Regional Integration in Europe and East Asia: Experiences of Integration and Lessons from Functional Multilateralism

Uwe Wissenbach*

Abstract

The paper argues that European integration cannot be explained by a single legalistic model which focuses only on the EU’s supranational structure. Beyond this structure there is a rich array of mechanisms that can be exploited by Asian policymakers to build their own community edifice. An alternative to full integration is to use mechanisms of multi-level governance that Europe has experimented with for functional cooperation. This entails a limited pooling of sovereignty in order to achieve functional solutions efficiently. Legitimacy is derived from efficiency, results and political leadership. Functional multilateralism characterises recent Asian cooperation ventures, such as the multilateralised Chiang Mai initiative, but also attempts by the G20 to enhance global regulation and coordination. The EU is thus a laboratory for Asian integration and global governance, not a model to be faithfully copied.

Keywords: Regional Integration, Global Governance, Functional Multilateralism, Comparative Regionalism, Asian Integration, EU-Asia Relations

I. Introduction

This essay examines lessons from European Integration for East Asia’s project of community building in a comparative perspective of different modes of regional integration ranging from supranational concepts to functional multilateral cooperation. I have therefore looked at the governance lessons of the European integration experience for East Asia and North East Asia in particular. This paper argues that the comparison can yield ideas and experiences both in the research/theory field and in terms of policymaking. However, it is necessary to go beyond the mechanic transposition of a

* First Counsellor and Deputy Head of Mission of the EU Delegation to the Republic of Korea. This paper reflects the author's personal views and not those of the EU or the European External Action Service.
model, which has not proven fertile, as, apart from the African Union (in a fledgling way), no other region has endeavoured to repeat the institutional EU experience, as such. However, integration theories are valid tools in the Asian context, too. The picture is completed by Asia’s own lessons of community building over the last three decades. Functional multilateralism is the term used here to synthesize these lessons and to describe a possible model to take the East Asian community forward. In policy-making terms this paper will look mainly at the single market experience as well as the concept of a security community to provide insights useful in the North East Asian context, because prosperity and peace are causally linked and mutually reinforcing. This starting point is relevant as in both regions peace and prosperity are the ultimate objectives and also the foundations of any cooperation and integration endeavour.

Whether prosperity can be better pursued through international cooperation is no longer subject to theoretical contest, maybe ever since Ricardo, but certainly the EU is a living proof that integration yields welfare gains for the countries involved. Successive enlargements demonstrate the attractiveness of integration. The counterexamples are failed attempts at achieving prosperity through autarky, such as the USSR, North Korea, pre-reform China or indeed fascist Portugal and Spain in the European region. Nowadays, how to maximize prosperity in the era of globalization is the real question and the most powerful aim underlying the Single Market. Similarly, the idea of a security community (Deutsch, 1957) has worked well in Europe, albeit under different historic conditions from today’s NE Asia. An overview of the Single Market, embedded as it has been in a security community, should allow identifying success factors from Europe, some of which can be translated into contemporary Asian realities, and some of which cannot. These examples aim to inform the debate about ways forward in Asian integration. Too many Asians see the EU as a supranational, legalistic unification project, and reject it as irrelevant in the Asian context of diversity, national sovereignty and networking. This view is clearly biased, as the analysis below will attempt to show.

The “finalité politique” of cooperation or integration looms large over East Asia, of course. Similarly, the ultimate objective of the European project has also not yet been agreed on in Europe, either (Zhou, 2009). Currently in both regions the narrative of cooperation and competition to face globalisation is gaining ground as a strategic policy objective. In Europe achieving peace and prosperity from a basis of weakness (between the US and the USSR and after the destruction of WWII) was a powerful motive, and weakness of individual member states in the global arena continue to be a powerful motivation to cooperate and integrate. This motivation is similar to ASEAN’s, but as the centre of global economic gravity shifts to Asia this is now bound to change.

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1 Northeast Asia remains to be politically defined, as do the borders of Europe, but for practical purposes we focus on China, Japan, and the two Koreas. Arguably, Mongolia and Russia are also NE Asian powers, and the US is a player to be reckoned with. I will also refer to ASEAN, of course, as one of the structures influencing NE Asia through the ASEAN+3, the ARF and other mechanisms. ASEAN can be seen as an “external federator” or “leader” for wider Asian integration.
II. A Fresh Look at Integration Theories

Integration theories since the 1950s have mostly studied the EU as the most advanced example of regional integration. A number of different theories have also tried to explain other examples of European integration after the 1980s, when the Single Market and the EMU and more and more attempts at regional integration in other parts of the world showed that Haas (1975) had been wrong to declare the obsolescence of regional integration theory in 1975. More recently academic research has focused on multilevel policy making and various modes of governance in the EU (Scharpf, 1994; Tömmel and Verdun, 2009).

This paper will briefly review the main features of these theories and approaches, based on the assumption that they are useful to extract features of governance mechanisms, principles and innovations from, in order to inform the debate about European integration as a role model for Asia. The paper wants to put the model function of the EU in an innovative perspective, that is rather than focusing on providing a blueprint for others to follow, it looks at the EU experience and briefly other templates of European cooperation, such as the Conference for Security and Cooperation in Europe (CSCE), in the security field to identify features that can be adapted to the specific situations and needs in Asia, and implemented through functional multilateralism.

In fact over time hard and soft modes of governance have evolved in Europe to provide a surprisingly varied toolbox to tackle the integration challenge (Tömmel and Verdun 2009). Thus, the paper tries to re-direct the focus of the debate on NE Asian integration away from an emphasis on transfer of sovereignty to supranational institutions towards examining innovative governance modes that Europe has experienced.

The theoretical and methodological foundations of regional integration theories can be reviewed in both textbooks and readers on European integration (Wallace et al., 2005). The purpose here is to briefly recall them to underline their political relevance in the comparative approach. In this sense, the theories provide analytical tools to better understand the EU policy-making processes and their variations over time and in different sectors, and to dispel some of the above misperceptions. To assess the EU as a role model for regional integration, there is a need to better understand functions, dynamics, causes and effects, institutional mechanisms, and intended and unintended results of the integration process. In fact, the EU integration process is so diverse that a number of seemingly conflicting theories can be useful at any given time in different sectors and periods of integration to yield results that can be applied to East Asian community building.

III. Prosperity Through Integration–from Customs Union to Economic and Monetary Union. Is this the Only Way?

Since 1958, a customs union deepened, enlarged and diversified step by step to be transformed into a common (later: single) market in 1993. In 1999, finally the European
Economic and Monetary Union (EMU) was created. The EU seemingly followed the theoretical approach (Balassa, 1961), which foresees a step by step economic integration. But, despite the evolution “according to the textbook,” this is not sufficient evidence that this theory traces the only possible integration process. This mechanic approach does not capture the complex political factors at work. The EU’s evolution has not been as linear as a purely economic theory approach suggests. Political feasibility dictates the progress and setbacks of integration not the automatic spill-overs of neo-functionalist theory.

The basic objective to create a common market was already foreseen by the Rome Treaty (1957), but the schedule and methods to achieve the treaty objectives had to be adapted several times, including through treaty revisions such as the Single European Act (1986/7) and the Maastricht Treaty (1993). The EMU idea goes back to the 1970s with the Werner Plan as a response to the international monetary crisis (Nixon Shock). Like the original common market project, the plan had to be shelved, revived and adapted according to economic and political circumstances. Eventually it moved from voluntary cooperation in the European Monetary System to hard law (Verdun 2009; McNamara 2005). The launch of the EMU followed the completion of the single market, but again it was not simply a move along an “automatic” step by step integration process. The Maastricht Treaty was as much a reaction to outside events, such as the unification of Germany (tying Germany tighter to the EU through monetary integration), the Yugoslav crisis (foreign policy) and the end of the Cold War more generally. The EMU, as originally agreed, was biased towards monetary policy, as fiscal policy remained entrenched in national sovereignty. A recent European Commission proposal for further economic union is a response to the consequences of the global crisis and policy mistakes by Eurozone countries that chose to ignore EC recommendations over years. This would fill the gaps that economists had identified at the birth of EMU, but which were politically not acceptable then.

IV. Regulation 2.0

Given the high level of tariffs and obstacles to trade in its early years, the EU had engaged in a customs union and harmonization of standards in its founding treaty. Since the 1980s, it focused on economic regulation largely driven by the Single Market project (1986–1992). In an incremental way, the EC thus moved from negative integration, i.e. removal of national tariffs and impediments (TBT) to mutual recognition, the abolition of border controls, the elimination of exchange controls, etc., to positive integration, i.e. agreeing on common rules to replace the national ones (Single European Act). Thus, the Single Market Programme was not simply de-regulation, but re-regulation (Young 2005) in order to enhance collective effectiveness in the face of globalization.

In a regulatory mode of governance, the importance of the traditional institutions

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proved to be crucial: an entrepreneurial Commission to set the agenda, a bicameral legislature (Council of Ministers and European Parliament) to take legitimate decisions with far-reaching consequences for citizens and the European Court of Justice (ECJ) to enforce regulation in an impartial manner. The change of decision-making modalities from unanimity to qualified majority voting (QMV) played a crucial role in accelerating a hitherto slow moving process.5

Many nationally sensitive policy areas, such as defense, education, culture, social security and home and justice affairs, escape the core decision making modes. Yet, in each of these sectors, diverse forms of coordination and cooperation have developed (Tömmel and Verdun, 2009a), which deserve to be studied by Asian policy makers (Details in the next section).

V. Why do Member States Delegate Powers to Supranational Institutions?

In the European legal and cultural context this is a method to reduce transaction costs, improve efficiency and enhance legitimacy in the face of different interest groups, and the key objective is to assure that everyone plays by the rules. Finally the “scapegoat function of Brussels” allows Member States to take unpopular decisions without directly taking responsibility.

Member States did not simply surrender sovereignty to the EU “bureaucracy,” as they built in safeguards to avoid institutions (agents) behaving differently from national preferences. Member States defined the scope of their activities and created mechanisms of oversight through committees and horizontal cooperation networks amongst themselves. Thus, committees and regulatory agencies were added to the EU’s institutional setup. Nevertheless, the European Commission (EC) remains a strong institution with a legal, albeit not political, monopoly of initiative and a strong network position. The European Court of Justice (ECJ) is above national courts (supremacy and direct effect rulings of the ECJ), but it relies on domestic courts for implementation and supervision. The European Central Bank (ECB) has become the most independent supranational institution for the Eurozone, but it still is the hub for the network of national European central banks.

Three theoretical approaches explain this process from radically different angles:
1) A neo-functionalist analysis focuses on supranational actors’ (EC, ECJ) role in creating the Single Market Programme through the famous “community method” (sup-

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5 The Luxembourg compromise of 1966 suspended the application of qualified majority voting foreseen in the Rome Treaty and put a brake on integration, but to the detriment of the Member States’ interests. QMV was introduced in the Single European Act on the behest of British PM Thatcher who had not exactly the reputation of being a fervent European federalist or to easily abandon claims to national sovereignty. Her aim was to accelerate the implementation of the Single Market Programme’s legislative agenda, by avoiding blockages by “protectionists”. This bargain also limits the policy fields managed directly by the EU.
2) The liberal intergovernmentalists focus on the Single European Act (the 1986 treaty which set out the legal framework for the single market) as a product of liberal intergovernmental bargaining with threats of exclusion, side payments, package deals, pooling sovereignty to ensure compliance, etc. The Single Market Programme in this scenario came about through Member States negotiating a package deal with the European Commission as a valid bargaining partner and deliberately pooling sovereignty (Moravcsik, 1993). According to this explanation the process of sharing sovereignty works as follows: national preference formation followed by intergovernmental, EU-level bargaining lead to an institutional choice of international institutions to lock in decisions and to achieve agreed objectives. National gatekeeping institutions limit any unintended loss of sovereignty.

3) Institutionalism and constructivism challenge the intergovernmental model by stressing the importance of institutions and their agenda-setting power, principal-agent models, transaction costs and the importance of informal norms and “socialization.” Building on the socialization of business and consumer groups allows for a smooth transition of decisions into social reality (governance and networks). The institutions are characterised by increased returns: incentives to stick with institutions, whereby inertia, unanimity or QMV rule, lock-in, vested interests and path dependency perpetuate policy choices inherited from the past, and institutions shape actors with unintended effects, especially those that are long-term.

VI. Creating New Sovereignty to Face Globalization by Pooling National Sovereignty

Arguably, when the supranational institutions were able to convince the Member States that decisions were in their interest, they had a stronger influence. But this didn’t lead to a permanent or wide-reaching transfer of power for the institutions (Scharpf, 1994). This should reassure Asian countries which are concerned about non-interference and sovereignty. Qualified majority voting, introduced in the SEA to speed up the single market process, in practice, actually facilitates consensus. Formal votes in the Council, or for that matter in the Commission, are rare. The use of Directives to translate the European single market programme into reality underlined the central role of countries in implementation, while ensuring compliance is largely decentralized or delegated to regulatory agencies (Grande and Hartenberger, 2009). Business, consumer groups and NGOs naturally ensure monitoring in their areas of interest with the European Commission and the European Court of justice (ECJ) as institutional guardians of last resort. The two institutions by themselves would not have the capacity on their own to monitor the full implementation of legislation across all the Member States and would have to rely on the Member States’ administrations and judiciaries, which are working together
in their own networks. The move to mutual recognition and the use of Directives and
decentralization have triggered the emergence of transnational and transgovernmental
networks in most EU policy areas (Tömmel and Verdun, 2009). Furthermore, the
institutions and mechanisms of a multilevel governance structure are part and parcel to
the single market project, as in other policy fields.

Increased reach and economic opportunities seem to imply a more horizontal
than vertical transfer of sovereignty in many regulatory areas (Schmidt, 2009), thus also
nurturing cooperation between national administrations and building trust. For some
scholars, this is part of the inevitable restructuring of the state in the face of globalization
(Egan, 2009). Asian states face similar challenges from globalization and are familiar
with variants of networks as drivers of cooperation.

These findings show that the simple supranational explanation for EU integration
is not sufficient to capture complex realities of cooperation in many policy areas. Thus a
comparative approach sheds additional light on the phenomenon.

From a comparative point of view, the EU is not a unique model *sui generis*, as
in IR theory, but a variant of existing political systems with different levels of government,
similar to federations like the USA or Germany, with separation of powers and an
oscillation between state and “federal” levels. When compared to nation states, the EU’s
weakness of fiscal federalism, its dominance of regulatory federalism and its limited
ability to engage in redistribution, unlike a national system (Majone, 1996), makes it
much less an example of an “unacceptable loss of sovereignty” than when seen from a
neo-functionalist perspective with its automatic spill-overs, centralizing tendencies and
supranational leadership, which traditional views of the EU often imply. Rather, in reality,
nation-states extend their power through pooling some aspects of sovereignty. In fact,
these parts of sovereignty have become of limited value in the face of globalization. At
the same time, different parts of society increasingly take part in policy-making and
policy-monitoring.

Thus, in practice what has happened is a complex interplay of different forces
that cannot be captured by one catch-all approach alone. Key issues in the protracted,
but effective integration process were interest group competition, liberalisation costs
and the role of the EC as a policy champion. These key issues were relevant, because
resistance to the single market project had to be broken. Given the long lobbying of
competing interest groups against earlier attempts at creating a single market through
harmonization, this aspect cannot be underestimated and is certainly relevant in any
other regional context. While benefits of the single market are distributed widely and
thinly, the costs were borne mainly by hitherto protected firms. Thus arose a need for a
powerful entrepreneurial policy agent who could break deadlocks, negotiate alliances
and package deals (Young 2005), but also assume, or dilute, political responsibility, a
scapegoat for national politicians.

VII. A Laboratory of Global Governance?

In short, European integration didn't follow a blueprint, but evolved over time. It
reflects political changes, is more pragmatic than prescriptive or normative, is open-
ended and can best be described through concurrent not mutually exclusive approaches which are all useful to better understand policy choices and processes. The EU’s evolution also shows that the Member States and supranational institutions both matter, but that roles vary across sectors. The balance of power and cooperation between the two is in constant flux with a strong potential for change, innovation and dynamic adaptation to changing circumstances leading to innovative governance modes outlined above (For details on the various government modes of different EC policies refer to Tömmel and Verdun 2009a). Not a simple neo-functionalist economic logic, but a complex political process largely driven by nation states, interest groups and supranational policy champions in complex and changing constellations and interplay have led to the creation of the EU single market, the EMU and adjacent policy areas. A combination of hard and soft law, hierarchy and cooperation, and intergovernmental, trans-governmental and supra-governmental cooperation and coordination has made the European Union an example of innovative, multi-level co-governance in the face of globalisation.

VIII. The Relevance of the Single Market and the EMU Experience for NE Asia: Step by Step or Leapfrogging?

The relevance of the Single Market example for Asia, therefore, lies in this multi-purpose, multi-theory experience which gives Asians a wealth of possibilities to exploit, and its lessons learnt, to translate them for the Asian context. The long genesis of the European Economic and Monetary Union, built on the single market’s regulatory framework, provides similar lessons which need to be examined closely in order to answer the question, whether current attempts in Asian financial and monetary cooperation will in fact lead to a monetary union without a single market. The key is to examine the model in a new light, not as an original to be faithfully copied or a benchmark to be reached, but more like a quarry in which Asian countries can mine building blocks that they can then combine differently for their own community edifice.

The theoretical diversity of explanations reviewed above strengthens this argument. Many factors, political preferences, bargaining, external considerations and individual leaders and ideas have shaped the process, and there were various failed attempts to bring about a single market or an EMU in earlier stages. The creation of EFTA in 1960, as an alternative to the EC and its subsequent failure and shrinkage to only 4 European countries, is a useful comparator. Arguably, this is the kind of mix East Asia needs to emulate to progress with regional responses to the crises and challenges of globalisation and the shift to regional economic integration. However, Asian integration, if it takes off in an integrationist logic at all, takes place in a different historical situation.

First, many Asian countries are still in a nation-building process, although there is now a growing maturity and sense of need for regional approaches. Integration in Asia, unlike Europe, was not promoted by the USA after WWII.

Second, there is not yet an overall, shared sense of common vision or purpose. In

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6 Timmermann, advocates such a concept, 2009.
recent years, there has been progress on this front with ASEAN leading the way and engaging NE Asia in the ASEAN+3, in addition to the East Asia summit and the new trilateral summitry between Japan, China and Korea, initiated in 2008.\(^7\)

Third, while European integration started before globalisation, liberalisation, and free floating currency systems with independent central banks, Asian countries operate essentially in a framework of open markets, global competition and mostly market-driven currencies. The traditional obstacles to trade, like tariffs and subsidies, are of lesser importance in the current regional and global context than in European integration's first 30 years. This could lead to less importance attached to single market style integration, or to the contrary, allow East Asia to leapfrog certain integration stages.

Fourth, Asian trade and investment have not been as focused on their own region as European trade and investment have. Essentially, the EU and US markets remain crucial for most Asian nations, which to some extent compete between themselves. In other cases, trade relations form global value chains between suppliers and assemblers and exporters. These arguments weaken the case for a customs union or single market as a precondition for closer monetary cooperation. However, the 1997 Asian financial crisis and, in particular, the 2008/9 global economic crisis have created a new context which is more prone to an Asian purpose of integration. Indeed, the export-led growth model, centred on the US and EU markets, is no longer sustainable (Kawai, 2009). Thus, domestic and regional markets gain in importance. Consequently, regional market integration and regulation is on the agenda. A flurry of FTAs has sprung up in Asia since the 1997 financial crisis and the deadlock in the Doha negotiations.

Fifth, differences in political systems and sizes of countries are much larger than in Europe. Similar political systems are a precondition for EU membership (e.g. democratization of fascist, military or socialist dictatorships in the 1970s and 1990s) but not for ASEAN or EAS membership.

Finally, and this is beyond the economic realm, the presence of a security community in Europe created a stable framework in which mutual trust could develop. In Asia, bilateral alliances with the US guarantee some countries’ security, while constraining others. The DPRK remains a black hole for security, not to mention economic, cooperation in East Asia. The existence of a (western) European security community facilitated the economic integration process in Europe, while the Helsinki process and the creation of the Conference for Security and Cooperation in Europe (CSCE) in 1975 fixed the territorial and political status quo during the Cold War until the fall of the Berlin Wall and the Yugoslav crisis redrew the map of Europe. The CSCE also allowed economic relations between Western and Eastern Europe to develop. Given the importance of this security context for European economic integration, it is necessary to point to the differences between Europe and NE Asia here. In NE Asia, the Cold War has not yet ended, the way it has in Europe. System divides alongside territorial conflicts persist, as well as the division of Korea, the absence of formal peace treaties between North Korea and the US and South Korea or between Japan and Russia. Even an intermediary settlement, such as that reached in the Helsinki Final Act, e.g. on inviolability of borders, is absent. Noteworthy are the Chinese efforts to achieve border

\(^7\) Except for the ARF, North Korea is not participating in any of these frameworks.
settlements with all its neighbours over the last years (Taylor Fravel, 2008). The various territorial and maritime border conflicts in the South China Sea, however, have not prompted a serious multilateral attempt to solve them. The complex nuclear issue on the Korean peninsula is at the heart of the security question in NE Asia and no other security threat in the region is likely to mobilise support for a multilateral solution the way this issue has brought about the Six-Party Talks (Snyder, 2008).

IX. Financial Integration in NE Asia as an Example of Functional Multilateralism

Currently, the focus of (North) East Asian integration is on cooperation in the currency and financial areas. The Chiang Mai Initiative (CMI), created as a reaction to the Asian financial crisis, is currently a scheme of 16 bilateral Swap agreements between ASEAN+3 countries as well as an ASEAN Swap arrangement to address short term liquidity problems. The CMI has now embarked on a multilateral path to switch from a network of bilateral agreements to a single collective framework with a larger financial volume ($120 bn.). However, there will be no pooling of the resources and no overarching governance body apart from a surveillance unit without decision-making powers. The multilateralised CMI (CMIM) remains contingent to a large extent on a prior IMF agreement, mainly at Japan’s insistence. Outside the CMIM are further bilateral Swap agreements. Most of these agreements have not yet been used, and some countries have preferred to draw on Swap agreements with the US in the 2008/9 crisis (Park/Oh, 2010). After the London G-20 summit, ASEAN+3 finance ministers also created the Asian Bond Market Initiative (under the roof of the ADB) to promote corporate finance in the region. The Korean government has put similar insurance arrangements on the G20 agenda, arguing that Global Financial Safety Nets can help preventing and managing crises, as well as correcting global imbalances.

Trade and investment have strived ahead without a single market framework, but capital and financial services development require more formal surveillance and regulatory frameworks, not least of which to shield Asian countries from dependence on “Western” institutions and the IMF stigma. Cooperation in this field is seen as underpinning trade in goods and services and providing efficient financial markets for regional prosperity (Timmermann, 2009). These motives, but not the concrete actions, are not dissimilar to the motives which had convinced EU governments that a single market was necessary: protection against external competition and threats, at that time from Japan and the Asian “tigers,” and increased efficiency within and competitiveness of the region to enhance prosperity. The crucial issue for the Europeans at the time was re-regulating internal trade and standards and mutual recognition followed by monetary integration, for some, while for Asia it seems strengthening financial and monetary cooperation is the first step to promote a common protection against external threats.

This lesson from Asia, and the 1997/98 financial crisis, has prompted the Korean

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government to put Global Financial Safety Nets on the agenda of the G20. Put simply, the idea is to use multilateral credit lines, with only a limited role for a central institution like the IMF due to its stigma during the Asian crisis, to provide insurance to countries in a liquidity crisis prompted by external factors, so as to free countries from hoarding foreign exchange reserves for the same insurance purpose. Accumulating foreign reserves is an unproductive way of using capital and has contributed, so the argument goes, to the so-called global imbalances. With global financial safety nets, the money could be used to invest, for instance, in developing countries providing higher returns and at the same time shifting growth to developing regions, thus reinforcing the re-balancing effect. One could argue that the European Financial Stability Mechanism\(^9\) is an equivalent of such a safety net at a regional level. Also, in the EU case the majority of the funds come from Member States, not the IMF or the central institutions (EU, ECB), while there is an integrated management.

X. The Institution Issue

The crucial issues for East Asia today are currency stability and capital flows to underpin and enhance already quite open trade and investment, not even hindered by political obstacles as Taiwanese investment on the mainland shows, and reinforced regional market integration. This prompts the question of governance and institutions for such a regional financial integration and perhaps a single market. To what extent regulation and institutions (the Asian Development Bank, the ASEAN secretariat, or a Northeast Asian Development Bank) are needed to achieve the objectives is an open issue. Similarly, can the G20 deliver on its commitments without institutional support or a secretariat? The answer so far in the functional domains of the G20 is to use existing multilateral institutions, such as the IMF or the Basle Committee, or transform such institutions, e.g. the Financial Stability Board, to work out the technical and legal details required for implementation and prepare decisions for leaders. In fact there is a shift towards global legitimacy through effective functional delivery of global goods. Legitimacy is not provided in UN-style, one-country-one-vote and universal consensus, but through governance by a somewhat arbitrary majority, measured in GDP, trade, population and global influence.

The lesson from the EU on the issue of institutions is in any case that a common institutional setup with a broker, driver and scapegoat function is essential.\(^{10}\) Political leadership is essential to initiate and drive the process, not necessarily with a big design, but incrementally. In Asia, where the size differential of members matters more than in Europe, this is all the more crucial to re-assure the smaller countries that they are not going to be dominated by a single power.

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\(^{10}\) While the European Commission is very large in comparison to the ASEAN secretariat, it is actually very small and controls only a tiny budget (1% of EU GDP), when compared to national or even city administrations in Member States.
XI. The Leadership Issue

The move away from a competitive, balance of power system in East Asia will only happen if it is propelled by strong domestic political leadership in each country. The absence of a security community or of an agreement to shelve security problems such as the CSCE are also obstacles for economic integration, as the steps to be taken to pool sovereignty, to engage in multi-level governance, not to speak of integration and supranational governance, require trust and political will.

The driving force behind cooperation in North East Asia has paradoxically been ASEAN, which invited China, Japan and Korea to the so-called ASEAN+3 summits in 1997. This initiative came as a consequence of the Asian financial crisis in which on the one hand these three countries played a key role and on the other hand Asian leaders had concluded that the region’s problems needed to be tackled at home rather than in Washington. So far ASEAN has to a certain extent been able to take a catalyzing role by organizing ASEAN+3 meetings, the ARF and other processes. ASEAN has assumed a “leadership from behind” or external federator role as a policy champion, but it is unclear how strongly ASEAN can influence the bigger powers in NE Asia. In 2008, prompted by the global economic crisis, the process of stand-alone trilateral summit between China, Japan and Korea was perhaps paving the way for a stronger leadership in NE Asia complementing that of ASEAN (Timmermann, 2009).

The reluctance to endow secretariats of Asian organizations with an institutional role, deprives Asian policymakers of some of the possibilities of multi-level governance and balancing big powers. The traditional vertical setup of ministries and administrations reduces the possibilities for horizontal cooperation and trans-governmental networks, but these obstacles can be overcome through political will and high-level coordination and cooperation mechanisms if they are underpinned by the institutionalization of working level networks that are perceived by administrations as being in their interest. The regulatory experience of the single market in Europe has shown that such innovations, albeit difficult, have been successfully embraced by administrations.

XII. Functional Multilateralism as an Alternative for Asian Integration

In short, for East Asian regionalism, therefore, the traditional integration theories seem less applicable than an approach built around multilevel governance to sustain functional multilateralism. These features of EU integration and the experience of European national and sub-national governments should be studied by Asian scholars and policy makers, with a new focus on the variety of modes of governance and the combinations of hard and soft, hierarchy and cooperation, competition and consensus-building and networking and coordination between a variety of actors.

Multilevel governance complements hierarchy and markets as a mode of autho-

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11 Unlike in Europe, in Asia there is no external federator, but US bilateralism and alliance systems have contributed to security, but also to divisions.
ritatively allocating resources, while exercising control and coordination. It is in line with the double focus on strong regulatory states and liberal markets in Asia and the evidence of globalization that states have to cooperate across borders, both extending outward and letting others extend inward.

This approach is less corrosive of national sovereignty than neo-functionalist approaches with automatic spill-overs suggest. To tackle the challenges of the 21st century, functional multilateralism with a variable geometry can provide effective solutions. Functional multilateral cooperation regimes can be created, despite value differences and competition in bilateral relationships, on the basis of shared and jointly defined interests to address particular international challenges. They don't require new institutional frameworks or a normative consensus. They do require that stakeholders respect each other as equals when addressing a particular task, while leaving more fundamental differences to bilateral relationships, as is necessary in the G20 for instance. They are complementary to existing global and regional frameworks, such as the UN, the EU, ASEAN or the IMF, and of course to bilateral relations. They only need a limited set of objectives and rules.

XIII. Conclusion

Functional multilateralism shows that community building can function without integration, as well as within strongly integrated regional communities. What remains to be seen is the capacity to deliver of the non-institutional regimes. Developments in Asia, given the link between functional cooperation and attempts to build a community and reinforce integration, may provide the proof of the pudding as countries are starting to seriously build up multilateral governance structures. In this context, the lessons of European multi-level governance can be useful, even if the concrete objectives of Asian community building differ from Europe’s, while they are similar for the overarching aims of peace and prosperity.

For instance, Asians could pick and choose from policy functions of European institutions that theories, and practice, have identified, instead of copying the institution “European Commission” or “European Court of Justice” as such. These functions can be studied, translated for and adapted to a context befitting Asian realities, such as “role of policy champion,” “role of mediator between different national interests” “role of arbitration” or “role of gatekeeper” to reflect the situation in Asian integration, which is characterised by soft rather than hard law, often immature legal systems (cf. on China’s: Delmas-Marty, 2005), a preference for consensus-building and harmony and low ambitions for institution building.

The roles of these institutions can be broken down into functions that can be adapted to other types of institutions and mechanisms, e.g. mutual recognition or arbitration can be achieved in other ways than setting up a Court of Justice. The WTO dispute settlement mechanisms provide an example.

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12 Functional multilateralism is rooted in classical functionalism, not neo-functionalism (Wissenbach 2007, 2008).
In other areas, a clearing house function of Brussels for redistributive policies to address differences in wealth and development, such as for regional development budgets, show that they are politically more acceptable than direct bilateral transfers from one state to another, which may be politically sensitive, particularly in Asia. The multilateralisation of the CMI seems to go precisely in this direction.

Moreover, the single market was as much a step in the EU integration process as it was a response to globalization, since it was in the 1980s that the Japanese competitiveness threat sparked Europe into action. This is arguably the key challenge Asian countries are facing: sustainable development in the face of globalisation. Around this challenge common preferences could emerge that would facilitate regional cooperation and integration in some sectors as functional multilateralism.

The current economic and financial crisis has prompted a process of reorientation of Asian economies away from the export-led growth model focusing on US and EU markets, which to a large extent also defined cooperation and competition between Asian countries. The likely direction emerging at present is one towards more regional economic and financial cooperation. This process has already started through the proliferation of FTAs, the multilateralisation of the Chiang Mai initiative and several processes such as trilateral summity. These “noodle bowls of agreements” still fall short of integration. The need for an Asian re-regulation of markets and trade for goods, services and financial products and currencies is emerging ever more pressingly as countries in the region deal with the changing global realities. Thus, the regional integration experience of Europe has become, once more, an important role model for the possible creation of an Asian Single Market, an Asian currency system or something close to it. This paper has identified functional multilateralism in Asia as a way forward beneath the high threshold of integration and reviewed some of the EU’s various ways of international cooperation oscillating between intergovernmentalism and centralised, federal style governance.

This essay has tried to show that, while the EU model in its unique institutional structure is not a valid template for East Asia as such, the innovative governance features of the EU provide a large number of universally useful lessons and ideas that Asian countries can use as building blocks for their own cooperation. On the other hand, the essay has also shown that without a strong institutional core with a number of roles, such as driver, mediator, arbitrator and scapegoat and without strong leadership and trust, even a much less supranational integration in Asia is unlikely to succeed. Functional multilateralism allows to, at least provisionally, insulate cooperation from the normative or historical differences which complicate East Asian community building and accommodate different political systems. Finally, the essay has also pointed to the need to tackle Asia’s security issues multilaterally as an important pre-condition for economic integration to succeed, based on necessary trust. Political will to tackle both these issues is the ingredient which will therefore make or break regionalism in East Asia.

References


