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Creation and evolution of European economic and monetary union: Lessons for Asian economic integration

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ADB Working Paper Series

CREATION AND EVOLUTION OF EUROPEAN ECONOMIC AND MONETARY UNION: LESSONS FOR ASIAN ECONOMIC INTEGRATION

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Abstract

This paper reviews the creation and evolution of the European Economic Monetary Union (EEMU) and discusses the insights and perspectives of the key lessons for Asian economic integration utilizing an extensive review of the literature method. In order to implement a common monetary and economic policy for the European Union (EU), the EEMU was created as a replacement for the European Monetary System. The organization of the EEMU was designed to support sustainable economic growth and high job creation through appropriate economic and monetary policy making measures. These objectives of the EEMU can be accomplished by achieving price stability in the region through specific monetary policy implementation, coordinating with the member countries in regard to economic policies, and ensuring smooth operation of a single market in the region. Two decades of history confirm the stability of the euro as a single currency in the region and it is seen as a great achievement of the EEMU. Also, the EEMU and the European Central Bank have been successful in maintaining inflation at a lower level. Europe succeeded in reaching the level of a deeper integration mainly because of its strong vision for a united Europe, European economic and political stability, and the creation of economic and monetary institutions such as the EEMU. But, as of now, such features are not present in the Asian region. Also, despite having benefited from global trade liberalization, Asia may not strictly follow the path of European integration. However, several key lessons, including the integration process of the European Union and the experiences of the EEMU, can be taken with a view to creating an exclusive model for reaping the full benefits of Asian economic integration.

Keywords: European Union, European Economic Monetary Union, euro, Asian economic integration, regional integration

JEL Classification: F10, F15, F33

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1. INTRODUCTION

The world economy has been subjected to broad changes and a large number of countries are facing enormous challenges in effectively dealing with the changes caused by liberalization and globalization. In order to meet such challenges, it would be beneficial to unite and cooperate mutually and develop economic integration among neighboring countries by making use of the various comparative advantages and the existing complementarities (Khan and Khan 2003). Based on this concept, many trade agreements and blocs relating to regional integration have been developed.

The prestigious project of European economic integration has been steadily progressing over a period of 50 years. During this period enormous efforts have been made toward economic cooperation and deeper integration of the union. The European Union (EU) has been successful in terms of both political and economic considerations, although there have been several undoubted failures and challenges, such as the European financial crisis and Brexit (which refers to the UK leaving the EU). The European Economic Monetary Union (EEMU) was, perhaps, only a smaller part of the greater vision of European integration. The evolution and development of the EEMU was a long process with many stages of significant historical experiences. The concept of a single currency is considered to be the most significant breakthrough step ever attempted in financial history.

The development of the EEMU is considered to be the result of the EU's steady and progressive economic integration process. It is an expansion of the EU's single market with common product regulations and free movement of goods, capital, labor, and services. The common single currency, the euro, was introduced into the euro zone, which comprised 19 EU member states at that time. All the 28 EU member states except for Britain and Denmark were to adopt the common currency after a minimum of two years of participation and fulfillment of convergence criteria.

Also, a single monetary policy was set up by the European Central Bank (ECB). However, there was no specific institution solely responsible for the economic policies within the EU. The responsibility was therefore divided between the EU member states and the institutions involved in economic and fiscal issues. The single currency provides several undeniable advantages, such as lowering financial transaction costs, easier travel among the member states, and strengthening Europe's position at the international level.

There are several lessons that can be drawn from the experience of European integration in terms of both economic and institutional development of the EU. The EU's experience provides some of these lessons, such as the driving forces behind the integration process, the institutions that were developed to manage the integration, and the impact of integration on trade patterns and income levels across the countries of the EU. The overall European experience could provide useful lessons for Asian economic integration.

However, the two continents are different in terms of economic and political considerations. From the economic point of view, integration resulted in a substantial impact on European trade and revenues mainly through increased competition and trade creation. It is possible that the heterogeneity of countries in Asia might offer an even greater potential for trade creation, and also for using integration as a force to develop productivity growth and sustainable development in the region. In terms of the political level, the European experience suggests that achieving economic gains requires continuing and far-reaching policy measures. Such measures, in turn, require a deeper

political commitment to integration and the establishment of institutions to promote cooperation and also protect from the inter-member state frictions that are inevitable.

Asian economic integration is both essential and compelling. However, the lack of political commitment at different levels indicates that trade integration need not follow economic integration. With its greater diversity among members, Asian integration may generate greater trade creation, investment flows, and competitive pressures than European integration, but possibly at the expense of greater divergence among members. In order to reap the economic benefits of integration, it is necessary to resolve various frictions and barriers to trade at intraregional levels. In Europe, such measures resulted in continuing expansion of the EU, but in Asia, such dynamic activities have led to competition among countries in regard to gaining hub status.

The aim of this paper is to review the creation and evolution process of the EEMU and discuss various insights into, and perspectives of, the key lessons for Asian economic integration. The paper focuses on comparative features of Asian and European economic integration. The review of literature method is adopted extensively for the collection of data and information pertaining to the creation and evolution of the EEMU and Asian economic integration. Also, the paper draws lessons from the EEMU for Asian economic integration by addressing the common challenges and roadblocks.

2. HISTORICAL OVERVIEW OF THE EEMU

Monetary union is the sixth level of economic integration. One level after it is political integration, which is the highest level of integration (Taghizadeh-Hesary et al. 2020). The EEMU has been a great experience for Europe. It is, therefore, of significant interest to discuss the EEMU's evolution, history, and importance, as well as its future (Van Veen 2002).

In 1969, the heads of state governments formulated a new objective of European integration, which was perhaps the start of the EEMU. In 1972, the EU tried to bring new momentum to monetary integration by developing a mechanism for the floating of currencies against the US dollar within a close margin of variation. In 1978, the European Monetary System (EMS) was created with a view to establishing a system for monetary stability with a fixed but adjustable exchange rate mechanism as the basis. The exchange rate mechanism (ERM) consisted of all the member states' currencies except for the UK. The rate of exchange of these currencies was based on the centrally fixed exchange rates against the European Currency Unit (ECU). Efforts were made to reduce variability in the exchange rates and system flexibility. Also, the EMS made a political resolve for economic integration and, to some extent, sustainable currency stability was achieved.

In 1988, a committee was set up with a view to studying the EMU, and in 1989, a proposal was submitted for the introduction and strengthening of the EMU in three phases. Further, the committee's report indicated the importance of coordinating economic policies and national budget deficit rules. Also, the report suggested the creation of an independent institution fully responsible for the EMU's monetary policy, and this was named the European Central Bank (ECB). The Treaty on the EU was signed in 1992 and it was proposed to establish the EEMU under a three-stage plan and to start functioning before the start of the year 2000 (Scheller 2006).

The EU treaty proposed introducing the EEMU in three stages: Stage I (1990 to 1993): free capital movement between the members; Stage II (1994 to 1998): convergence

of economic policy of the EU member states and improving cooperation among the national central banks; and Stage III (from 1999 onward): gradual introduction of the euro as the single currency of the member states as well as the implementation of a common monetary policy with the support and protection of the ECB. The responsibility for developing the framework and implementation process of the single monetary policy was assigned to the European System of Central Banks (ESCB). The European Union member countries' national central banks and the European Central Bank (ECB) are the constituent banking institutions of the ESCB.

3. STRUCTURE AND SUCCESS OF THE EEMU

The EEMU was started on 1 January 1999 with 11 countries, namely Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain (ECB 2008). In order to gain membership of the EEMU, economic convergence was considered an essential criterion. As there is a loss of exchange rate adjustments in a monetary union, it is important for the EEMU participating economies to have uniformity in regard to productivity, structure, and GDP growth rates. Hence, convergence is an important criterion to be fulfilled by countries before joining as members of the EEMU. In general, it is important to have convergence for the purpose of the optimum currency area (OCA). An OCA only includes countries with higher gains than losses from participating in a monetary union. Gains are described above. Losses are attributed to the fact that the country cannot operate an independent monetary policy for national economic stability. The organization and implementation of the monetary policy is entrusted to a common centralized bank (Krugman, Obstfeld, and Melitz 2012).

According to the summary of the monetary policy, the gains and losses would depend on the weightage and degree of economic integration among the countries that are participating in the EEMU. Integration is generally defined as a high level of factor mobility among countries. Gains increase with increasing integration as the main advantage, the lack of exchange rate risk with a predictable basis for decisions, is more important if the trade volume generated is high (Krugman, Obstfeld, and Melitz 2012). Losses will be reduced with increasing integration. With high factor mobility in a currency area, internal and external shocks will have a lower effect on the economies. The need for (now impossible) regional monetary policy is reduced, therefore. In order to evaluate the currency area, the degree of economic integration is taken into consideration. The optimum currency area criteria have to be evaluated while considering the problems of the EEMU.

Hence, the level of economic integration is not only an essential prequalification requirement (as in the optimal currency area discussions) but it can also measure the success of the integration within the EEMU (Mongelli and Vega 2006). The level of economic integration can be measured based on the trade volume of the intra-trade in the EEMU, which is expected to increase over a period. There are two types of proposals that are generally expressed relating to economic integration. The process can either be carried out by convergence and integration before joining the monetary union, which will not cause any problem, or alternatively the convergence and integration can be increased in the monetary union as a consequence of positive effects on integration (Mongelli and Vega 2006). But the latter option is risky as it suggests countries join the union that have not yet reached a sufficient level of integration. Besides these indicators of success that are closely related to a monetary union, we have other indicators that we generally expect in any well-established nation or area: a successful economic policy with political and financial stability.

Also, the EEMU stipulated rules on exchange rate stability, long-term interest rates, budget deficits, public debt, and inflation (ECB 2014). All EEMU members agreed to cooperate and expressed their willingness to adopt the euro as a single common currency for the region. However, the UK and Denmark from the beginning did not agree to participate in the last stage of the EEMU and hence did not adopt the euro. Accordingly, these two members were exempted from participating in the EEMU.¹

The euro was therefore considered to have significant economic relevance. The purpose of the creation of the euro as a single currency was to build an integrated European market similar to that in the US (Salvatore 2009). In 2015, after facing the sovereign debt crisis, the EU leaders decided to improve its governance with a view to strengthening the EEMU. With this objective, a report was published by the five presidents of the ECB, the EC, the Euro Group, the European Council, and the European Parliament. Their report explained the reform plan of aiming to achieve a genuine fiscal, economic, and political EU for completion by 2025 in three stages.

The EU single internal market was the main support for additional integration of the EEMU with a single currency and a common European central bank. The EEMU comprises several sovereign member states that have accepted the euro as the single currency and single monetary policy without having a consensus on mutual fiscal policy acceptance (Siklos 2009).

According to Zirojević and Jelisavac (2002), the adoption of the euro has two basic postulates, namely that the member states of the EEMU have to be compatible with the euro, and a suitable mechanism for protecting the purchasing power of the euro should be developed by the EEMU. While many economists and authors supported the euro as a single currency, a few others were apprehensive about the concept of a single currency. Some experts argued that the fiscal and economic conditions of some countries could cause the downfall of the EEMU.

However, the performance of the euro was satisfactory until the global economic crisis in 2008. Most countries worldwide suffered due to the economic crisis. Those eurozone member states with weaker economies suffered in repaying their debts. This aspect damaged confidence in the euro as a single currency. In 2010, Greece suffered a major financial crisis, which again worsened the situation further. In anticipation of other weak member states of the eurozone facing a similar crisis and aiming at financial stability, a facility was created for providing loans to those member countries in the eurozone that were affected by the financial crisis in the region.

If we take a broader perspective, the EEMU has been a useful proposition for the entire European region and indeed for the whole world (Stanković 2013). It would be advantageous to be a member, particularly for those companies that have an association with European countries. Such companies will not be affected by the exchange rate movement and commission rates. It can, therefore, be concluded that EEMU membership could be advantageous for companies in Pan-Europe (Neu 2000). However, the advantages and disadvantages of becoming an EEMU member can have repercussions based on economic and noneconomic factors. The stability of the euro can exhibit some psychological advantages, such as enhanced self-respect and improved national identity.

Being a member of the EEMU has significant advantages, which can be classified as macroeconomic and microeconomic benefits. The increase in efficiency, the reduction in

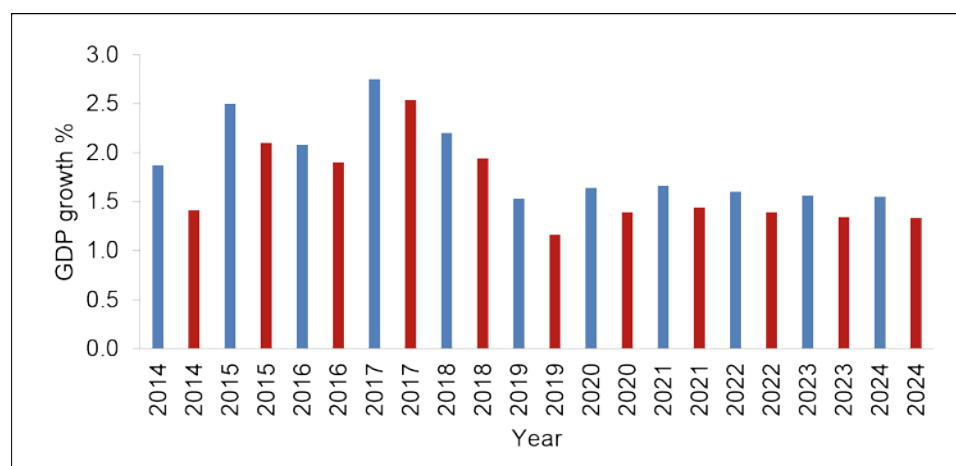
¹ The UK formally left the EU on 31 January 2020.

the transaction costs, and the elimination of variation in exchange rates are some of the major advantages in terms of microeconomic aspects. There is no requirement to exchange currencies and the lower transaction costs can be seen in customer savings. The elimination of fluctuations in exchange rates contributes to the financial objectives of fair reports. As transaction costs are eliminated within the eurozone, the members can travel freely at extremely low cost regardless of the travel purpose, including for study or work. Also, since the region is dominated by a single-currency area, people traveling across countries do not face the problem of currency conversion and therefore currency rate fluctuations and consequent losses can be avoided.

Several benefits have been gained by business enterprises in terms of the elimination of currency exchanges among the members of the EEMU. Since the launch of the euro as a single currency, and with the fixation of exchange rate parity, the participants in the market do not have to face risks due to exchange rate variation within the EEMU. Fostering the growth of the member countries' GDPs with higher trading volumes is considered to be the main advantage of the EEMU. GDP growth is an indicator of a successful monetary union (Mongelli and Vega 2006).

In general, the total annual market value of all the goods and services that are produced within a particular country is known as the national GDP. It is considered a vital barometer in assessing the strength of a country. Also, real GDP, after making adjustments for changes in prices, is considered to be the key economic growth-measuring indicator. The real GDP growth in the EEMU and the eurozone during the period from 2014 to 2018 along with the estimates for the period until 2024 are shown in Figure 1. It is worth noting that in 2018, the real GDP in the EEMU increased by around 2.2% compared to 2017.

Figure 1: GDP Growth (Past and Projected) in the EEMU and the Eurozone



Notes: Gross domestic product (GDP) growth in the EU and the eurozone. GDP data for the period 2020–2024 are projections.

Source: Plecher (2019), Statista Research Center, author's compilation.

There are several further advantages of having a single currency, namely that prices can be compared more easily, information costs are reduced, and there is increased market competition (ECB 2008).

The EEMU's most significant achievement is the euro as a single currency, which ensures the financial stability of business enterprises and the national economy, and controls international currency speculation. The euro is not only a European currency but

an international currency as well. The euro as a single currency of Europe made a strong impact on international currencies such as the dollar, the yen, the pound, and other national currencies as their value gets reduced at the international level. As the US dollar was used as an international currency, the US could make higher gains. The euro as a single currency of the eurozone replaced the domination of the US dollar in international trade as well.

The concept of a single currency helped Frankfurt and Amsterdam to compete against New York, which was considered to be the world's financial center (Dunn 1999). The most important feature of the euro is its role as an international investment currency, as a financial reserve, and as a trading currency in countries other than EEMU member countries too. Such member states have linked their national currencies to the euro and conducted financial transactions relating to international commerce and trading in euro.

However, despite the euro's status as an international currency, it has failed to reach the level of the US dollar in regard to international invoicing and global reserves (Cooper and Tomić 2007). If all 27 countries had joined the eurozone it could have performed well, with higher priority over the US in various aspects such as the population and global GDP. Due to the financial market integration and the subsequent developments, the euro continued to grow. The euro's global role is an important factor in determining its use by foreign investors (MuchaLeszko and Kakol 2009).

In general, the appreciation and global impact of the national currency is considered to be the strength of a nation. Thus the strength and stability of the EEMU depend very much on the value and stability of the euro as the single currency. Currency stability provides stability in larger investments and commission rates and provides safety for business enterprises in the region. The euro's stability stimulates the trade between the eurozone countries and the rest of the world. The euro as the common currency of the EEMU made the member states coordinate and react to the global economic crisis; it also ensured better stability that was not possible to achieve at times of crisis (European Commission 2012).

An independent central bank supports the EEMU and the central bank is mainly focused on reducing the inflation rate and also improving the monetary integration of the region. Due to financial instability in the inflows, the independent European Central Bank's (ECB) role is considered necessary. The impact of the euro as a single currency results in a stronger effect on the capital flows and the profitability of the EEMU member states (Stanek 2001). The removal of the fluctuations in the currency exchange rates had largely affected the domestic market, lowering investment risks as well as stimulating foreign direct investments (FDI). Eventually, such actions would make the EEMU a bigger and stronger economic and monetary union. However, some of the economically smaller-sized countries are bound to accept the vulnerability in the exchange rates. The import and export trade activities of these smaller countries are sometimes higher than those of larger countries. Some of the changes that take place in the exports and imports of smaller countries can result in bigger exchange rate fluctuations. In the case of a smaller country, joining the EEMU magnifies the economic quantum effectively. The elimination of exchange rate risk would result in the reduction and elimination of the relative price instability among the EEMU member states.

There exists a higher level of transparency in trade among the EEMU members. This price transparency leads to price homogenization in the EU, which results in an overall reduction of the price level. The reduction in price variation stimulates better trade within the EEMU. Further, the commodities market integration and services should promote

economic efficiency within the eurozone. The transparency in prices leads to stiffer competitiveness. Taking a broader view results in higher efficiency in a single market, which will affect the low prices for users, and a higher level of competitiveness among global European companies.

After the launch of the euro as a single currency, the European single market developed into a more efficient channel, facilitating competition in various business activities among sellers from other countries. As the prices of the commodities, products, and services are expressed in terms of the euro, there is a possibility of currency appreciation and this can contribute toward the boom in the EU. Therefore, the launch of the euro as a single currency can increase job creation and effect improvement in economic growth and development (Zirojević and Jelisavac 2002). Some of the study results show a positive correlation between the launch of the euro as a single currency and trade and commercial integration, as having different national currencies used to cause several constraints to trade. The empirical study indicates that the euro results in a 50% increase in trade among the EEMU member states (Tavlas 2004). The EEMU facilitates capital allocation efficiently and supports the member states toward the functioning of a European single market. This results in a more competitive European economy. The eurozone has become the biggest trade power in the world. Elimination of market segmentation and a reduction in price discrimination have been achieved because of having a single currency instead of many national currencies.

Competitive devaluation shows that a country devalues its currency to export more commodities. The devaluation causes inflation, higher growth and increased demand for exports. As the EEMU was aiming to keep the inflation rate at lower levels, the launch of the euro as a single currency makes economic sense. Also, the euro can eliminate speculation among the member states of the EEMU. High commission rates hindered trade. The economies of the EEMU member states could develop faster due to the elimination of speculation. Since the introduction of a single currency, one member state of the EEMU alone cannot devalue its national currency in relation to other member states' currency in order to achieve a price advantage in the export business.

The questions relating to the rules and regulations of the functioning of the eurozone include the EEMU's future prospects, the countries that were affected by the financial crisis, the level of financial discipline, and the eurozone's growth possibilities. The euro as a single currency, along with the European single market, can be considered as the basis for growth. However, some experts have commented that if appropriate measures are not taken there is a possibility that the failure of the euro could lead to the failure of Europe. But if we can handle the situation at the time of a financial crisis, Europe will emerge much stronger and more robust economically (Issing 2011).

De Grauwe (2010) commented that the eurozone authorities and the financial markets should take responsibility for the financial crisis situation. If every member of the EEMU acts according to its own will it will lead to disintegration of the EEMU. The EEMU's inefficient management could harm the competitiveness of all the EEMU member states. It is a big challenge to stipulate rules and regulations aimed at making the EEMU sustainable for a long period of time (Kösters 2010).

The public finance situation reveals an increase in public debt in almost all the EEMU member states. The financial position reflects the management of the current budgets by the governments. The unit labor cost has increased and it is divergent across the member countries. The inflation rates are also experiencing the same trend. The balance of payments situation reflects surplus and deficit and differences prevail among

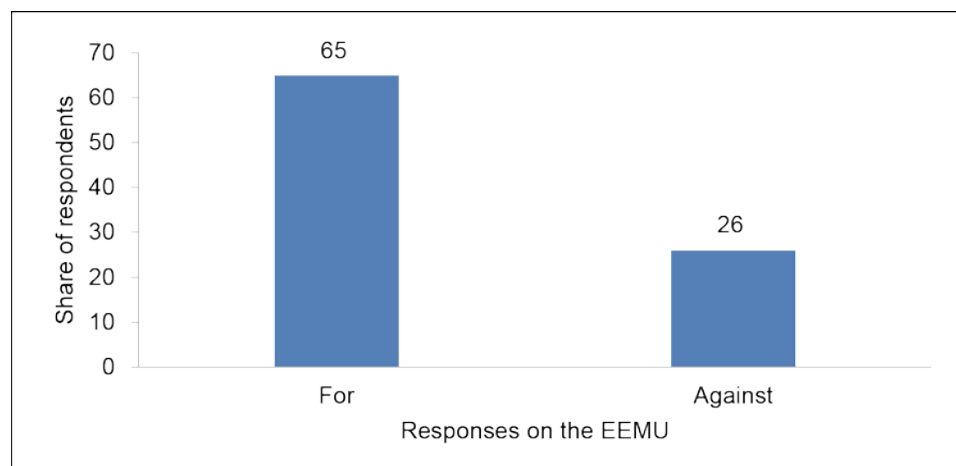
the member states of the EEMU. Hence, it is hard to eliminate the differences and such measures require financial discipline for a long period (Issing 2011).

3.1 Recent Developments in the EEMU

Starting from 1999, over the last two decades the performance of the euro has confirmed its stability, its role as the second most vital global currency, and the European Central Bank's (ECB) ability to keep inflation under control. The euro as a single currency avails itself of the full support of the eurozone population and this is considered to be good for the European Union (EU). During its first decade as a functioning body (1999–2008), high growth along with macroeconomic and financial stability were witnessed in the European economy. This trend changed in the second decade (2009–2018). During this period, the European economy was hit by the financial crisis. The ECB's monetary status was considered largely sufficient.

In 2018, during the financial crisis period in Europe, a survey was conducted to collect opinions on the EEMU with the euro as a single currency in Italy and the results are shown in Figure 2. As the chart shows, 65% of the respondents were for the EEMU and 26% were not in full support of the EEMU.

Figure 2: Survey on the EEMU and the Euro
(%)



Note: Survey responses on the EEMU with the single currency in Italy, 2018.

Source: Statista Research Department (2018).

During the crisis situation, the eurozone countries resisted the deflationary pressure and managed well in this respect. But some of the countries underwent either a sovereign debt or a banking crisis. Greece had the worst experience of an extremely painful and long crisis and it was on the verge of quitting the eurozone area in July 2015. However, thanks to the rescue package provided by the European Stability Mechanism (ESM), such a withdrawal was avoided. The International Monetary Fund (IMF 2002) provided conditional bailouts for those countries that got affected and lost access to the market. Also, some of the other countries received financial support in the eurozone area along with ECB support. However, the quantum of rescue packages and the mode of delivery led to economic, political, and legal controversy until today.

Many institutional reforms in the eurozone, as well as in the EEMU, were instigated due to the economic and financial crisis situation. The reform process in the eurozone is

expected to continue for a longer period. In 2015, the agenda for the reforms was presented in the five presidents' report. But a consensus with regard to several proposals is lacking. Examples include the degree of political and fiscal integration, financial instruments, and the euro area budget. In view of the high degree of public debt in many eurozone countries and the fiscal crisis in most countries, it is important to strengthen the fiscal discipline. The EEMU member countries outside the eurozone are expected to consider adopting the euro currency in the future. It would increase homogeneity politically and economically in the EEMU, thereby avoiding institutional issues relating to integration (Dabrowski 2019).

4. CONCLUSIONS AND POLICY IMPLICATIONS

European integration has been successful mainly because of the continuing process involving several steps to achieve deeper integration by taking a broader perspective and ignoring the minor issues in the progress of economic integration. The EEMU experience shows how these stresses can be handled and point to the importance of deeper integration in achieving the full potential of a regional agreement. The success of the EEMU can be attributed to maintaining price stability as well as positive growth for a considerably longer period. However, the financial and political stability in the region has not been realized. Apart from maintaining price stability and positive growth rates successfully, the criteria for the success of the EEMU have not been fully met (Milow 2014).

The euro crisis witnessed both financial and political instability, causing severe disturbances in the region. In the case of the EEMU, the concept of a single market was an excellent initiative with structural reforms over a longer term in all sectors of the European economy. Also, the positive impact provided by the world trade liberalization gave excellent support for the success of the EEMU. Another factor of the EEMU's success was the introduction of a single currency. All these success factors were aimed at real convergence and regional economic integration. More accomplishments could have been possible by reducing financial instability. In order to achieve financial stability, it is important to broaden the existing European integration with stricter regulations and by increasing the competition in the financial sector.

While both the success and the failure of the EEMU could provide valuable lessons for Asian economic integration, it is important to focus on real convergence for realizing macroeconomic and financial stability in the Asian region. The complementarities among the Asian economies show that there are benefits to be gained from Asian economic integration. However, Asian economic integration is progressing under a high level of diversified considerations, as compared to European economic integration. Asian integration is faced with the challenge of reconciling itself to high economic, political, and cultural diversification, and in reality it is taking the shape of a much stronger economy with global perspectives. The review highlights and the recommendations of this paper relating to the EEMU, the European and the Asian economic integration are expected to facilitate further insight into leaders and administrators on the importance of regional economic integration toward fostering stability and prosperity, and addressing various challenges.

A comparison between European and Asian approaches to regional integration reveals different processes, various challenges, and some similar experiences. The process of regional integration in Europe has advanced much further than Asian integration. European integration is characterized by structural policies, institutions, and the EEMU,

whereas financial cooperation, trade, and production networks are more relevant to Asian integration. Both entities face several obstacles and challenges in terms of progress and growth prospects (Capannelli and Filippini 2009).

Both Europe and Asia have taken advantage of their respective advantages well. Both face limitations now. The former approach cannot be simply extended, and there are doubts over whether convincing regional strategies have already been found (Pascha 2004). The achievement of deeper European integration was possible mainly because of united Europe's strong vision. Also, there was political balance within Europe and the development of the institutions of the EU. However, there are no such features present in Asia. Asian economies' complementary situation creates gains from trade liberalization, but it may be unlikely that Asia will follow the European route of deep integration or obtain the consequent economic benefits (Venables, Winters, and Yueh 2008).

In contrast to Europe, the Asian continent lacks some of the successful features that have formed European regional integration. There is an absence of a specific vision, and a strong willingness to develop central organizations does not exist. There exists a disparate set of economic powers and a lack of ability to reach compromising agreements. Asian integration refers mostly to defensive motives reacting to regional tendency. There is slow progress on multilateral trade agreements and a recognition of the rapid regional trade development. The moves toward integration are thus motivated by economic gains without a corresponding political will and institutional vision. The balance of power further suggests that one or two countries will dominate any arrangement, moving Asia more toward a hub and spoke system than an integrated region.

Today, in Asia, there are several discussions about taking full advantage of globalization and at the same time avoiding the recurrence of any financial crisis. However, the progress of Asian economic integration has been slow and steady. While there is a leading trend in economic integration with the strengthening of trade and foreign direct investment (FDI), there is a lagging trend in terms of financial integration (ARIC/ADB 2018). Deepening of the regional integration, trade openness, and improving institutional quality are seen as a solution to increase economic and financial integration (Taghizadeh-Hesary et al. 2019). Regional integration is planned in the areas of trade, macroeconomic surveillance, balance-of-payments support, and strengthening of financial sectors. In Asia, there are several debates concerning macroeconomic and finance-related issues. Such debates should include approaches to crisis prevention and currency exchange rate stabilization.

However, due to increasing levels of liberalization of capital movements, the monetary policy arrangements are not effective since they are not adequately backed by structural reforms and macroeconomic policy coordination. Based on the ASEAN Secretariat's assessments, an appropriate macroeconomic surveillance procedure with the support of the finance ministers' dialogues could be considered as an important policy instrument. Further, based on the analytical findings, peer-group pressure has been an important tool in the EEMU. European integration has been very effective, as it was backed by independent and strong institutions of high repute. Also, the recommendations and conclusions of the EEMU member countries were made public, and that reinforced the peer-group pressure.

In order to achieve long-lasting macroeconomic and financial sector stability in a regional group of countries as diverse as ASEAN, it is essential to focus on real convergence. In the EEMU, the single market concept was an ambitious initiative with far-reaching structural reforms in almost all sectors of the economy. Further, along with the positive

impetus provided by the world trade liberalization, this gave important support for the final success of the EEMU along with the introduction of the euro as a single currency. Europe continued to pursue real and nominal convergence at the same time. More achievements are also possible toward reducing financial vulnerability by broadening the existing cooperation on strengthening the prudential regulations and increasing competition in the financial sector.

Asian regional integration is progressing under more complex and diversified considerations than European integration. Further, Asian regional integration is facing challenges in reconciling a higher degree of economic, cultural, and political diversification, and the regionalism is formed amidst the reality of a much stronger global economy. Some of the economic issues discussed at various Asian forums are almost identical to the European challenges. Therefore, Asia has the opportunity to use the valuable lessons learned from the European experience, similarly to the creation of institutions such as the EEMU. However, the objectives, sequence, dynamics, and form of Asian regional integration will continue to diverge. Although lessons can be taken from European experiences like the EEMU, Asian regional integration must not be evaluated from the viewpoint of following the model of European integration. It has to be viewed in terms of its effective performance in the reality of the Asian region, as well as the entire world.

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