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**ADB Working Paper Series**

**DIFFERENT PATHS TO ECONOMIC  
INTEGRATION IN EUROPE AND ASIA**

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**Abstract**

Europe and Asia followed very different paths to economic integration after 1945. By 2000, an economic union with free movement of goods and factors of production and a common currency linked much of Europe. Meanwhile, effective economic integration agreements were absent from Asia, although countries in East and Southeast Asia were becoming linked in global value chains (GVCs). Since 2000, Asian governments have been more active in negotiating deep trade agreements, of which the distinctive feature is open regionalism. Although the political difference between the European Union and the Asian system of nation states will remain, the EU's external trade policy and many Asian countries' policies are converging toward a model of liberal trade regimes plus collaboration in establishing common norms in other areas that are important to GVC operation (so-called WTO+ issues). The outcome will be greater economic integration in Europe and Asia of countries seeking to benefit from globalization, and, while Asia and Europe will lead the process, it will be open to any willing partners.

**Keywords:** economic integration, open regionalism, global value chains

**JEL Classification:** F15, F43

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# 1. INTRODUCTION

Regionalism in Europe and Asia moved in very different directions in the second half of the 20th century. By 2000, the European Union (EU) covered much of Europe, and, in most of the EU, physical border crossing points had disappeared and countries were adopting a common currency. In Asia, regional economic integration was negligible and the proposed regional trading arrangements were of limited economic relevance. In the final decades of the century, Asia experienced some bottom-up economic integration as firms established supply chains that crossed borders.

In the 21st century, economic integration in Europe and Asia has similarities, as producers participate in regional supply chains with increasingly fine specialization across countries. The common pattern has involved the same sectors (cars, electronics, and clothing) leading the way, with the more economically developed countries and a few emerging economies among the dominant participants. The policy space has been similar, as countries have complemented low formal trade barriers with measures to reduce other costs of international trade. Within the closed regionalism of the EU, legislation enforced by the European Court is achieving policy integration, while, in Asia, treaty-based open regionalism is increasingly covering a mixture of bilateral, regional, and plurilateral arrangements.

The next section describes the different 20th-century paths and the progression of regional trade agreements from the customs union focus on tariffs and non-tariff barriers to trade to deep integration arrangements that reduce trade costs and behind-the-border obstacles to specialization and trade. The third section analyzes the emergence of international supply chains (which people commonly refer to as global value chains, GVCs) and their role in stimulating Asian trade agreements, which the fourth section examines. The fifth section describes the evolution of the EU's external trade policies and shows how the European and Asian approaches converged in the 2010s. The sixth section compares the response of European and Asian policy makers to the withdrawal of the US from regional agreements and its threat to the operation of the multilateral trade system.

The final section concludes that the EU and a set of Asian economies have taken on the leadership of the global system by promoting trade agreements that extend beyond the existing world trade law and are open to other countries to join. Despite the difference in political integration, the interests of the countries involved in GVCs are strongly aligned. This position is firmly based on the mutual benefits from reducing trade costs and allowing specialization and trade along international value chains. Thus, there is a common purpose in resisting the threat to the multilateral system that the US has posed since 2017. Whether the Asian countries can achieve the degree of common purpose that the EU has, without the deeper institutional integration that Europe has developed over 70 years, remains unclear.

## 2. REGIONALISM IN EUROPE AND ASIA AFTER 1945

### 2.1 Contrasting Experiences during the Post-1950 Long Economic Boom

The end of World War II provided the opportunity for a fresh approach to the institutional structure of the global economy. Four of the five major allied powers (the US, the USSR, the UK, and France) played a dominant role in the process and took

the major decisions in Washington, Moscow, London, and Paris. The US and the UK led the initial steps—Bretton Woods in 1944, the UN Charter in 1945, and the General Agreement on Tariffs and Trade (GATT) in 1947. The USSR initially participated in negotiations over the future world system but soon developed a separate system of planned economies. An iron curtain divided Europe.<sup>1</sup> Crucially, apart from the USSR, the largest European economies (the UK, France, West Germany, Italy, and Spain) were all on the same side of the curtain.

The origins of European integration lie in the aftermath of three Franco-German wars (1870–71, 1914–18, and 1939–45), each more disastrous than the previous one, and the decision of leading French statesmen (notably Jean Monnet and Robert Schumann) to prevent a new war through economic collaboration rather than vengeful peace. Key German (Adenauer) and Italian leaders (de Gasperi), and crucially the US as the Cold War gathered intensity, supported them. The initial step, the creation of the European Coal and Steel Community (ECSC) in 1951, followed this vision by providing for a supranational authority to oversee the two industries that people then considered to be at the heart of a modern industrial war economy.

The aftermath of war was different in Asia. The Asian member of the victorious alliance was engaged in a civil war that left a split between the government of the People's Republic in Beijing and the Kuomintang regime in Taipei, China. The Cold War split the two largest East Asian economies; the People's Republic of China (PRC) allied itself with the USSR in the 1950s and after the Sino-Soviet split became inward looking until the 1970s, while the US occupied Japan and then became strategically allied with it. Decolonization and nation building dominated South and Southeast Asia in the late 1940s and 1950s. In Southeast Asia, this was associated with fractious relations, as the creation of Malaysia occurred in the face of Indonesian opposition and Singapore's secession in 1965, and with escalating military struggles in mainland Southeast Asia. The non-Communist nations created the Association of Southeast Asian Nations (ASEAN) in 1967 as a strategic alliance, though it had little economic content before the end of the century.

Meanwhile, in Europe, the six ECSC member countries (Belgium, France, the German Federal Republic, Italy, Luxembourg, and the Netherlands) signed the Treaty of Rome in 1957, creating a customs union in the 1960s and committing to common policies in nuclear energy, transport, and agriculture as well as eventual free movement of labor and capital. The UK and six other countries that were suspicious of the supranational powers inherent in the Rome model formed the European Free Trade Association (EFTA) in 1960.<sup>2</sup> By the early 1970s, the economic success of the Six encouraged the UK, Denmark, and Ireland to abandon the EFTA in favor of the European customs union. The overthrowing of the Fascist regimes in Greece, Portugal, and Spain in the mid-1970s removed the obstacle to those countries' accession to the European Community in the 1980s.

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<sup>1</sup> Winston Churchill described the situation in a speech on 5 March 1946: "From Stettin in the Baltic to Trieste in the Adriatic an iron curtain has descended across the Continent. Behind that line lie all the capitals of the ancient states of Central and Eastern Europe. Warsaw, Berlin, Prague, Vienna, Budapest, Belgrade, Bucharest and Sofia; all these famous cities and the populations around them lie in what I must call the Soviet sphere, and all are subject, in one form or another, not only to Soviet influence but to a very high and in some cases increasing measure of control from Moscow."

<sup>2</sup> A customs union inevitably involved supranational powers to implement the common external trade policy and to manage the tariff revenues (it was unacceptable to allow the country of the port of entry to keep the revenues when Rotterdam was the port for many non-Dutch importers). Other common policies, such as the agricultural policy that countries negotiated and introduced in the late 1960s, involved higher levels of collaboration.

By the end of the long boom in 1972–3, both Western Europe and much of East and Southeast Asia had integrated their thriving regional economies into the global economy. Europe based its growth on strengthened intra-regional specialization and trade within the customs union.<sup>3</sup> In contrast, Japan and the newly industrialized economies of Hong Kong, China; the Republic of Korea; Singapore; and Taipei, China operated as spokes in a world economy centered on the high-income countries of North America and Western Europe. The Asian success stories were a result of the macroeconomic policies, labor markets, port infrastructure and customs systems, and other features conducive to exporting manufactured goods according to countries' comparative advantage. Even in the globally depressed conditions of the decade after 1972, they continued to outpace the economic growth elsewhere so that the Asian region's share of the world economy continued to increase.

In sum, while Western Europe had a functioning and expanding customs union, Asia, as an economic region, was fragmented, with most countries pursuing inward-oriented policies. While Western Europe was developing intra-regional trading patterns, Japan and the newly industrialized economies of East Asia were part of a hub and spoke system of international trade in which they exported to markets outside Asia.

## **2.2 Deep Integration in Europe in the 1980s and 1990s and Its Absence in Asia**

The 1980s and early 1990s were a period of challenge in the global economy, as the established major trading nations recovered from the stagflation of the 1970s only to face competition from the newly industrialized economies. A second generation of Asian high-performing economies—Malaysia, Thailand, Indonesia, and the PRC—now joined Japan and the original Gang of Four. After initial flirtations with “new” protectionism, for example measures such as voluntary export restraint agreements or orderly marketing arrangements, the leading trading nations reverted to liberal trade policies, concluding the Uruguay Round of multilateral trade negotiations and establishing the World Trade Organization (WTO) in 1995. They also tried to strengthen their competitiveness by signing regional “deep integration” agreements, such as the 1983 Closer Economic Relations (CER) between Australia and New Zealand and the 1994 North American Free Trade Agreement (NAFTA) between Canada, Mexico, and the US.

The clearest example of deep integration was the European countries' program to complete the single market by 1992—a process that the 1993 Maastricht Treaty ratified and that included the adoption of the name the European Union (EU). Among the drivers of the 1992 program was a sense that the customs union completed in the 1960s was an unstable equilibrium. Like riding a bicycle, the process of regional integration had to move forward or be derailed. The potential sources of derailment were exchange rate fluctuations and non-tariff barriers to internal trade.

At the time of the Rome Treaty, exchange rates were pegged under the Bretton Woods system, and monetary arrangements were not discussed. In 1969, differing economic pressures led to upward revaluation of the German currency and devaluation of the French currency, disrupting the prices of goods traded in the customs union. The Werner Committee in 1970 proposed a ten-year roadmap to a common currency, the

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<sup>3</sup> Surprisingly, rather than the anticipated inter-industry trade, much of the trade within the European customs union was intra-industry trade (IIT) (Grubel and Lloyd 1975). Some IIT was horizontal trade in differentiated products, spurring a “new trade theory” with imperfectly competitive markets, while other IIT was vertical trade of components, foreshadowing the identification of GVCs.



implementation of which began in 1972. The timing was disastrous, as the Bretton Woods fixed exchange rate system collapsed and the world economy entered years of turmoil. Facing rapidly increasing prices of oil and other imports, the European countries pursued diverse monetary policies. Exchange rates became more rather than less volatile, and the abandonment of the Werner plan occurred in 1976. The striking sequel was that the leaders of France and Germany agreed in 1977–78 to resuscitate the plan for a currency union. The establishment of the European Monetary System took place in 1979 and led, two decades later, to the introduction of the euro.<sup>4</sup> A specific reason for this outcome was the recognition that monetary instability hampered the smooth functioning of a common market and that adopting common policies, such as an agricultural policy with agreed common prices, was virtually impossible with volatile bilateral exchange rates.<sup>5</sup>

The process of European integration also faced challenges from a landmark legal case in 1979. The European Court found in favor of a French producer that could not sell its *Cassis de Dijon* in Germany because its alcohol content was too high to be sold as wine but too low to be sold as spirits. The Court concluded that, if the sale of a good was legal in a member country, then it should be legal throughout the common market. A central feature of the 1992 program was to establish common standards either through the mutual recognition principle, as in the *Cassis de Dijon* case, or, when this was unacceptable, by harmonizing standards. Effectively, this program sought to add an economic space without non-tariff barriers to the tariff-free internal trade of the customs union. The EU had less success in the mutual recognition of many service activities that powerful professional associations provided, but it did make progress in labor and capital mobility and in removing physical border checks.<sup>6</sup>

The deep integration process, which the internal dynamics of economic integration accentuated in Western Europe, was absent in Asia. The ASEAN countries tried a series of economic integration programs, notably the ASEAN Free Trade Area in the 1990s, but none had much impact. Elsewhere, there was even less movement toward formal regional integration. The economies that were most involved in global trade unilaterally reduced their trade barriers, in part within the open regionalism framework of the Asia-Pacific Economic Cooperation (APEC), the establishment of which occurred in 1989.

APEC was a much weaker institution than regional trade agreements like the EU or even NAFTA or CER. The concept of open regionalism meant that membership was open to any country in Asia and the Pacific that adopted the fairly general principles. It was useful for countries that announced unilateral trade liberalization measures simultaneously and hence were able to appease domestic interest groups by suggesting that they were gaining access to foreign markets as well as opening up their own markets. However, any attempt to pressure countries to liberalize, as in APEC's ill-fated 1997 voluntary sector liberalization program, faced robust resistance. APEC further lost

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<sup>4</sup> Krugman (1993) highlighted and Rose (2000) attempted to measure the positive effects of a common currency on bilateral trade. Glick (2017) estimated the impact of EU monetary integration.

<sup>5</sup> Pomfret (1991) and Basevi and Grassi (1993) documented the link between the CAP and the speedy resuscitation of the monetary union in the late 1970s. The public finance transactions costs are why countries invariably have a single domestic currency (Pomfret 2005), and a common currency requires acceptance of a single monetary authority (Pomfret 2016).

<sup>6</sup> The establishment of capital mobility in 1992 provided the currency union with a final push. The fixed exchange rates required for the smooth operation of the common market and the free movement of capital are incompatible with independent monetary policies (the “Impossible Trinity”). Without independent monetary policies, there was little point in maintaining national currencies. The EU members that were unwilling to give up their national currencies (Denmark, Sweden, and the UK) risked either being left outside the EU core if their currencies fluctuated or having a symbolic national currency with some nuisance value for no economic purpose if its value was pegged to the euro.

momentum in the late 1990s due to the failure to muster a response to the 1997/8 Asian Crisis. However, APEC remains a forum for annual meetings of leaders in Asia and the Pacific.

The Asian countries involved in electronics value chains also signed the WTO's 1997 Information Technology Agreement (ITA), the signatories of which guaranteed not to impose any tariffs or similar restrictions on imports of specified electronic goods. The ITA is a plurilateral agreement, meaning that it is not mandatory for WTO members. Signing the ITA provided GVC lead firms with a guarantee that components could move freely in and out of a country. Because signing the ITA was possible for all WTO members, it shared the key feature of open regionalism.

### 3. THE REGIONAL BASIS OF GLOBAL VALUE CHAINS

By the start of the 21st century, global value chains (GVCs) were a recognized dynamic feature of the world economy.<sup>7</sup> Most GVC production was, in fact, happening along regional value chains, centered on North America, Europe, and East Asia (Johnson and Noguera 2012, 2017). Salient differences were that the management of North American GVCs was mostly mercantilist under NAFTA, European GVCs operated within a common market, and Asian GVCs were market driven without significant regional policy management.

In Europe the customs union was established in the 1960s, and the 1992 program, the establishment of the Schengen zone in which physical border barriers were eliminated, and the creation of a common currency in the late 1990s, further reduced the barriers to internal trade. The extent to which economics or a desire for ever-closer political union drove the deeper integration varied among the member states, but an economic consequence was the facilitation of cross-country supply chains in Europe. The process of creating value chains had received a boost from the accession of poorer southern European countries in the 1980s and, even more so, from the end of Communism in Eastern Europe and the clear intention of new lower-wage countries to join the EU. In sum, the economic basis for European regional value chains was an integrated area of low trade costs due to the reduction of border-crossing costs and the currency union, and exogenous political drivers that increased the diversity of locations within the EU augmented the impact.<sup>8</sup>

The process of creating regional value chains in Asia was a bottom-up process, initially concentrating on the more open and business-friendly economies, with the cities of Hong Kong, China and Singapore playing key roles. As wages increased in the city states, their entrepreneurs offshored labor-intensive activities to neighboring areas, Johor (Malaysia) and Riau (Indonesia) for Singapore and Guangdong (PRC) for Hong Kong, China. External developments were also important. The rapid appreciation of the yen after 1985 encouraged Japanese carmakers to seek offshore locations for car assembly, and they found Thailand. Malaysia played an important role in electronics value chains. Following the opening of the Chinese economy in 1979, entrepreneurs from the original newly industrialized economies started shifting labor-intensive production processes to

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<sup>7</sup> There is a huge literature on the evolution and analysis of GVCs, for example Pomfret (2014), Baldwin (2016), Inomata (2017), and UNIDO (2018).

<sup>8</sup> McCallum (1995) demonstrated the importance of the border effect even when tariffs and traditional trade barriers had fallen to minimal levels. Anderson and van Wincoop (2004) pioneered the measurement of the costs of international trade. Sourdin and Pomfret (2012) defined and measured trade costs and analyzed policies for reducing trade costs, that is, trade facilitation.

the PRC in the 1980s and 1990s.<sup>9</sup> In 2001, the PRC joined the WTO. With more formal incorporation into the global economy, the PRC's centrality in Factory Asia increased.

**Table 1: Measures of GVC Participation in Emerging Asia and Emerging Europe, 2012**

**(a) Exports and Imports of Parts and Components**

Emerging Asia				Emerging Europe			
	Value (X+M)	Imports (share)	Exports (share)		Value (X+M)	Imports (share)	Exports (share)
PRC	590	0.20	0.17	Czech Republic	85	0.32	0.34
Hong Kong, China	248	0.24	0.25	Poland	54	0.21	0.25
Republic of Korea	154	0.19	0.20	Hungary	69	0.31	0.34
Singapore	147	0.28	0.24	Russian Federation	61	0.20	0.06
Thailand	96	0.26	0.26	Turkey	39	0.14	0.13
Malaysia	90	0.30	0.29	Slovakia	36	0.32	0.23
India	56	0.13	0.10	Romania	27	0.25	0.28
Indonesia	38	0.13	0.21	Ukraine	13	0.14	0.13
Philippines	34	0.38	0.39	Slovenia	10	0.19	0.23
Viet Nam	24	0.15	0.13	Bulgaria	6	0.17	0.15

**(b) Network Trade**

Emerging Asia				Emerging Europe			
	Value (X+M)	Imports (share)	Exports (share)		Value (X+M)	Imports (share)	Exports (share)
PRC	1,447	0.48	0.43	Czech Republic	111	0.39	0.46
Hong Kong, China	577	0.58	0.58	Russian Federation	105	0.36	0.07
Republic of Korea	335	0.35	0.49	Poland	90	0.29	0.32
Singapore	280	0.51	0.49	Hungary	71	0.39	0.47
Thailand	136	0.33	0.43	Slovakia	65	0.45	0.53
Malaysia	154	0.46	0.55	Turkey	63	0.22	0.21
India	70	0.17	0.12	Romania	33	0.28	0.35
Viet Nam	57	0.31	0.36	Ukraine	17	0.26	0.09
Philippines	52	0.53	0.66	Slovenia	12	0.26	0.28
Indonesia	51	0.25	0.21	Belarus	9	0.19	0.19

Notes: Value in billions of US dollars; share as a percentage of manufactured imports and exports. Network trade is trade in six SITC two-digit product categories: office machinery, telecommunications and recording equipment, electrical machinery, road vehicles, professional and scientific equipment, and photographic apparatus. The source does not include high-income countries (Japan and Western Europe).

Source: Pomfret and Sourdin (2018, Tables 1 and 2).

<sup>9</sup> The key intermediaries were in Hong Kong, China. In the mid-1980s, following currency appreciation and rising wages and land prices, Hong Kong, China became uncompetitive in labor-intensive manufactured goods, but entrepreneurs had management and export-marketing skills as well as a common language with neighboring Guangdong Province in the PRC, where low-wage labor was abundant and trade costs were low. By the end of the 1990s, Li and Fung was the lead company in the world's jeans value chains. Companies from Taipei, China and the Republic of Korea that were offshoring to the PRC often used an intermediary from Hong Kong, China to minimize the political constraints.

The extent of GVCs is greatest in East Asia and focuses on a few participating countries. For example, using two indicators that Athukorala (2011) operationalized, the value and share in manufactured trade of parts and components and the concentration of trade in sectors in which GVCs are prominent, Pomfret and Sourdin (2018) found that the PRC, the Republic of Korea, Singapore, Thailand, and Malaysia dominate GVC trade in Asian emerging economies and that the values are much larger than those for the leading EU emerging economy participants in GVCs (Table 1).<sup>10</sup>

## 4. ASIAN REGIONALISM IN THE 21ST CENTURY

Before 2000, despite proliferation in other continents, regional trading arrangements were practically absent from Asia.<sup>11</sup> Signed agreements typically had a limited impact. Exclusions that ensured that protected activities remained protected even in the free trade area, for example, effectively neutered ASEAN's free trade area. Other would-be preferential trade agreements, such as the Economic Cooperation Organization, the South Asian Association for Regional Cooperation (SAARC), or the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), had even less effect.

After 2000, Asian countries led the way in signing trade agreements. By 2018, Singapore had 20 agreements in force, followed by the PRC, the Republic of Korea, Japan, Malaysia, and Thailand (Table 2). These agreements are not necessarily regional trade agreements; for example, the partners in Singapore's agreements include Costa Rica, Jordan, Panama, Peru, Turkey, and the US. They are also clearly not traditional free trade agreements in the sense of removing tariffs on trade between the partners, because Singapore already has an effectively free trade regime and would have nothing to offer in a traditional FTA. The 21st-century trade agreements typically cover trade facilitation and behind-the-border measures related to services trade, investment, intellectual property rights, and domestic regulation, often described as WTO+.<sup>12</sup>

ASEAN progressed its economic integration after 2000, initially by strengthening the free trade area and then by deepening integration into the ASEAN Economic Community (AEC). A landmark step was Malaysia's removal in 2005 of assembled and knocked-down automobiles from its list of excluded items, acknowledging that an integrated, and protected, car industry had become a poor substitute for trading components and cars along automobile GVCs.<sup>13</sup> However, steps beyond trade in goods moved slowly in the consensus-driven ASEAN debates, and the AEC remains far less

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<sup>10</sup> GVC participation is notoriously difficult to measure. The ideal measure would be derived from input–output tables, but the existing tables are insufficiently disaggregated to capture GVCs with precision. The Athukorala measures, intra-industry trade data, case studies, and casual observation all point in the same general direction, with GVCs being the most pronounced in motor vehicles, electronics, and apparel and increasingly visible in other sectors.

<sup>11</sup> Even in Latin America and Africa, where countries have signed many trade agreements, few preferential trading arrangements were effective in the 2000s. The WTO (2011) estimated that, counting the EU as a single unit, 84% of world merchandise trade took place on an MFN basis in 2007. This is consistent with Vinerian customs union theory, in which preferential tariff reductions are inferior to MFN tariff reductions for an importing country (Pomfret 2001) and with a view of the EU as a fundamentally political union.

<sup>12</sup> They can be very specific trouble-shooting exercises. The 2007 Japan–Thailand Economic Partnership Agreement reduced the obstacles that Japanese carmakers identified in importing components to their assembly plant in Thailand in return for providing better work permit conditions for Thai cooks in Japan.

<sup>13</sup> Australia, the government of which wound down assistance for the car industry, reached a similar decision, leading to the closure of all car assembly plants by 2017.

integrated than the EU, with areas like borderless trade or a common currency not even appearing on the horizon.<sup>14</sup>

**Table 2: Regional Trade Agreements Involving ASEAN+6 Countries**

	<b>Framework Agreement</b>	<b>Under Negotiation</b>	<b>Signed, but Not In Force</b>	<b>Signed and In Force</b>
Brunei Darussalam	0	1	2	8
Cambodia	0	1	1	6
Indonesia	0	8	3	9
Lao PDR	0	1	1	8
Malaysia	1	4	3	14
Myanmar	1	2	1	6
Philippines	0	2	1	8
Singapore	0	9	2	22
Thailand	1	8	1	13
Viet Nam	0	4	2	10
Australia	0	7	3	12
PRC	0	9	2	17
India	1	15	0	13
Japan	0	7	2	15
Republic of Korea	0	10	1	16
New Zealand	0	6	2	11

Source: Asia Regional Integration Center at <https://aric.adb.org/fta>—Table 6, *FTA Status by Country/Economy 2017* (accessed 16 April 2019).

The proliferation of bilateral, regional, and wider trade agreements in Asia in the 21st century is related to GVCs as both cause and effect. Tariffs and non-tariff barriers are clearly inimical to the fragmentation of production across borders. Deep trade agreements further facilitate the flow of goods and services within GVCs, even though other factors, such as industry competitiveness, skills, and R&D intensity affect GVC integration. If a country wishes to be a GVC participant, the government will want to facilitate trade, and, once in GVCs, the government will face lobbies for further specific measures to facilitate trade or to make it easier to conduct business.

Bilateral agreements tend to be more limited and more easily negotiated and implemented than multilateral agreements. Although the items that an agreement includes will be of particular interest to the signatories, measures such as reducing paperwork at the border or removing regulatory barriers are intrinsically non-discriminatory and hence unlikely to lead to the trade diversion associated with 20th-century trade agreements. The drawback of bilateral agreements is that they can lead to the proliferation of regulations and standards that are confusing to traders and inconvenient for GVC coordination, the “noodle bowl” effect (Pomfret 2011: 89–91). This was most apparent in ASEAN’s relations with its six Asian Economic Summit partners (the ASEAN+6 group). Not only did ASEAN’s agreements with the PRC, Japan, the Republic of Korea, India, Australia, and New Zealand have differing terms (e.g., the rules

<sup>14</sup> Even on accession decisions, in the 21st century, ASEAN seems inert compared with EU negotiations that are cumbersome and lengthy but have led to the accession not only of Eastern European countries but also of the small island economies of Cyprus and Malta. Timor-Leste’s request for ASEAN membership seems to be stuck in a non-transparent holding dock.

of origin for goods to qualify for preferential treatment vary considerably), but individual ASEAN countries had signed separate bilateral agreements with individual +6 partners. To systematize these relationships, in 2012, ASEAN launched negotiations for a consistent Regional Comprehensive Economic Partnership (RCEP) agreement among the ASEAN+6 countries.

The Trans-Pacific Partnership (TPP) negotiations grew out of the 2005 P4 agreement that Brunei Darussalam, Chile, New Zealand, and Singapore signed. Beginning in 2008, additional countries joined the P4 in a discussion over a deep trade agreement, and 12 countries (the P4 plus Australia, Canada, Japan, Malaysia, Mexico, Peru, the United States, and Viet Nam) signed the TPP on 4 February 2016.

In many respects, the TPP and the RCEP aimed to be similar deep integration agreements, albeit with the important difference of membership that the TPP excluded the PRC and the RCEP excluded the US. Nevertheless, there were hopes that the two agreements would be harbingers of a wider free trade area in Asia and the Pacific. An important aspect of mega-regionals such as the TPP or the RCEP, with many participants and lengthy negotiations, is that they create common practices and rules. There is a trade-off between the difficulty of reaching agreement among many countries and the network benefits of common standards that become more useful as they cover more partners.

## 5. THE EU'S EXTERNAL TRADE POLICY

During the 1960s, 1970s, and 1980s, the EU's trade policy focus was inward, on creating the customs union and then completing the internal market. The six signatories of the Rome Treaty participated as a single unit in the Kennedy Round of multilateral trade negotiations, and the outcome of substantially lower tariffs helped to maintain US support for the customs union, since access for third countries' goods was now substantially easier than under the previous French or Italian tariffs. In the 1960s' competition with EFTA, the Six signed association agreements with Greece in 1961 and with Turkey in 1963. This turned out to be the beginning of a strategy of using preferential trade agreements as an instrument of foreign policy.

By the early 1970s, the EU had created a pyramid of preferences (Pomfret 2001, 94–8). After the first enlargement in 1973, a free trade area in manufactured goods was established with the remaining EFTA countries. The Global Mediterranean Policy consolidated the patchwork of agreements with Mediterranean neighbors in 1972 and offered free access to EU markets for manufacturers and some privileged treatment under the common agricultural policy. African, Caribbean, and Pacific former colonies were granted preferential treatment under the Yaoundé and Lomé Conventions, which were important for some products. Other developing countries qualified for the less generous Generalized System of Preferences (GSP) scheme. Imports from only seven trading partners (Australia, Canada, Japan, New Zealand, the Republic of Korea, Taipei, China, and the US) faced the most-favored nation (MFN) tariffs that were supposed to apply to all GATT signatories. Non-market economies faced stricter, often ad hoc, conditions.

The pyramid of preferences proved to be a blunt instrument of foreign policy. Countries often fretted about the better treatment received by competitors rather than appreciating the better-than-MFN treatment that they had been granted. The substantial reductions in the common external tariff eroded the value of preferential tariffs and narrowed the scope for distinguishing between more and less preferred partners. The GSP came under criticism because upper limits applied to preferential treatment, so, if a poor country

identified a successful export at the GSP tariff, it would revert to MFN treatment. Economies with exports that faced MFN tariffs resented the discriminatory treatment.

The EU's external trade policy became more complex in the 1980s as an increasing number of producers demanded protection against the fast-growing imports from Asia. In contrast to the long-protected agriculture and textiles and clothing sectors, countries often viewed car and steel producers as national champions, and their well-organized labor unions were politically powerful. National governments introduced many of the new protectionist measures, especially in the car industry, which undermined the creation of a single market. By the late 1980s, the EU's external trade policy was foundering under the complexity of hierarchical preferential tariffs and national restrictions on market access.

The 1990 GATT ministerial meeting in Montréal was a turning point, after which the EU committed to multilateralism through the conclusion of the Uruguay Round and the establishment of the World Trade Organization (WTO). This commitment involved the termination of one-way trade preferences and the reform of the common agricultural policy, decoupling rural support from the output or prices of farm goods. The agricultural reforms took time but were largely completed by 2003–4 (Swinbank and Daugbjerg 2017).

However, agreement on a new strategy took until the 2015 *Trade for All* paper (EU 2015), which committed the EU to open multilateral trade aimed at promoting participation in global value chains. The EU was open to signing trade agreements, but there would be no one-way preferential agreements other than the GSP. The EU had tentatively embarked on WTO+ bilateral agreements with smaller trade partners, of which the EU–Republic of Korea agreement, signed in 2010 (and entered into force in 2015), was the most substantial, before initiating negotiations with larger trade partners. Negotiations with the US over a Transatlantic Trade and Investment Partnership (TTIP) commenced in 2013, and bilateral negotiations began with Canada in 2008 and with Japan in 2013.

In sum, the evolution of the EU's common external trade policy was tortuous but eventually moved in the same direction as Asian regionalism. Countries that are intending to participate in global value chains must have efficient internal markets and minimal barriers to external trade so that producers can access their first choice of inputs and supply customers easily. The deep integration agreements also highlighted the need to move beyond the WTO Charter to cover areas either that the world trade law addresses inadequately or that did not exist in 1995, such as e-commerce and cross-border data movements.

## 6. CLOSED AND OPEN REGIONALISM

Regionalism in Asia and Europe has followed different paths since 1945. In Europe, the process has been toward political and economic integration. This has caused tensions with countries that are less committed to political union (notably the UK) or unwilling to accept constraints on macroeconomic policy making within the common currency area (Italy in 2018) and disagreement over political norms that the majority (but not Hungary and Poland) believed to be “common.” Nevertheless, the processes of widening and deepening have progressed over the decades, albeit with hiccups that are especially threatening in 2019, with Brexit and talk of a multi-speed EU. The geographical limits of “Europe” ensure that membership is not open to all.

In Asia, there has been no serious pressure to achieve political union or monetary integration. Nevertheless, a shared commitment to openness toward the global economy

as well as regional economic networks has promoted regional economic cooperation and integration among a growing number of Asian countries. The number sharing the commitment has grown following the examples of Japan and the original new industrializing economies and of the PRC and the second generation of high-performing Asian economies. The driving force is the desire to share those countries' prosperity or not to fall behind rivals.

Beyond the differences, both European closed regionalism and Asian open regionalism have ended up with many countries' commitment to globalization and GVC facilitation. This involves openness to the world economy and, because many GVCs have actually been regional value chains, continuous efforts to reduce the obstacles to regional economic cooperation. As GVCs become more truly global, it is desirable to situate regional economic cooperation within a set of global standards and regulations. An unforeseen challenge to the broader objective has been the transformation of US trade policy since 2017 in the direction of aggressive unilateralism.

One of President Trump's first steps after his inauguration in January 2017 was to announce the US's withdrawal from the TPP agreement, which meant that a sufficient weighted majority could not ratify the TPP. It soon became clear that the new president did not feel bound by the existing trade agreements that he perceived to oppose US interests, including WTO commitments. Negotiations toward a Transatlantic Trade and Investment Partnership (TTIP) between the US and the EU were halted. In 2018, an actual US–PRC trade war followed the threat of a trade war that the US government's tariffs on steel and aluminum sparked in June. In both cases, the US's explanations in terms of national security risks and the Chinese theft of intellectual property and other malpractice took the disputes beyond normal challenges under world trade law. At the same time, by refusing to fill vacant positions on the WTO appellate board, the US threatened to vitiate complaints through normal dispute resolution mechanisms.

After the initial shock of the US's withdrawal, the eleven remaining TPP nations negotiated a new trade agreement called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which incorporates most of the provisions of the TPP and which entered into force on 30 December 2018. The RCEP negotiations, which had proceeded slowly since 2012, appeared to accelerate in 2018. At the November 2019 RCEP summit, India withdrew from the RCEP, and the other 15 countries appeared to be ready to sign the agreement early in 2020. In sum, the more open Asian economies that participated in GVCs responded to the Trump shock by reaffirming their commitment to open regionalism with WTO+ content.

The breakdown of the TTIP negotiations encouraged the EU to complete and implement the WTO+ agreements with Canada (which it signed in 2014 and has applied since September 2017) and with Japan (signed in 2018) and to initiate similar negotiations with Australia and New Zealand in 2018. By the end of 2018, the EU, together with the other G7 countries apart from the US (i.e., six of the seven largest market-based economies), had signed deep integration agreements.

The CPTPP brought together Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Viet Nam. The RCEP included some of these countries plus Cambodia, the PRC, India, Indonesia, the Lao People's Democratic Republic, Myanmar, the Philippines, the PRC, the Republic of Korea, and Thailand. The overlaps between the groups suggest strong incentives to ensure compatibility rather than creating idiosyncratic regulations, standards, and so on. Some of the RCEP countries (e.g., the Republic of Korea and Thailand) have expressed an interest in the CPTPP. In sum, the major Asian GVC participants and the EU have



created a common trading environment that moves beyond WTO commitments to include areas on which it has proven difficult to achieve consensus at the WTO.

A major challenge for the 2020s is to create a legal/institutional framework in which GVCs can flourish. The first-best outcome would be agreements within the WTO to include issues that are important to GVCs. However, these are unlikely in view of the tortuous history of the Doha Development Round, which commenced in 2001 to include new areas and is still running with minimal achievements. The fundamental problem is the requirement for consensus and the contrary objectives of some members, especially those with little GVC participation.

A plurilateral agreement under the WTO may be more plausible and has the support of many countries involved in GVCs, including the EU, which proposes “that a subset of WTO members can advance on a given issue, while keeping the door open for interested WTO members to join at a later stage. This would allow for new plurilateral agreements under the WTO umbrella and would make it easier to anchor in the WTO those plurilateral agreements that are currently negotiated outside the organisation” (EU 2015, 28). The prime example of a WTO plurilateral agreement is the 1997 Information Technology Agreement, the 82 participants in which agree to maintain zero tariffs on goods listed under the agreement; a principal goal of the signatories is to signal to GVC lead firms a credible commitment not to impose import duties on the listed goods.

So far in the 21st century, however, there has been little new progress in this direction and considerable opposition. At the December 2018 Buenos Aires ministerial conference, 71 WTO members agreed on a proposal that could foreshadow the proposal of a plurilateral agreement on e-commerce at the 2020 ministerial conference in Astana. A plurilateral agreement would avoid the need for consensus, but many WTO members oppose it on the grounds that it undermines the universality of WTO trade law.

Regional leadership is necessary because the lack of consensus, including several large trading nations adopting blocking positions, is stymying the extension of the WTO beyond its 20<sup>th</sup>-century coverage. Open regionalism is a second-best approach that is desirable in the absence of WTO progress, especially without regionally defined access to agreements. Several Asian countries have shown interest in joining the CPTPP, but even more interesting is the prospect of post-Brexit Britain joining the CPTPP and establishing that its boundaries are not limited to Pacific nations. The EU’s external trade policy has already shown elements of open regionalism.<sup>15</sup> The EU has signaled its receptiveness to more flexible approaches; the *Trade for All* strategy document (EU 2015, 5) acknowledged the EU–Asia link and the option of openness to other countries: “the strategy also opens the door to new initiatives, when the conditions are right—in the Asia-Pacific region, in particular, but also in Latin America and Africa.”

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<sup>15</sup> The EU *Trade for All* strategy (2015, 29) stated that EU trade agreements should be open to all willing WTO members to join and gave the example of the FTA that the EU signed with Colombia and Peru in 2012 and to which Ecuador acceded as a result of negotiations concluded in July 2014. However, this set of agreements existed in a South American framework from the start.

## 7. CONCLUSIONS AND POLICY RECOMMENDATIONS

In the second half of the 20th century, it was commonplace to contrast European regionalism with the lack of regionalism in Asia or with market-driven regionalization in East Asia.<sup>16</sup> In the 21st century, the institutional environment for international trade has converged in the two areas around a model of reducing barriers to conducting business and trade both within the national and regional economies and as part of the engagement in the global economy. In this paper, I have argued that the increasing fragmentation of production along regional and then global value chains has been a driver of this convergence.

In Asia, the CPTPP became effective at the end of 2018 and the RCEP negotiations approached conclusion in November 2019. Many chapters, especially in new areas, such as e-commerce and data flows, are similar, and a plausible follow-up would be to harmonize the two agreements. One suggestion is to combine the CPTPP and the RCEP into a Free Trade Area of Asia and the Pacific (FTAAP), although the Asia and the Pacific restriction is anachronistic and a global “open regionalism” arrangement would be a preferable 21st-century arrangement.

In Europe, the 1992 program, Schengen, and the euro have substantially reduced the barriers to internal market integration. Regional value chains were identifiable in earlier decades, but they have received a boost since the 1990s, when the process of incorporating Eastern European countries with different factor endowments and prices from the first 15 members into the EU began. Europe has abandoned external trade policies to create favored partners or to protect favored producers in support of an open trading regime. Bilateral agreements with major trading partners include areas and even language similar to that of the TPP, for example in the e-commerce chapter. Synchronizing the EU agreements with Asian open regionalism should not be difficult.

A global agreement on new issues would be desirable, but the WTO has been to some extent the victim of its own success. The conclusion of the Uruguay Round and the establishment of the WTO in 1995 were a massive achievement (Sampson 2018). With 164 members and 32 observers, the WTO is a truly global organization. However, the requirement for consensus to agree any changes to the rules has restricted its evolution since 1995. The value of the WTO, and the threats that it might face, have been apparent since January 2017 as a result of the disregard that President Trump has shown for the organization. The Trump shock has, however, highlighted the need for other countries to step up and identify their commitment to reinforcing and expanding the multilateral trading system.

Does this future signal the end of regionalism? The answer is yes, if we define regionalism narrowly in trade-related terms. However, regionalism can be about much more than trade alone, as the EU illustrates. In the ASEAN Community established in 2015, the economic pillar is only one of three pillars: the ASEAN Economic Community, the ASEAN Security Community, and the ASEAN Socio-cultural Community. Nevertheless, there is little appetite for political integration in most of Asia. By contrast, the debate in Europe is between those who value the EU as a vehicle for ever-closer political union and those, such as the Brexiteers in the UK, who oppose the erosion of national sovereignty.

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<sup>16</sup> Lorenz (1991, 1992) developed the regionalism/regionalization distinction.

What lessons does European integration hold for Asia? The historical evolution suggests that the answer may be not many, because Europe is engaged in a process of ever-closer political unification that most of the continent's countries accept, while Asia appears to have little enthusiasm for closer political union. However, the embracing of GVCs and the reaction to the "Trump shock" of the US renouncing its support for the multilateral trading system have brought the EU and the dynamic East Asian countries together in support of the world trading system. Beyond defense of the current system, the two groups have a common interest in reaching agreements in WTO+ areas that are important to GVC functioning, such as trade facilitation and e-commerce. For the Asian countries, the priority is regional cooperation to avoid a noodle bowl of differentiated regulations. Such cooperation is happening in the CPTPP and the RCEP, but, beyond that, global agreement either within the WTO or, more likely, with the EU and its partners is desirable. While EU regionalism and East Asian regionalization have so far progressed independently, with GVCs becoming more global, the two will need to promote consistency in WTO+ areas.

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