWING SHARE OF FDI TOWARDS ASIA



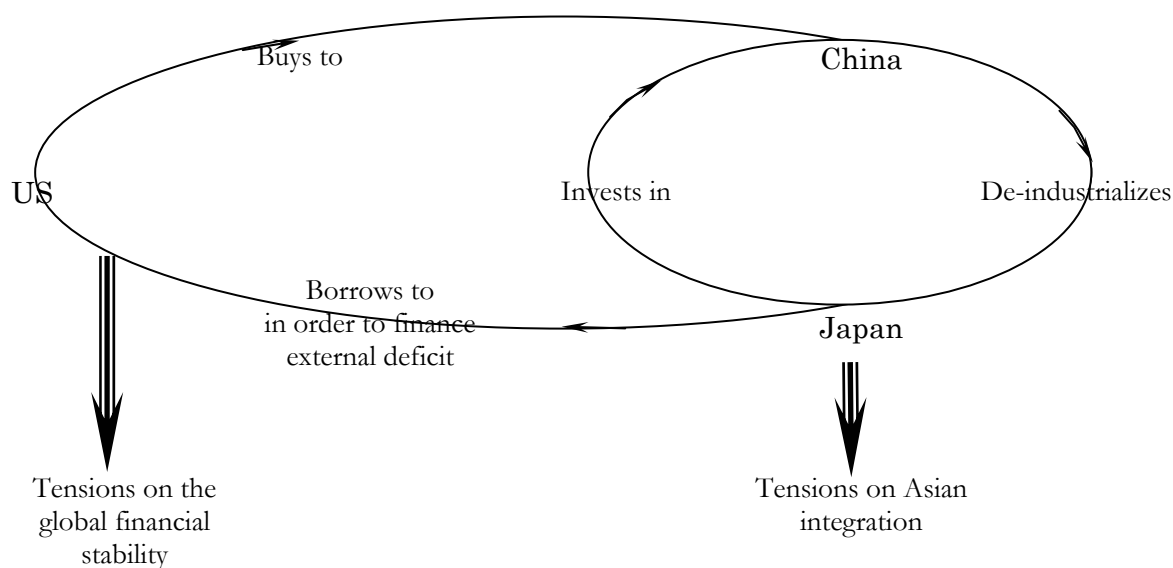
Source: Crédit Lyonnais, Conjoncture, Septembre (2002 : 15, 16)

All these evidences converge towards the prognosis that China may become the factory of the world, provided the actual political organization is able to completely manage the transition from a centrally organized economic regime towards a fully-fledged market economy. Not an easy task indeed! This might be an obstacle to Asian integration: any other participant might fear to be overwhelmed dominated by Chinese economic dynamism and possibly geopolitical ambitions.

A second source of instability relates to the weakness of Japanese economy and the uncertain diplomacy of the successive governments. If in the mid-80s, Japan could have initiated regional integration, it has no more such a capacity in the early 2000. The rising role of the China and the declining influence of the Japan may create a major imbalance in Asia. This reminds the inter-war period when Great Britain pretended to be a hegemon but at no more the means of such a policy, whereas the United States had the economic power but not the political will to achieve the stabilization of a quite unstable world system (Kindleberger, 1973).

There is a last and strong economic obstacle to a fast Asian integration. Given the uncertainty of the prospects for their economy, the Japanese firms invest with more caution than in the past, they try to restore their financial position and they are unable to find out new production process or sectors that would preserve the integrality of manufacturing employment in Japan. Consequently it is difficult to expect a recovery of the rate of investment. On the other side, Japanese households are very anxious about the future since they fear that a member of the family may loose his (her) job, that their bank may go bankrupt and that the huge public deficit will have to be reimbursed in the future by a higher taxation. Thus the rate of saving tends to be high and larger than the rate of investment, and that implies either a lower activity rate or a deflation...and may be both of these situations. No surprise if the Japanese firms then prefer to invest abroad, for instance in China, which might exacerbate a quite unstable configuration for the world economy. This vicious circle may block Asian integration due to strong conflicting economic interests between China, Japan and the US (figure 7). Paradoxically enough, the excess saving of Japanese might help to finance the American external (and public) deficit and thus entitle the Americans to play the role of consumers of last resort...of manufactured goods made in China by Japanese, European and American multinationals.

FIGURE 7. ASIA AND THE WORLD ECONOMY: CAN TWO VICIOUS CIRCLES MAKE A WORLD VIRTUOUS CIRCLE?



## CONCLUSION

The progressive destabilization of the post-WWII national economic regimes has triggered the search for alternative configurations. Among them, the idea that the vigorous internationalization of trade, production and investment had destroyed the very possibility of national independent regulation modes has known a large success. The buzzword of globalization has captured such a hint, but it does not necessarily give a precise and correct account of the most relevant trends of the contemporary world system. The main findings of the present work can be summarized by three main propositions.

### Regional integration, as an alternative to globalization

Another misleading feature of the term “globalization” is to imply that now any multinational is selling, producing and investing all over the world and that all national economies are now equally challenged by the trans-nationalization. Quite on the contrary, the empirical evidence shows a strong concentration of FDI within a limited set of countries, whereas a whole continent such as Africa is left over by the so-called process of globalization. A last observation points out that *de facto*, international relations are deepening within three regional zones, respectively Europe, North America and South East Asia. The core argument of this paper has been to stress the strong differences between a finance led globalization and a process of *regional economic integration*. In the second configuration, a pooling of some components of national sovereignty entitles public authorities to recover some degree of freedom in the design of rules, in order to make more or less compatible economic efficiency and dynamism on one side, social cohesion and political legitimacy on the other. According to this line of analysis, beneath the rhetoric of globalization, are emerging at least three zones of regional integration. They are a direct and relevant response to the following dilemma. On one side, for the majority of countries, the national economy has become too small to be governed according to a pure inward looking strategy. On the other side, the world is too heterogeneous and the conflicts of interest too acute to endogenously generate an efficient global governance. This is precisely the merit of regional integration: the intensity of intra-regional links are such that such a process entitles governments to look for coordination principles and in some instances, the supply of regional public goods such as free competition, financial stability and legitimacy of the social and economic order. For the tenants of worldwide free trade, regional integration is quite imperfect and should only be conceived as a first step towards a world wide free trade. The

current analytical framework delivers a quite different message: regional integrating zones are here for a long time since they tentatively reconcile the logic of polity with the economic rationale.

### Monetary and financial stability: a key objective in a troubled world

A last and provisional conclusion stresses that the slow process of progressive integration experienced by the European Union can probably not be reiterated in the contemporary world system that features major financial instabilities. The recurrence of major crises during the 90s has for instance prevented Mercosur to experience the deepening of regional division of labor that was aimed at by Argentina, Brazil, Paraguay and Uruguay when they negotiated the related treaty. But conversely, the 1997 Asian crisis has made evident the strong dependence of these economies with respect to the dynamism of the US and the stability of their local currency with respect to the dollar. The short but illuminating experience of the Euro suggests that the stabilization of the exchange rates among the twelve member States of Euro-land has prevented the repetition of the internal currency crises and mitigated the impact of the bursting out of the American Internet bubble. Considering these three contrasted experiences, the present work suggests a new strategy for regional integration: instead of starting by liberalizing trade, why not to organize the stabilization of the regional currencies, via a progressive definition of common interventions in terms of monetary and possibly coordinated budgetary policies. Given this stabilization of the competitive advantage of each member, intra-regional trade and furthermore investment could develop and create *ex post* the equivalent of a Single Market. The Europeans started from the polity (prevent the repetition of wars) to the economy (create a single and then a common market) to converge again towards the pooling of national currencies with the Euro. Should not Latin-Americans and Asians inverse the whole process and organize first a zone of monetary stability and then progressively deepen trade investment and production relations?

### The symmetric challenges addressed to Europe and Asia

The European integration has been a quite complex and idiosyncratic process that therefore cannot be imitated. This is why the European Union should be analyzed by Asian and Latin-American countries in order not to strictly apply the same recipe, but to derive some general hypotheses and hints. During the half past century, the world system and domestic societies have drastically changed. Furthermore the institutional achievements of the European Union on one side and the surprising economic performance of Asia in the other side, address new challenges to policy-makers. In Europe, a rather codified and institutionalized integration is facing the difficult task of enlargement and of adaptation and rationalization of a quite complex architecture in the distribution of competences between the European Union and member States. The dynamism of Asian firms and the pragmatism and flexibility of Asian governments will be welcome...but these features cannot be imported! In Asia the integration has been pushed by the strategies of multinationals. They have thus created a *de facto* division of labor that generates new interdependences among Asian countries. Consequently the governments should develop the new institutions and the organizations – both at the domestic and international level – if the process of the economic integration is to be pursued. But they lack the institutional expertise that was typical of European leaders such as Jean Monet or more recently Jacques Delors.

Nevertheless, in both cases the policy makers face two major challenges. How to discipline global finance? How to introduce some order and respect of national autonomy and social justice in the implementation of the objectives of WTO? In both cases, the primacy of economic efficiency should be weighted against the demand for social justice both within and across societies. Quite an ambitious task indeed!

## REFERENCES

- AGLIETTA Michel (1976), *Régulation et crises du capitalisme*. Calmann-Lévy, Paris.  
 AOKI Masahiko (1988), *Information, Incentives, and bargaining in the Japanese Economy*, Cambridge University Press, Cambridge MA  
 AOKI Masahiko (2000), *Towards a comparative institutional analysis*, to appear MIT Press, Cambridge.

AOKI Masahiko, MURDOCK K. and OKUNO-FUJIWARA M. (1995), "Beyond the East Asian miracle: introducing the market enhancing view", In M. AOKI, KIM H. and OKUNO-FUJIWARA M. (eds.), *The role of government in East Asian Economics*, Clarendon Press, London.

AOKI Masahiko (2002), "Opening Remarks: The Flying Geese Pattern of Institutional Evolution?", RIETI Symposium "Asian Economic Integration: Current Status and Future Prospects", Tokyo, April 22-23.

BADINTER Robert (2002), *Une constitution européenne*, Paris, Fayard.

BAIROCH Paul (1996), "Globalization Myths and Realities: One Century of External Trade And Foreign Investment", in R. Boyer and D. Drache (Eds.), *States Against Market: The Limits of Globalization*, Routledge, London and New York, p. 173-192.

BOYER Robert (1990), *The Régulation school: A critical introduction*. New York, Columbia University Press.

BOYER Robert and SAILLARD Yves (eds), (2001), *Régulation Theory. The State of the art*, Routledge, London. Edition française, La Découverte, Paris, 1995 et 2002.

BOYER Robert (1995), « Les mots et les réalités » in Serge Cordelier (ed.), *Globalization mythes et réalités*, La Découverte, Paris, réédition 1999, p. 14-56.

BOYER Robert (1998a), Le lien salaire/emploi dans la théorie de la régulation : autant de relations que de configurations institutionnelles. *Cahiers d'économie politique* 34, 101-161.

BOYER Robert (1998b), « An essay on the Political and Institutional Deficits of the Euro », *Couverture Orange CEPREMAP* n° 9813.

BOYER Robert (1999), *Le gouvernement de la zone Euro*, La Documentation Française, Paris.

BOYER Robert (2000a), « The political in the era of globalization and finance ; focus on some Régulation School Research », *International Journal of Urban and Regional Research*, Vol. 24, n° 2, p. 274-322. (en japonais : *Comparative Economic Studies*, p.61-83)

BOYER Robert (2000b), « The Unanticipated fallout of European Monetary Union: The Political and Institutional Deficits of the Euro », in Colin Crouch *After the Euro*, Oxford University Press, Oxford, p. 24-88.

BOYER Robert (2002), "Institutional reforms for growth, employment and social cohesion" RODRIGUES Maria Joao (Ed.), *The New Knowledge Economy in Europe. A Strategy for International Competitiveness with Social Cohesion*, Edward Elgar, Londres, p. 146-202.

BOYER Robert, DEHOVE Mario (2001a), « Théories de l'intégration européenne : entre gouvernance et gouvernement », *La Lettre de la Régulation*, n° 38, Paris, Septembre, p. 1-3.

BOYER Robert, DEHOVE Mario (2001b), « Du « gouvernement économique » au gouvernement tout court », *Critique internationale*, n° 11, avril, p.179-195.

BOYER Robert, DEHOVE Mario (2002), "La répartition des compétences en Europe. Le double éclairage du droit et de l'économie », Mimeograph CEPREMAP, 20 août.

BOYER Robert, JUILLARD Michel (2001), The United States: goodbye, Fordism !, in Boyer Robert, Saillard Yves (eds), *Régulation Theory. The State of the art*, Routledge, London. Edition française, La Découverte, Paris, 1995 et 2002.

BUITER Willem H., GRAFE Clemens (2002), « Anchor, float or abandon ship : exchange rate regimes for the accession countries », *BNL Quarterly Review*, n° 221, June, p. 111-142.

CAVALIER Delphine (2002), « Asean : d'un défi à l'autre, des réformes internes à la mondialisation », *Conjoncture*, n° 8, Septembre, BNP PARIBAS, p. 2-17.

CEPII (CENTRE D'ETUDES PROSPECTIVES ET D'INFORMATION INTERNATIONALES) (2002), *L'économie mondiale 2003*, Repères n° 348, La Découverte, Paris.

CHANDLER Alfred D. (1977) *The Visible Hand: The Managerial Revolution in American Business*. Cambridge: Harvard University Press.

CHANDLER Alfred D. (1990) *Scale and Scope: The Dynamics of Industrial Capitalism*. Cambridge: Harvard University Press.

DAVANNE Olivier (2000), *L'architecture financière internationale*, Rapport pour le Conseil d'Analyse Économique, La documentation française, Paris.

DEHOVE Mario (1997), L'union européenne inaugure-t-elle un nouveau grand régime d'organisation des pouvoirs publics et de la société internationale? In *L'Année de la Régulation* (vol. 1) La Découverte, Paris.

DIXON K. (1998) *Les évangélistes du marché*. Raison d'Agir, Paris.

DRACHE Daniel, FROESE Marc, FULLER Mark, SINGH Nirmala (2002), "One World, One System? The diversity Deficits in Standard-setting, Development and Sovereignty at the WTO. A report card on Trade and the Social Deficit", Mimeograph Roberts Centre for Canadian Studies, York University, Toronto.

DRAZEN Allan (2000), *Political Economy in Macroeconomics*, Princeton, Princeton University Press.



- EPSTEIN Gerald (1996), "International capital mobility and the scope for national economic management. In R. Boyer and D. Drache (eds.), *States against markets*, Routledge, London.
- FELDSTEIN Mertin (1997), "The Euro and War", *Foreign Affairs*, November-December.
- FLIGSTEIN Neil (1990), *The transformation of corporate control*, Cambridge, Harvard University Press.
- FLIGSTEIN Neil (2001), *The Architecture Of Markets. An Economic Sociology of Twenty-First Century Capitalist Societies*, Princeton, Princeton University Press.
- FLIGSTEIN Neil, MERAND Frederic (2002), "Globalization or Europeanization? Evidence on the European Economy Since 1980", *Acta Sociologica*, vol. 45, p. 7-22.
- FLIGSTEIN Neil, SWEET Alec Stone (2002), "Constructing Politics and Markets: An Institutionalist Account of European Integration", *American Journal of Sociology*, 107(5), March.
- FORSYTH D.J. and NOTERMANS Ton (eds) (1997), *Regime changes, macro-economic policy and financial regulation in Europe from the 1930s to the 1990s*. Berghahn Books, Oxford.
- GARTH Bryant C., DEZALAY Yves (2002), *The Internationalization of Palace Wars: Lawyers, Economists and the International Reconstruction of the State*, University of Chicago Press and Le Seuil, forthcoming.
- HELLEINER Eric (1996) Post-globalization: is the financial liberalization trend likely to be reversed? In R. Boyer and D. Drache (eds.), *States against markets*, Routledge, London.
- HERITIER Adrienne (2002), "Containing Negative Integration", Mimeograph University of Köln
- HIRST Paul and THOMPSON Graham (1996), *Globalization in question*, Polity Press-Blackwell, Cambridge, (Mass.).
- HOCHRAICH Diana (2002), *Mondialisation contre développement, le cas des pays asiatiques*, Syllepse, Paris.
- INOUE Yasuo (2001), « East Asian Capitalisms and Regulation Approach », Mimeograph, presented in the workshop of "In search of East Asian Modes of Development: Regulationist Approaches", Tunghai University, Taichung, Taiwan, 19-20, April 2001
- INOUE Yasuo (2002), « Le capitalisme du 21e siècle en Asie: analyse des relations du travail », communication à la 7<sup>e</sup> Conférence Japonaise d'Economie, Université de Waseda, Tokyo, 1-2 novembre..
- JACQUET Pierre, PISANI-FERRY Jean, TUBIANA Laurence (2002), *Gouvernance mondiale*, Rapport du Conseil d'Analyse Economique, n° 37, Paris, La Documentation Française.
- JULLARD Michel (1993) *Un schéma de reproduction pour l'économie des États-Unis: 1948-80*. Peter Lang, Bern.
- KAUL Inge, GRUNBERG Isabelle, STERN Marc-A. (eds) (1999), *Global public goods: International cooperation in the twenty-first century*, New York and Oxford, Oxford University Press.
- KINDLEBERGER Charles P. (1973), *The World in Depression, 1929-1939*, University of California Press, Ma..
- KRUEGER Anne (2002), A New Approach to Sovereign Debt Restructuring, IMF, Washington, 40 pages.
- KWAN C.H. (2002), "The Rise of China and Asia's Flying-Geese Pattern of Economic Development: An empirical Analysis Based on US Import Statistics", RIETI Discussion Paper Series 02-E-207, Tokyo, June.
- LIPIETZ ALAIN (1983), *Le monde enchanté. De la valeur à l'envol inflationniste*. La Découverte, Paris.
- MAUREL Françoise (sous la présidence de) (1999) *Marché unique, monnaie unique : trois scénarios pour une nouvelle géographie unique de l'Europe*, rapport du groupe « Géographie économique » Commissariat général du Plan, La Documentation française, Paris.
- MCKAY David (2001), *Designing Europe: Comparative Lessons from the Federal Experience*, Oxford, Oxford University Press.
- MOON Wosik, RHEE Yeogseop, YOON Deok Ryong (2000), « Asian Monetary Cooperation: A Search for Regional Monetary Stability in the Post Euro and Post Asian Crisis Era », *Economic Papers*, 3 (1), May, Bank of Korea.
- MORAVCSIK Andrew (1998), *The Choice of Europe*, Cornell University Press, Ithaca.
- MUNAKATA Naoko (2002), "Whither East Asian Economic Integration?", RIETI Discussion Paper Series 02-E-207, Tokyo, June.
- NIKKEI WEEKLY (2002), "China-Japan tie-ups key to prosperity, October 7<sup>th</sup>, p. 1.
- NORTH Douglass C. (1990), *Institutions, Institutional Change and Economic Performance*, Cambridge and New York, Cambridge University Press.
- OHNO Kenichi (2002), "East Asian Experience in Economic Development and Cooperation", Mimeograph for RIETI/METI, Tokyo, September 1.
- ORLÉAN André (1998), "The ambivalent role of imitation in decentralised collective learning", In E. LORENZ and N. LAZARIC (eds.), *Trust and economic learning*, Edward Elgar, Cheltenham, UK, Northampton, (Mass.), USA.
- PIETERSE Jan Nederveen (2002), "Shapes of globalization, clash of modernities: Asian-European dialogue", Mimeograph for "Identité et Démocratie", Rennes, September.

PYO Hak K. (1999), "The Financial Crisis in South Korea: Anatomy and Policy imperatives", in JACKSON Kal D. (ed.) *Asian Contagion: The Causes and Consequences of a Financial Crisis*, Westview, Oxford, Chap. 6.

PYO Hak K. (2002), "Excess competition, moral hazard and industrial trauma in Korea, 1997-8", in DADUSH Uri, DASGUPTA Dipak, UZAN Marc (eds) *Private Capital Flows in the Age of Globalization*, Edward Elgar, Cheltenham, p. 13-26.

RHEE Yeogseop, MOON Wosik, (2002), "The Current Status and Future Prospects for Asian Monetary Integration: Lessons from the European Monetary Union", Mimeograph "*International Conference on Political and Economic Impact of the Euro*", Seoul, August 21.

SAKAKIBARA Eisuke (2001), « La coopération régionale en Asie à l'âge du numérique », in Boyer Robert, Souyri Pierre F. (eds), *Mondialisation et Régulations : Europe, Japon face à la singularité américaine*, La Découverte, Paris, p. 103-119.

SCHARPF Fritz (1996), "Negative and positive integration in the political economy of European welfare States", in MARX G., SCHARPF Fritz, SCHMITTER Philippe, STREECK Wolfgang (eds) *Governance in the European Union*, Sage, London, p. 15-39.

STIGLITZ Joseph E. (2002a), *Globalization and its Discontents*, WW. Norton, New York.

STIGLITZ Joseph E. (2002b), "Opening Remarks", RIETI Symposium "*Asian Economic Integration: Current Status and Future Prospects*", Tokyo, April 22-23.

TERSEN Denis (2002), "Chine/Japon : les lois de l'attraction », Agence financière, Ambassade de France au Japon, Diaporama, 6 juin.

THÉRET Bruno (1997), L'apport des approches françaises de l'effet sociétal et de la régulation à la méthodologie des comparaisons internationales: l'exemple des systèmes nationaux de protection sociale. In *L'Année de la Régulation 1997* (vol. 1), La Découverte, Paris.

WHITE Harrison C. (2002), *Markets from networks. Socioeconomic models of production*, Princeton, Princeton University Press.

WOODALL Pam (2002), « The unfinished recession : A survey of the world economy », *The Economist*, September 28th, special issue, p. 3-34.

WORLD BANK (1993), *The East Asian Miracle : Economic Growth and Public Policy*, Washington DC, World Bank.

WORLD TRADE ORGANISATION (2002), *Annual report 2002*, Geneva.

YOSANO Kaoru (2002), "Speech", RIETI Symposium "*Asian Economic Integration: Current Status and Future Prospects*", April 22-23, Tokyo.