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## ECONOMIC INTEGRATION PROCESS IN EUROPE AND ASIA. COMPARATIVE ANALYSIS

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**Abstract:** The dynamic development of the regional integration process in the globalised economy has become a fact. The European Union is an example of a formation in which this process is most advanced, and its analysis may give valuable insight into conditions and factors conducive to the intensification of the economic integration. The Asian regionalism is being shaped in extremely diversified considerations, as opposed to the European one. This is connected with the fact that it is faced with the challenge to reconcile high economic, political, and cultural diversification, and it is shaped in the reality of a much strongly globalised economy. Some economic issues discussed on the Asian forum are identical to the European challenges; thus, Asia has the possibility to use the valuable European experience.

**Key words:** economic integration process, integration in Asia, European integration.

### 1. Introduction

The dynamic development of the regional integration process in the globalised economy has become a fact. The European Union is an example of a formation in which this process is most advanced, and its analysis may give valuable insight into conditions and factors conducive to the intensification of the economic integration.

Thus, it is worth posing a question what was the course of the economic integration process in Europe and Asia, and analysing in what lie the differences in the characteristics of this phenomenon in both regions of the world.

### 2. Economic integration in the global economy

Integration is a process which may be considered a manifestation of the idea of economic globalisation. This is the case of global integration embracing the whole world and occurring above all on the market level, which amounts to eliminating barriers which impede the flow of goods, services and production factors. In the long run – according to R. Boyer – this will lead to the lack of correlation between the domestic demand and supply, while the consequence of the process will be the full internationalisation of the selling market and the supply market for enterprises

(and other business entities).<sup>1</sup> On the other hand, we are faced with the economic regional integration (*regionalism*<sup>2</sup>) which is based on the proximity (geographical, cultural, economic) of a particular group of countries and usually has a strong institutional (political) superstructure. J. Misala names both of these integration aspects components: real, and institutional and instrumental ones.<sup>3</sup>

The real component amounts to “the reduction of the extent to which the product market and the production factors market are separated”, and its shape is determined by the following considerations present in the integrating countries:

- the existence of a proper economic structure and communication infrastructure,
- the (current or potential) complementarity of economies,
- the pursuit of the economic policy facilitating integration.

The institutional component of integration amounts to determining the desired form of integration (zone of free trade, customs union, common market, monetary union, political union) and to using appropriate instruments and institutions to achieve it.

Although the regional economic integration is normally considered a simultaneous and complimentary process to globalisation (mainly due to the significant role of internationalisation in both these processes), it is impossible to ascertain unambiguously whether this correlation will be maintained in the long run. This is because integration involves the risk of the reappearance of barriers in the global economy; not at the local level now, but at the regional level, e.g., on customs borders of closed integration formations. The risk is diminished if a certain degree of openness of integration formations is assumed and if processes of their extension are carried out, which does not actually guarantee the maintenance of this state in the future. The more so that – according to J. Misala – “at a certain development level a certain point of intensity of correlations in the real sphere is exceeded; that is the case when the top-down (institutional and instrumental) directing and managing the development of integration processes as to the flow of products and production factors is unavoidable”.<sup>4</sup> Thus, the decision on the degree of openness or closeness of a given regional integration formation becomes a *stricte* political decision.

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<sup>1</sup> R. Boyer, *European and Asian Integration Processes Compared*, Centre pour la recherche économique et ses applications, Paris 2003.

<sup>2</sup> N. Munakata points to the fact that the term “regionalism” has a more institutional nature, in contrast to the notion of regionalisation, that is the economic integration process occurring by means of market mechanisms. The political markedness of the notion of regionalism may lead to the excessive attributing the *quasi* mercantile (defensive) nature to this process. See: N. Munakata, *Regionalization and Regionalism: The Process of Mutual Interaction*, RIETI Discussion Paper Series 04-E-006, Tokyo 2006.

<sup>3</sup> J. Misala, *Wymiana międzynarodowa i gospodarka światowa. Teoria i mechanizmy funkcjonowania*, SGH, Warszawa 2005, pp. 434-435.

<sup>4</sup> *Ibidem*, p. 436.

### 3. Conclusions arising from the economic integration process of the European Union

#### 3.1. Evolution of the European integration process

The integration process initiated in Europe by Jean Monnet was political in nature. In order to prevent the recurrence of German-French conflicts, which were dramatic in their consequences, the possibility to organise and coordinate the economic activity within the key sectors, i.e. coal and steel, was considered at that time.

The interest in the final shape of the integrating Europe was reflected in the Treaty of Rome, establishing the European Community (1958), when it was decided that the integration process would be intensified. Principles established in the content of the Single European Act (1987) were particularly significant in this respect. It was stipulated in that document that the creation of the Internal Market agreed on in the Treaty of Rome would be accelerated. The legal basis for the European Political Cooperation (foreign policy) was created and strengthened. Hence, the resources of the community's regulations (*acquis communautaire*) expanded gradually,<sup>5</sup> whose unconditional approval became the condition for admitting new countries to the European Communities.

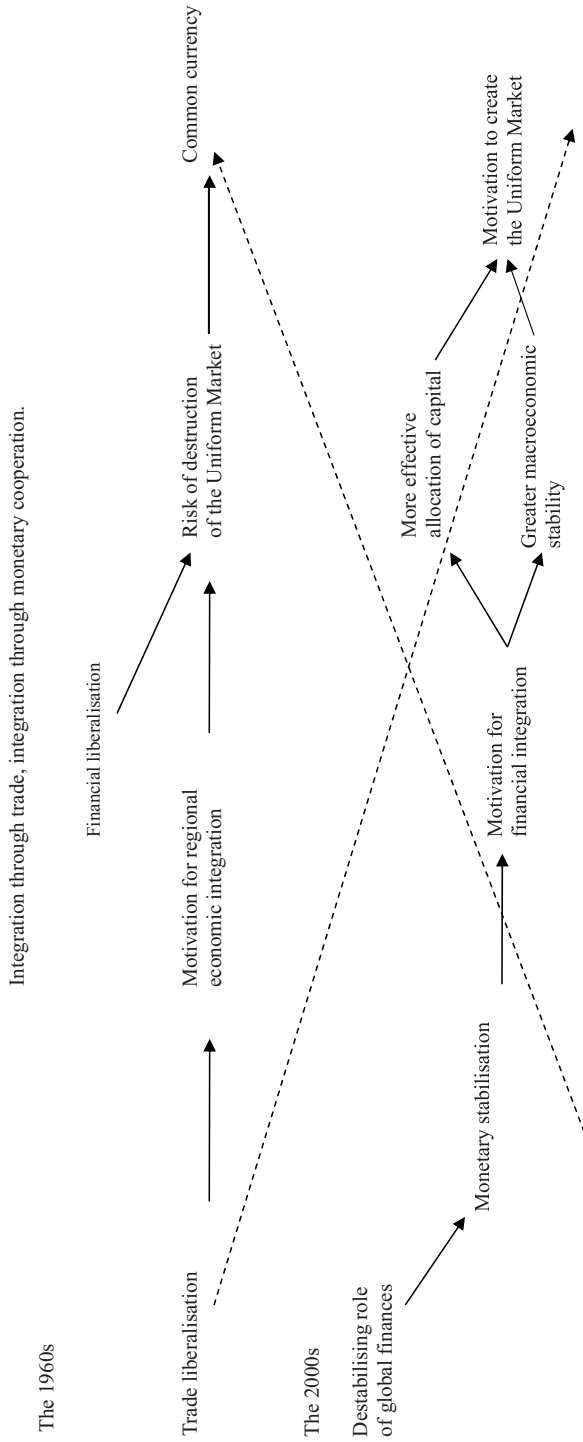
The fact that the formula of the Bretton Woods system was exhausted upset the foreign exchange ratios of European currencies and, as a consequence, delayed the process of economic specialisation in international relations, which was already in progress. The European Monetary System (EMS) was created in order to eliminate those discrepancies; however, the success of the project was faced with a range of serious difficulties in the context of a rapid inclination towards financial deregulation. The dramatic events of 1992 and 1993 brought about the reinforcement of integration processes by dint of the Treaty of Maastricht on European Union (1993): the common currency was to be a definitive solution to the problem of instability of European currencies. The project was repeatedly presented as a strategy of a merely economic overtone, while it was strictly political in nature, since it was forced by France and Germany in the face of the collapse of the Soviet Union and the dissolution of the Council for Mutual Economic Aid as well as the reunification of Germany. A paradox is to be noticed here: *Euro is presented as a functional mechanism which reduces transactional costs, eliminates exchange risk, while in fact it is above all a political instrument.*<sup>6</sup>

The treaty of Maastricht assumed that in 1996 an intergovernmental conference of member states would be summoned in order to examine those provisions of the Treaty which were to be reviewed. The subject of the conference were, thus, reforms

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<sup>5</sup> B. Skulska (ed.), *Procesy globalizacyjne w gospodarce światowej. Wybrane zagadnienia*, WSZ „Edukacja”, Wrocław 2009, pp. 103-105.

<sup>6</sup> R. Boyer, *op. cit.*, p. 5.



**Figure 1.** Two epochs, two strategies of the European Union integration

Source: own work based on: R. Boyer, *op. cit.*

indispensable for the intensification of the integration processes and changing the shape of the institution of the Union in such a way that they would be capable of acting upon the enlargement of the Union with Central and Eastern European countries. The works of the conference were deemed completed by the European Council in Amsterdam. The proposals of the Treaty were adopted and initialled and the properly edited text was signed in Amsterdam in 1999.

Along with a significant strengthening of the European Parliament and incorporating the Schengen Treaty into the Maastricht Treaty, the principle of “Europe of different speeds” was introduced into the Treaty of Amsterdam, which allows some of the member states to take integration actions even if other members of the group do not want to participate in them.

The Treaty of Lisbon (2007) is a conclusion of long-term efforts within the European Union aiming at the reformation of the principles of its operation. In terms of the objective scope it comprises the Treaty on European Union (TEU) and the Treaty establishing the European Community (TEC).

When reviewing the regulations of the Treaty of Lisbon, it can be noticed that the increased cooperation, which is the form of the flexible integration, was permanently stipulated therein with the intention to facilitate the differing state of affairs as to the integration of the member states in terms of time- or subject-related scope. Apart from the significance of that form for the future of the integration, it constitutes a treaty-based confirmation of the legitimation of the differentiation practice in the form of the European Monetary System, the Treaty of Schengen, or various forms of cooperation in the area of security and defence, when not all member states participated in each instance of cooperation.<sup>7</sup>

In the initial period of the European integration process economies constituted an instrument, and the political integration – the goal, while today the political will is subordinate to economic goals, and not monetary priorities.

Therefore, the European integration is neither the effect of the strictly economic determinism, nor the result of the operation of the political will or leadership. This historical context in a way negates the postulates formulated by numerous conventional theories of economic integration: they are based particularly on the increasing economies of scale, the reduction of transport costs and transactional costs, or the symmetry of macroeconomic shocks to estimate the probability of the success of a regional integration project. After the end of World War II, none of the indicated conditions was fulfilled by the founders of the European Community. On the contrary, political initiatives prove to be inefficient as a guarantee of successful economic integration in the case when there is no proper system of factors and incentives promoting and intensifying the exchange among the countries. As a consequence, the regional integration ought to be analysed in the context of a broader instrumentarium which represents all the political, legal, and economic dimensions.

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<sup>7</sup> B. Skulska (ed.), *Procesy globalizacyjne...*, p. 108.

### 3.2. Integration process: promoting and development of the common market

The economic integration process in Europe had a diverse course: relatively dynamic in certain periods of time, it lost its pace in others, plunging into crisis on a number of occasions. However, regardless of the circumstances, the creation of the common market was implemented in practice. In this context, the freedom of flow of goods was gradually extended beyond the coal and steel sectors onto industrial products, and also onto agricultural products within the Common Agricultural Policy (CAP), departing in a way from the global trends with this respect.

The creation of the Common Market was accompanied by observing the principles of competition on the products market. The protection and promotion of competition have caused a range of indirect effects in various disciplines of public intervention, such as: defining the quality of goods, indirect taxation, distribution networks, exchange rate stability, commercial law, and even corporate management. The execution of subsequent stages of trade liberalisation has determined the need for adaptation in the area of the existing domestic regulations which, in turn, have implied the necessity to prepare subsequent coordinating mechanisms. According to certain political scientists, the crucial factor in support of the European integration is the challenge which each national elite faces, and which concerns the increasing correlation and external threats resulting from the operation of the common market.<sup>8</sup>

The process of the economic and financial integration in the European Union puts an increasingly greater emphasis on the problem of the accessibility of public goods connected with the mobility of the workforce and capital, as well as with the competition on the products market. The European Union considers the security and the development of the internal market a priority.

## 4. The Asian model of economic integration

A specific approach of Asia to the issue of cooperation enables successive groups of countries, economies, subregions, and territories to join the integration processes and take advantage of that, regardless of their development level. Along with the strengthening of partnership, the cooperation sphere progresses and evolves. The open, gradual and flexible Asian regionalism guarantees the pro-market nature of the economic integration processes, at the same time respecting the regional economic, political, social, and cultural differences.<sup>9</sup>

The development of the economic integration processes, which will ensure the maximisation of their benefits, is possible if a proper policy is pursued in this region at all three levels: regional, national, and global.

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<sup>8</sup> A. Moravcsik, *The Choice of Europe*, Cornell University Press, Ithaca 1999.

<sup>9</sup> *Emerging Asian Regionalism. A Partnership for Shared Prosperity*, Asian Development Bank, Manila 2008, pp. 236-260.

Firstly, **on the regional level**, cooperation in shaping the trade, investments, and finance policy is indispensable to strengthen and extend economic bonds between Asian partners. Regional cooperation is necessary to intensify and strengthen the liberalisation process, to direct bilateral negotiations towards consolidation within one regional agreement, and finally – to shape complementary multilateral liberalisation framework for the support of integration in the global dimension.

Regional cooperation remains particularly important for the progress in integrating structures of financial markets which suffer from the underdevelopment of market processes. Cooperation in this area focuses on three basic aspects:<sup>10</sup>

- creating a regional agreement concerning the support for the liquidity of financial systems of individual countries in order to prevent currency attacks, contagion processes, and currency crises;
- creating mechanisms of monitoring the situation in the region and a forum for exchanging opinions and consultations concerning the financial situation of the region, performed at the level of ministries of finance and central banks;
- developing the Asian bonds market in order to decrease the dependence of economies on the long-term foreign capital.

The economic challenges of the future seem to increase in the area of the regional exchange rate system, macroeconomic policy,<sup>11</sup> or mechanisms of feeding investment project savings with transfers.

Secondly, **in the dimension of domestic policies**, cooperation is indispensable for creating a uniform and effective regional environment for business. The liberalisation of commercial and capital flows executed in a large number of countries has resulted in the barriers' crucial for the regional integration losing their significance in the context of performing international transactions. A collection of legal and institutional considerations has been created, though, within individual economies, which discriminate against some sectors of the economy. A proper reference to these much more complex barriers remains a significant challenge for the new generation of political reforms which are directed at increasing the transparency and compatibility of a range of regulations and standards.<sup>12</sup> Analyses conducted by P. Dee<sup>13</sup> have proved that benefits resulting from that scale of the reforms may be significant – increasing, at least indirectly, the benefits resulting from the introduction of certain forms of the liberalisation of trade. Regional cooperation is necessary to reach that scale of harmonisation – by providing the best practices, it may support

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<sup>10</sup> Kawai M., *Regional Economic Integration and Cooperation in East Asia, Impact and Coherence of OECD Country Policies on Asian Developing Economies*, Policy Research Institute of the Japanese Ministry of Finance/OECD, Tokyo 2004.

<sup>11</sup> More on the subject: B. Skulska (ed.), *Biznes międzynarodowy w regionie Azji i Pacyfiku*, Wydawnictwo Adam Marszałek, Toruń 2009, pp. 117-159.

<sup>12</sup> P.D. Drysdale, *Deepening Asian Integration and Regional Cooperation Arrangements* [Paper prepared for the study *Emerging Asian Regionalism*], Asian Development Bank, Manila 2007.

<sup>13</sup> P. Dee, *Using Institutions to Support Structural Reform*, Australian Government Treasury, Canberra 2007.

indispensable political decisions which need to be taken within individual economies. The decisions made facilitate coordinating actions at the domestic level and enable creating uniform regional frameworks.

Finally, **at the global level**, cooperation is necessary as to initiatives which will make the Asian region play a constructive role in the global process of taking economic decisions. The progressing economic transformation of Asia is characterised by such a scale of dynamics and scope that it is possible to observe a range of serious implications and the need to adapt to the considerations of individual regions of the world. Although the key Asian economies – Japan, China, South Korea, Singapore – have already been playing a significant role in the sphere of global economic relations – by being involved in the process of global integration – their influences may be subject to intensification due to regional cooperation. For this purpose, the region should maintain, and wherever it is possible, demonstrate the continuous support for the open global markets.

All the indicated goals require that Asia reaches a higher stage of uniformity in the economic sphere both in intraregional relations and on the forum of global institutions. Although the new ASEAN and ASEAN + 3 initiatives have contributed to the increased sense of community on the Asian continent on the threshold of a crisis, those institutions still have not achieved a high political potential. This results from the fact of the early development stage, as well as the inclination of individual countries towards bilateralism.<sup>14</sup> The economic progress of Asia will depend on the ability of the region to further reduce political tensions between the economies of the continent and of the rest of the world. Effective mechanisms of counselling and cooperation remain crucial to accomplish the indicated goals.

## **5. Differences between integration processes pursued in Europe and Asia**

Europe is perceived by many authors as a model of modern regionalism, and the European integration and cooperation have a long history. This is the effect of an intensive political debate and compromise oriented on increasing the pace of economic growth and prosperity through systematic development of commercial, investment, fiscal, and monetary agreements. The European model has proved the significant effectiveness of delegating certain dimensions of the national sovereignty to the level of regional institutions, which ensures large benefits for the member states.

European experience may have positively contributed to the integration and cooperation processes on the Asian continent, but it needs to be clearly stated that Asia is not Europe, and the modern considerations of the global economy are

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<sup>14</sup> H. Soesastro, *Microeconomic Policy Reform: Strategy for Regional Cooperation*, EABER Working Paper Series, No. 12 (2007). See also: B. Skulska, *Evolution of bilateralism in trade relations of Asia and Pacific region. An overview*, a paper presented at the international conference “Regional Responses and Global Shifts: Actors, Institutions and Organisations” in Pecs (Hungary), 24-26 May 2010.



completely different from those present in 1957, when the European project was initiated.<sup>15</sup> Hence, a range of differences between integration processes in Europe and Asia may be noticed. These are the following.

- Intensification of economic integration processes in Asia proceeded in 1990s and in the 21<sup>st</sup> century, that is much later than in Europe, which means in the reality of greater global correlations. At the same time, Asian economies are strongly integrated with countries both within and beyond the Asian continent, due to which they largely contribute to the sphere of global relations.
- The financial cooperation in Asia has a short history which dates back to the period of the 1997-98 crisis. Since then numerous Asian economies have formed strong relations with global financial markets. In contrast, capital markets of a large number of European economies have been developing in a way simultaneously to the progress of the regional cooperation process.
- The European regionalism was initiated in a small group of economies which were at a similar stage of development, gradually incorporating neighbouring countries which were at a lower level of economic development. In contrast, the Asian pro-market integration course combines economies strongly differentiated in terms of development.
- At the turning points of the European integration process the strongest countries of the region – usually cooperating with one another – played a crucial role in stimulating cooperation processes. In Asia, however, cooperation is stimulated by economic impulses.
- While cooperation on the Asian continent focused on the economic sphere, European integration comprised political and social issues, with the media and civil society playing a significant role. The European experience may be a valuable source of knowledge for Asian partners with this respect.

## 6. Conclusion

The Asian regionalism is being shaped in extremely diversified considerations, as opposed to the European one. This is connected with the fact that it is faced with the challenge to reconcile high economic, political, and cultural diversification, and it is shaped in the reality of a much strongly globalised economy. Some economic issues discussed on the Asian forum are identical to the European challenges; thus, Asia has the possibility to use the valuable European experience. Nevertheless, the goal, dynamics, sequence, and form of the Asian regionalism naturally remain divergent. In the first place, the supranational approach prevailing on the European forum does not correspond and will not be adapted to the Asian reality in the nearest future. The Asian regionalism ought to be evaluated not from the angle of copying the European model, but of the correspondence and effectiveness as far as the reality of the Asian continent (and consequently the whole world) is concerned.

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<sup>15</sup> B. Eichengreen, *European Integration: What Lessons for Asia?*, Asian Development Bank, Manila 2007.

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## PROCES INTEGRACJI EKONOMICZNEJ W EUROPIE I AZJI. ANALIZA PORÓWNAWCZA

**Streszczenie:** Dynamiczny rozwój procesu integracji regionalnej w zglobalizowanej gospodarce światowej jest faktem. Unia Europejska jest przykładem ugrupowania, w którym ten proces jest najbardziej zaawansowany, a jego analiza może dostarczyć cennych wskazań dotyczących warunków i czynników, które sprzyjają pogłębieniu integracji ekonomicznej. Regionalizm azjatycki kształtuje się w bardzo zróżnicowanych uwarunkowaniach, w przeciwieństwie do europejskiego. Staje bowiem przed wyzwaniem godzenia dużej dywersyfikacji gospodarczej, politycznej i kulturowej, i kształtuje się przy tym w realiach dużo silniej zglobalizowanej gospodarki. Niektóre kwestie gospodarcze poruszane na forum azjatyckim są identyczne z wyzwaniami europejskimi, toteż Azja ma możliwość czerpania z cennych doświadczeń Europy.