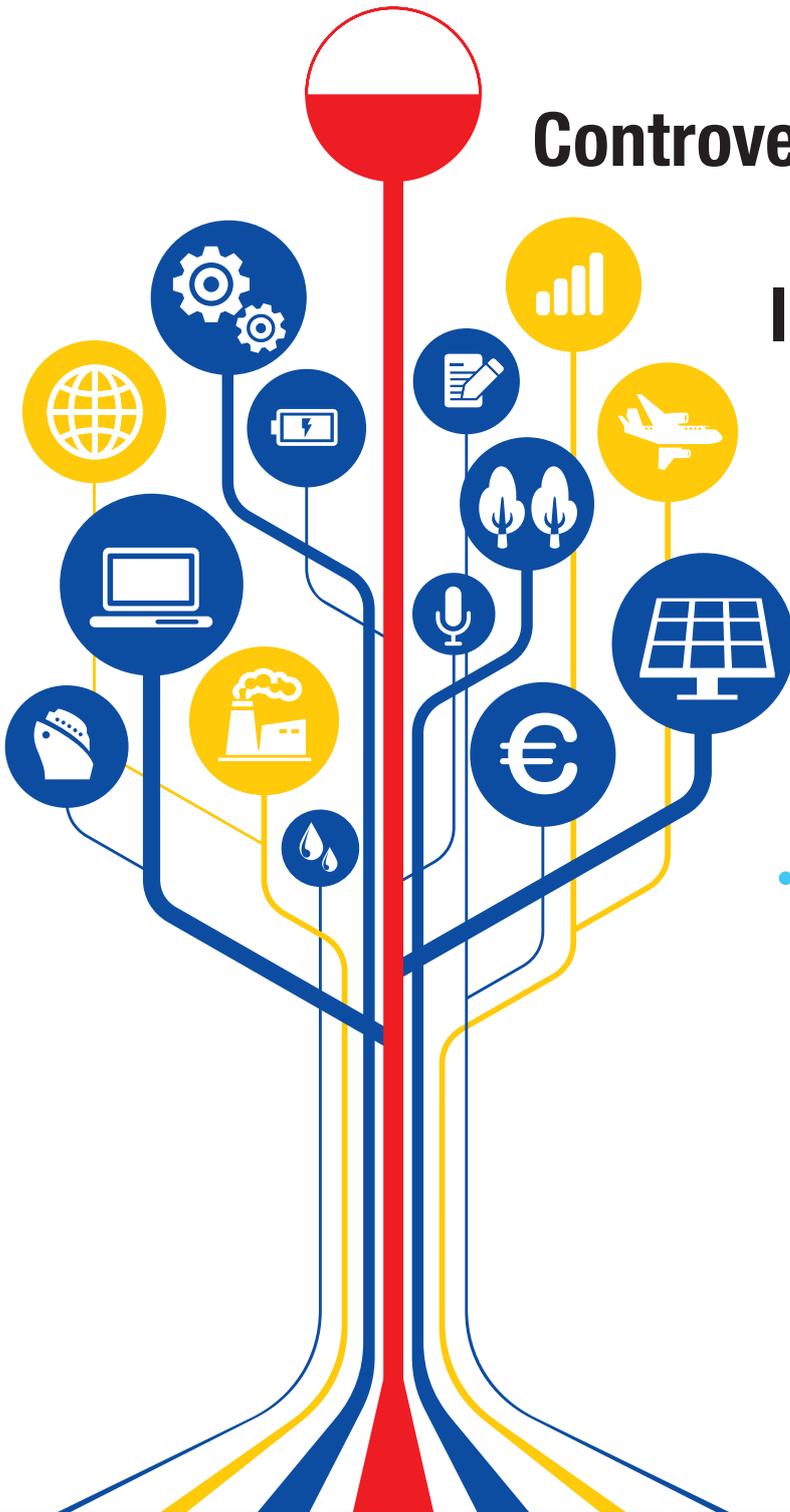


# Controversy over Membership in the European Integration Structures



22<sup>nd</sup> and 24<sup>th</sup> February 2014

Tokyo-Marunouchi Campus, Kwansei Gakuin University (22<sup>nd</sup> Feb)

Institute for Industrial Research, Kwansei Gakuin University (24<sup>th</sup> Feb)

EU Institute in Japan, Kansai (*EUIJ-Kansai*)

International Seminar on the Enlarged EU

Controversy over Membership  
in the European Integration Structures

Edited by

Akira ICHIKAWA

Associate Professor, Institute for Industrial Research  
Kwansei Gakuin University

*EUIJ-Kansai* International Seminar on the Enlarged EU

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Organiser	EU Institute in Japan, Kansai ( <i>EUIJ-Kansai</i> )
Co-host	Institute for Industrial Research, Kwansei Gakuin University

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The Report on *EUIJ-Kansai* International Seminar on the Enlarged EU  
“Controversy over Membership in the European Integration Structures”

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30<sup>th</sup> April 2014

Edited by Akira ICHIKAWA

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## *About EUIJ-Kansai*

The EU Institute in Japan, Kansai (*EUIJ-Kansai*), formed by 3 universities of Kobe University (Co-ordinating university), Kwansei Gakuin University and Osaka University, was established on 1 April 2005 with financial support from the EU. The organisation operates in four-year periods; eight years after the institute's inception, and we are now in the third phase, which started on 1 April 2013. Here at the *EUIJ-Kansai*, we promote education and academic research on the EU, and encourage the spread of information about the EU. Through these activities, we seek to contribute to the strengthening of ties between Japan and the EU.

The integration of European countries at an incredible pace and the EU is playing an increasingly important role in the world, but Japan remains largely unaware of the EU's significance. In the 2<sup>nd</sup> phase, between 1 April 2009 and 31 March 2013, the Institute's organisation was expanded to include the Kyoto University's Institute of Economic Research, Kansai University as partners, which gave a tremendous boost to our education and academic research on the EU. In the 3<sup>rd</sup> phase, Wakayama University and Faculty of Economics of Kagawa University and Nara Women's University have also joined as our partners.

We operate a vitally important project. Our goals for the upcoming term are:

- To be the center of academic excellence in education and research of the EU studies
- To disseminate information on the EU
- To increase the level of EU awareness among the general public

We remain dedicated to making a genuine contribution to the world through useful EU-related research and, to that end, we look forward to your on-going support and cooperation.

Takayuki Yamaguchi  
Former Vice-president, EU Institute in Japan, Kansai  
Professor, School of Business Administration  
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## *Foreword*

It is honor for me to hold the *EUIJ-Kansai* international seminar on the enlarged EU on 22<sup>nd</sup> and 24<sup>th</sup> February 2014. In 2004 and 2007, so-called eastern enlargement was happened. And also, in 2013 Croatia joined the EU, so now the European Union has 28 member states.

The EU has, however, some kinds of problems not only inside the EU but also outside the EU. For example, in the EU, the governance structure is a kind of problem, and the gaps between member countries, for example unemployment rates or economic development are also serious issues. Furthermore, many researchers in the world have paid attentions to the trend of the common currency, Euro.

Simultaneously, outside of the EU, there are also some problems. Ukraine recently has a very tragic situation, Turkey has waited for so many years to join the EU, and also its southern neighbor country, Syria, has had a very tragic civil war for several years.

In this seminar, we have invited Dr. Karolina Klecha-Tylec from Cracow University of Economics, International Economics Department. The theme of her presentations are “Controversy over Membership in the European Integration Structures: Past, Present and Future” and “Economic Integration in Asian and European Countries”. I believe that these two lectures are very helpful for us to understand the current situation in the EU and to recognize the similarities and differences between the EU and other economic integrations.

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EU Institute in Japan, Kansai (*EUIJ-Kansai*)  
International Seminar on the Enlarged EU

Controversy over Membership in the European Integration Structures

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**Controversy over Membership in the European Integration Structures  
—Past, Present and Future—**

Europe is the continent which covers almost 50 countries. Those countries are generally divided into two parts: the first one is the Western European countries, those well-developed ones, and the other side is Central and Eastern European countries, with Poland also here inside. This division is strictly connected with history because after World War II there were four kinds of countries over here.

The first one was the members of the Warsaw Pact. The Warsaw Pact was created by the Soviet Union and it included former Soviet republics and socialist countries, also Poland. The next was the North Atlantic Treaty Organization, with western European countries. The rest of the countries were neutral or not aligned. So this is the so-called iron curtain which fell down at the end of the 1980s and the beginning of 1990s.

**1. European integration structures – an overview**

Thinking about European structures, of course in the center there were European Communities which were replaced by the European Union by the Maastricht Treaty which entered into force November 1, 1993. There were three European Communities (ECs): the European Coal and Steel Community – ECSC, the European Economic Community – EEC, and the European Atomic Energy Community – Euratom. The European Union currently covers 28 countries. There are also candidate and potential candidate countries.

The next European structure is the European Free Trade Association (EFTA). Right now it covers four countries (i.e. Island, Norway, Switzerland, Liechtenstein), but there were seven founding members (the United Kingdom, Norway, Denmark, Sweden, Austria, Portugal, Switzerland). The UK was the initiator of creating EFTA for two reasons. First of all the United

Kingdom wasn't interested in becoming a part of the European Communities. The aim of the EEC was to create a customs union. While the UK wanted to have its own external barriers and own trade policy, because of its colonies, which resources the UK was willing to use to rebuild its economy after World War II. The second reason was the fact, that the UK was politically very close to the United States. Because of the fact the UK's membership in the European Communities was refused by France.

Other former EFTA member countries were mainly Scandinavian countries – Finland, Sweden, Denmark – as well as Austria and Portugal. All those countries right now are members of the European Union.

As written above, currently the European Free Trade Association consists of four countries: Iceland, Norway, Switzerland, and the smallest one, Lichtenstein. The main reason that Iceland didn't want to be a part of the European Union was fisheries policy. Norway – also fisheries policy as well as energy. Switzerland – the transport policy (the country didn't want to be a transit country). In addition, Switzerland has created (in 1923) a customs union with Liechtenstein. Those both countries also share the same currency (the Swiss franc) and have got very strong banking systems (that was also a reason not to become a part of the European Union).

Together the members of EFTA and the European Union established EEA, the European Economic Area. The EEA was created in January 1, 1994 – the same day the North American Free Trade Agreement was created. EEA covers most of the continent and it was based on so-called four freedoms, which are the foundations of a single market in the European Union. The four freedoms are: free movement of capital, goods, persons, and services. Not all European *acquis communautaire* is included in European Economic Area legislation. Some fields are excluded.

First of all, it is common trade policy. Among European Union members there is one trade policy. There is no possibility for example for Poland to establish any treaty liberalizing trade with any other country. But for example Switzerland, excluded from European common trade policy, could have signed a free trade agreement with Japan.

The next aspect, it doesn't cover customs union. In all the member countries of the European Union there is one nomenclature of tariff barriers. In the EFTA each member country can have its own trade barriers.

The next thing, the EEA doesn't cover common agriculture and fisheries policies. In the European Union there are limits for fishing, so our fishermen cannot fish more than the limits that was given to them for the concrete species. For Norway that was also one of the reason why that country didn't want to be a part of the European Union.

EEA doesn't also cover common foreign and security policy, and also it doesn't cover monetary union. So EFTA countries are not obliged to take the euro as its currency.

The next European integration structures is the Baltic Free Trade Agreement (BFTA). It is a very good example how common European Union's trade policy works. BFTA covered three countries. It was Estonia, Latvia and Lithuania, the former republics of the Soviet Union. The Baltic Free Trade Agreement was signed in 1994 and it existed for ten years. When those three countries entered to the European Union in 2004, BFTA was ceased because of the EU's common trade policy.

The last very important structure in Europe is the Central European Free Trade Agreement (CEFTA). The agreement was signed in Cracow in Poland in December 1992 by the Visegrád Group countries, i.e. Hungary, Poland and Czech and Slovak republics (at that time they were parts of the Czecho-Slovak Federal Republic). CEFTA agreement became effective since July 1994. Also those four countries in 2004 became members of the European Union. In the past, members of CEFTA were also: Bulgaria and Romania (in the UE since 2007).

Currently members of CEFTA are Balkan countries: Bosnia and Herzegovina, Montenegro, Serbia, Albania, Macedonia, Moldova, and Kosovo. The next one, Croatia, became a member of the European Union in July 2013.

## 2. Enlargements of the EECs/EU

European structures are generally overlapping, but in the center of them there is the European Union. There were six founder countries of EECs. Since the 1950s eight enlargements of that structure took place. Here are the so-called Old 15; it is the old European member countries. The basic question is why the concrete six countries founded the European Communities?

The basic date is May 9, 1950, when the Schuman Declaration was delivered. Robert Schuman was the French foreign minister. He delivered this speech from Quai d'Orsay in Paris. The 9<sup>th</sup> of May each year is celebrated as a Europe day. There are Schuman parades in European cities, also doors to European institutions that day are opened.

What did Schuman say? The key quotes are as follows. The first one: "World peace cannot be safeguarded without the making of creative efforts proportionate to the dangers which threaten it". The next: "Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity." "The pooling of coal and steel production should immediately provide for the setting up of common foundations for economic development as a first step in the federation of Europe," "[...] and will change the destinies of those regions which have long been devoted to the manufacture of munitions of war, of which they have been the most constant victims".

Here is the country to which the speech was directed: "Franco-German production of coal and steel as a whole [will] be placed under a common High Authority within the framework of an organization open to the participation of the other countries of Europe".

The Robert Schuman's speech was directed strictly to Germany and to other countries that would like to respond. Why to Germany? Because of the Saar Coal Field. After the First World War, the League of Nations decided that Saar resources are going to be used by France since 1920. After 15 years there will be a plebiscite during which inhabitants of Saar will answer the question whether they want to be in Germany or whether they want to be a part of France.

Four years before the Second World War started, the Saar inhabitants decided that they want to become a part of Germany. After the Second World War the situation was very similar: France won, Germany lost, so again France probably would like to use German coal and fuel resources to rebuild its economy. Some political scientists say that it was even possible to create the Third World War or for sure another conflict. Even Winston Churchill in September 19, 1946 in Switzerland said, Germany and France must cooperate. So therefore, the Schuman Declaration was focused on Germany and to other countries, and therefore the European Coal and Steel Community was the first European Community. ECSC was established by the Paris Treaty for 50 years. It ceased to exist in 2002.

As it was mentioned, there were six founding members of the European Communities: France, German, Italy and Benelux countries. Italy became a signatory of Paris Treaty mainly because of its automobile sector, the willingness to extend to the new markets for Fiat. The three smallest countries, Netherlands, Belgium, and Luxembourg also wanted to have big markets for their production. Those six founders are sometimes called the inner six in the opposite to the outer seven, those seven countries that created the European Free Trade Association, EFTA.

The smallest countries – Belgium, Netherlands, and Luxembourg – are called Benelux. In the 19<sup>th</sup> century, the smallest one, Luxembourg, wanted to increase its economic development, so it created with Germany a customs union. After the First World War, Luxembourg tried to establish similar structure with France, but France denied.

Then Luxembourg proposed this issue to Belgium and the Netherlands. Only Belgium answered positively. Therefore, in the beginning of the 1920s, Benelux was created. Benelux was created during the Second World War, in London, where the three governments signed in 1944 a customs union treaty. The treaty became effective since 1948, before the first European Community was established. Later they signed the treaty of the Benelux Economic Union, that went into force in 1960.

Benelux was the first worldwide international free labor market. There were also free movements of services and on capital. Postal and transport fees were standardized, as well as in 1970 border controls were abolished. Therefore, the basic politicians who were drivers of economic integration in the European Communities, politicians from the Benelux countries would be at the top, e.g. Paul-Henri Spaak from Belgium.

The first EEC's enlargement took place in 1973. Three countries became members of the Communities. The first one was the UK. The United Kingdom aspired to be a member of the European Union since the beginning of the 1960s, and it applied twice. Twice it was vetoed by France, and strictly speaking by General Charles de Gaulle. After he resigned from being a president of France, in 1969, the doors for the UK membership in the European Community were opened.

The UK together with Ireland created in 1965 a free trade area (after signing Anglo-Irish Free Trade Area Agreement). Those two countries entered to the EECs together. The third country that became a member of the European Communities in 1973 was Denmark, the first Scandinavian country.

The next country here to be a member of the EECs in 1973 was Norway. Norway succeeded its negotiations with the Communities. Norway signed the Accession Treaty, but Norway society during a referendum said "no" for being a part of the European Communities. Therefore the first enlargement covered only three countries.

The next enlargement was in 1981. The new member was Greece. Greece attempted to be a member of the European Communities since the end of the 1950s, but there was a military coup which overthrew the democratically-chosen government. After democracy was restored, Greece could start accession negotiations. It was a very specific situation, because the European Commission estimated that Greece has got economic complications and the institution didn't recommend that country to become a member of the EECs. Despite that fact the members of the European Communities decided Greece to access. That is one of the example that sometimes policy matters more than economy.

The third enlargement took place in 1986 also in the South Europe, when Portugal and Spain became members of EECs. Therefore the 1980s enlargements are called southern enlargements. Also those two countries, had got dictatorial regimes. After the restoration of democracy, in the middle of the 1970s, those two countries could apply for membership in the European Communities.

The next enlargement is called “the quiet” one. It took place in 1990 because of Germany’s reunification. Five years later three very well-developed countries became members of the EU, i.e. Austria, Finland, and Sweden. These countries completed their accession negotiation in only 13 months. To sum up, all those fifteen members of the European Union are so-called old EU-15 member states.

The following enlargement was so-called the eastern enlargement. In 2004, ten new member countries became members of the European Union. They were: three Baltic countries – Estonia, Latvia and Slovenia; next: Poland, the Czech Republic, Hungary, and the first country from the former Yugoslavia – Slovenia. Slovenia was the first country from those UE-10 group, that became a member of the Eurozone in 2007. The ninth new EU’s member was Cyprus (the Greek Cypriot), and the tenth, the smallest EU member state, Malta. The European Union had then 25 members.

The next enlargement took place in 2007. It was Bulgaria and Romania to become a part of the EU. Those two countries together with Latvia, Lithuania Malta, and Slovakia constituted so-called “Helsinki Group” countries, because they started their accession negotiations at the Helsinki Summit in 1999. The six others countries from EU-10 group (i.e. Estonia, Czech Republic, Poland, Hungary, Cyprus, Slovenia), created so-called “Luxembourg Group” (negotiation started during the Luxembourg Summit in 1997).

The last enlargement took place in July 1, 2013. Croatia became the 28<sup>th</sup> EU member state, and the second country from the former Yugoslavia to be a part of the European Union. It ought to be underlined, that because of border

dispute between Croatia and Slovenia in the Gulf of Piran, earlier Slovenia had vetoed Croatia's accession to the EU.

In 2010 there was a referendum in Slovenia. Over 51 percent of Slovenians approved to allow international arbitration to solve the territorial dispute with Croatia, and Slovenia's veto was removed.

### **3. Steps towards accession to the European Union**

The possibility to obtain membership in the EU applies only to European countries. There are three main steps that a country must meet to become a part of the EU. The first one is being a candidate for membership. The next step is starting formal membership negotiations. They cover first of all so-called accession criteria. They are also called the Copenhagen criteria, because they were set in the capital of Denmark, at the Copenhagen Summit in 1993.

There are three accession criteria to be met. The first one is the political criteria: stable institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. The second Copenhagen criterion is an economic one: well-functioning market economy and the capacity to cope with competition and market forces between European member states. And the last one is the criteria of the adoption of European *acquis communautaire*, meaning the ability to take on and implement effectively the obligations of membership, including adherence to the aims of political, economic and monetary union.

The third step towards accession to the EU is joining the European Union. Earlier all *acquis* must be negotiated. It is divided into chapters. For example Poland negotiated 29 out of 31 negotiation chapters (the last two chapters were not negotiated). All chapters were opened, negotiated, and temporarily closed, until all of them were temporarily closed and the accession treaty could be signed. After consent of a society and approval of all the EU's member states an enlargement can take place.

#### **4. Candidate and potential candidate countries**

Countries which aspire to become a member of the European Union can be divided into two groups: candidate countries and potential candidate ones.

Candidate countries are the countries which are still negotiating or which are waiting to start the accession negotiations. There are four candidate countries at the moment.

The first one is the old timer of accession negotiations – Turkey. Turkey embarked its membership aspiration at the beginning of the 1960s. Right now Turkey is supposed to be quite far from enlargement because of two reasons. First of all, the accession criteria are not met, generally the rule of law, and also protection of minorities. And the second thing, Turkey is a Muslim country and Turkey is a very populated country, it has 75 million people. When Turkey would become a member of the European Union, it would be the second country in terms of population. The first is of course Germany, but it is only 80 million inhabitants. On the other hand, from sociologist point of view, many Europeans, especially from the West Europe, are against Turkish accession to the EU. It must be added that Turkey and the EU established a customs union. The agreement which came in force on December 31<sup>st</sup>, 1995.

The second candidate country is Iceland. Iceland is a member of EFTA (since 1970) and EEA – so it participates in the single European market. Iceland applied to get full membership in the EU during the global financial crisis 2008+. It was in July 2009. There are two basic obstacles for Iceland's accession to the EU. The first one is common UE's fisheries policy and fishing quotas in the North-Atlantic Ocean. The second obstacle is connected with the Icelandic banking system and problems related to relations with British and Dutch governments after collapse in 2008 the Icesave saving accounts, where over three hundred thousand of British and Dutch citizens put their savings. Icesave was marketed by Landsbanki, and it was one among the three biggest Icelandic banks that collapsed during the crisis.

The last three candidate countries are the former Yugoslavian countries. They are the Former Yugoslav Republic of Macedonia (FYROM), Montenegro, and Serbia. Generally the decision to involve Western Balkan countries in the EU integration process was taken in June 2003, during the Thessaloniki European Council summit.

The Former Yugoslav Republic of Macedonia applied for the membership in the EU on March 2004, and since December 2005 FYROM had been granted the status of candidate country. The main obstacle for FYROM's accession to the UE is Greece's veto because of the name of the country (Greeks northern province is called Macedonia). Other problems from the EU's acquis point of view are connected with competition law, environment, free movement of goods and fiscal policy.

Montenegro declared its independence in 2006 (earlier it was a part of Serbia and Montenegro). The country applied for full membership in the European Union at the beginning of 2008, and was recognized as a candidate country in December 2010. In June 2012 official accession negotiation with the EU started. The basic obstacles connected with Montenegro accession are justice matters and environment.

The basic problem in relation to Serbia was lack of its cooperation with the International Criminal Tribunal for the Former Yugoslavia (ICTY). Because of that reason the negotiations over a process for Stabilization and Association Agreement were blocked in October 2004. After starting the cooperation with ICTY (arrests of Mladic and Hadzic), Serbia could apply in late 2009 for full membership in the European Union, and it granted the status of EU candidate country in March 2012. Currently the basic problem seems to be the necessity to improve Serbia's relation with Kosovo.

Kosovo, together with Bosnia and Herzegovina, and Albania, is amongst the group of potential candidates countries. Those are countries which were promised the prospect of joining the EU when they are ready to join. Albania, Bosnia and Herzegovina were identified as potential candidates countries in June 2003 during the Thessaloniki summit (along with Macedonia,

Montenegro and Serbia). Kosovo declared its independence (from Serbia) in February 2008. It wasn't recognized even by all the UE's member states (like Greece or Spain). Nevertheless, the UE will to assist development of Kosovo, both in political and economical terms.

## **5. Economic and Monetary Union**

The steps towards accession to the European Economic and Monetary Union (EMU) are as follows. The first step is joining the European Union. The second step is meeting with the convergence criteria, also called Maastricht criteria, they were written down in the Maastricht Treaty. Those are criteria connected with:

- price stability (consumer price inflation rate – not higher than 1.5 percentage points above the rate of the three best performing UE members),
- interest rate convergence (long-term interest rate – not higher than 2 percentage points above the rate of the three best performing UE members),
- exchange rate stability (participation in Exchange Rate Mechanism, ERM II, for at least 2 years, without strong deviations from the central rate),
- public finance discipline (government deficit not higher than 3% of GDP and government debt not higher than 60% of GDP).

The Eurozone was created in 1999. Then the common currency, the euro was introduced as so-called “book money” in eleven of the fifteen EU members. In 2002 there was cash changeover, and euro was adopted physically as a currency instead of national currencies of twelve EU member states (in 2001 Greece joined the EMU).

In 2014 there are eighteen (out of 28) members of the Economic and Monetary Union. In 2007 Slovenia became a member of EMU, followed by Malta and Cyprus (2008), Slovakia (2009), Estonia (2011), and Latvia (January 2014). Lithuania probably is going to become a member of the Eurozone January 2015.

There are two UE member states with so-called “opt-opt” clause: the United Kingdom and Denmark. It means that those two countries have derogation, a right not to become a member of Eurozone ever. Despite that fact, the Danish kroner joined the ERM II scheme in 1999.

The other eight UE member states are outside the euro area, i.e. Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Sweden and, as mentioned above at the moment, also Lithuania. Among those countries only Lithuania joined the ERM II.

It ought to be mentioned that some of the EU member states overseas territories also introduced euro as a legal currency. They are French: Guadeloupe, Réunion, French Guiana, Martinique; Portuguese Azores and Madeira, and Spanish Canary Islands.

In addition to the above-mentioned countries using the euro as their legal currency it should be underlined that there are two groups of European countries which introduced euro, despite the fact that they are not a member of the European Union.

The first group is constituted by countries that were permitted to issue their own coins, after negotiations with the European Central Bank (EBC). They were three such countries: San Marino, Monaco and Vatican. The second group of countries that introduced euro cannot issue own coins. This group is also made up of three countries: Montenegro, Kosovo and Andorra. Among them only Andorra was permitted by the EBC to use euro as legal currency, but it cannot issue its own coins. Earlier, before launching the euro, Andorra used French franc or Spanish peseta. Montenegro and Kosovo since 1999 had used German mark, since 2002 – euro, which became those for two countries de facto currency.

## **6. Schengen area**

The Schengen Area enables the citizens of 26 European countries to travel freely without passports across the zone’s borders. The Area is made up of 22

EU members and the four EFTA member states: Norway, Iceland, Liechtenstein, and Switzerland.

The Schengen Agreement was signed in 1985 in Schengen (in Luxembourg) by five EU members: France, Germany, Belgium, the Netherlands and Luxembourg. In 1990 the Schengen Convention was signed. The Schengen acquis were included in the Amsterdam Treaty in 1999.

The idea of creating passport-free zone in Europe covered such areas like:

- harmonization of the conditions of entry and of the rules on visas for short stays (up to 90 days),
- a common set of rules for persons crossing the external borders of the area,
- stronger judicial cooperation,
- enhanced police cooperation,
- establishment of the Schengen Information System (SIS).

In some special situations passport-free travel in the Schengen Area can be suspended. For example during sport events (like European football championships, in 2008 Austria suspended for a few weeks the Schengen acquis, the same did Poland in 2012), or others (e.g. United Nations Climate Change Conference in November 2013 in Warsaw, Poland).

The implementation of the Schengen Agreements started in 1995, involving seven EU members: the five above-mentioned signatories, Spain and Portugal. In 1998 Italy and Austria joined the Schengen Area, followed by Greece (2000), and Denmark, Sweden, Finland, Norway, Island (2001). It should be added that Scandinavian countries (Sweden, Denmark, Finland and Norway) since 1950s had been a part of Nordic Passport Union. In December 2007 nine more countries became a part of the Area, i.e. Lithuania, Latvia, Estonia, Hungary, Malta, Poland, the Czech Republic, Slovenia, Slovakia. A year later Switzerland joined the Schengen Area.

There are six out of 28 EU member states outside of the Schengen Area. Bulgaria, Romania, Cyprus and Croatia are Schengen candidate countries, aspired to join the zone by 2016. Whereas the United Kingdom and Ireland

have got opt-outs from Schengen acquis. Those two countries in 1923 had established Common Travel Area (CTA). It is a passport-free travel zone that comprises the United Kingdom, Ireland, the Channel Islands and the Isle of Man. Nevertheless, the countries with opt-outs take part in some Schengen arrangements.

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## **Economic Integration in Asian and European Countries**

### **1. Theory of economic integration – an overview**

Economic integration can be described as the elimination of economic borders between countries (both tariff and non-tariff ones), and also barriers for the moving of production factors, like people or capital. Taking into consideration the so-called Balassa scheme, there can be divided the hierarchy of regional economic agreement as follows:

- free trade area (FTA) – elimination of trade barriers within the group of countries, while maintaining external tariffs by every country in relation to third countries,
- customs union – FTA rules accompanied by a common trade policy towards third countries,
- common/single market – a customs union along with a free movement of production factors,
- economic union – common market along with the coordination or unification of various economic policies (when an economic union is accompanied by full coordination of monetary, exchange rate and other policies, it leads to establishing a monetary union which reflects full integration – an economic and monetary union),
- political union – common political institutions (the last stage of regional integration).

The interdisciplinary character of classical integration theories can be considered from the perspective of the spill-over effect of economic integration on political unity. Also, the classical model of economic integration stressed the significance of institutional regionalism resulting from inter-government dialogue and revisions of treaties.

Free trade areas are the most numerous regional economic agreements (RTAs) in the world economy. Over 90 percent of all worldwide RTAs are FTAs. Economic unions cover common monetary and fiscal policy; this is the level of the European Union right now. We can distinguish three groups of common policies in the EU. The first one are agriculture and trade policy (two amongst the oldest European common policies), and competition, cohesion, and monetary policy (which is strictly connected with the Eurozone).

The next group of common EU's policies is policies of infrastructure sectors. Here is transport (the third-oldest common policy), and the others like: Trans-European Networks (TENs), energy, post, electronic communications and audio visual policy. And the third group of the policies, the most numerous one, is social policies. They are as follows: employment and social policy; education, training, youth, sport; culture; public health; consumer protection; industrial; science, technology, outer space; environment policy; tourism; civil Protection; and administrative cooperation. Sports and outer space are new ones, added by the Lisbon Treaty.

## **2. European model of integration**

European integration model, generally is based on institutions, so it is institutional-led integration. From the theoretical point of view there can be distinguished three approaches. The first one was neo-functionalism based on supranational institutions at the beginning, creating a so-called High Authority. Right now it is the European Commission. The second was intergovernmentalism, popular in the 1970s, generally forced by France, which was then against creating supranational institutions. And in the 1990s, neo-institutionalism came to be popular.

There are seven basic European Union institutions: the European Council, the Council of the European Union, the European Parliament, the European Commission, the Court of Justice of the European Union, the Court of Auditors and the European Central Bank.

European integration has evolved as follows. The first step of European integration took place at the beginning of 1950s, after the Schuman Declaration which was the base for creating, the first European Community based on the Paris Treaty, the European Coal and Steel Community (ECSC). In 1957 the Rome Treaties were signed and two other communities were created, i.e. the European Economic Community (EEC) and the European Atomic Energy Community (EAEC or Euratom). In 1965 the Merger Treaty was signed.

The next step was creating customs union. It was created one-and-a-half year before the deadline, which was January 1, 1970. The customs union became effective since July 1, 1968. The next step was the first enlargement, three countries, Denmark, the UK, and Ireland jointed the EECs (Norwegian society vetoed its participation).

In 1979, the European Monetary System was established, with European Currency Unit, and the Exchange Rate Mechanism. And also, that year there were the first direct elections to the European Parliament. Earlier, the elections were indirect, meaning the members of European Parliament were chosen by national parliaments of the European member countries.

In 1981 the second enlargement took place. Greece became the tenth EECs' member state. The next step was the White Paper, which caused deepening of economic integration. It was the base for creating the single market (founded by the Single European Act signed in 1986), which based on so-called four freedoms: free movement of capital, people, services, and goods. In 1986 Portugal and Spain became the members of the EECs, and in 1990 there was Germany's reunification.

In November 1993 the Maastricht Treaty came into force, and the European Union was created, consisting of three pillars. The first one, was encompassed by the European Communities (ECs). The second pillar, was the Common Foreign and Security Policy (CFSP), and the third one, Police and Judicial Co-operation in Criminal Matters (PJC).

In 1995 there was the fourth enlargement, by very well-developed countries: Austria, Finland, and Sweden (again there was veto by citizens of Norway). The next step was the Amsterdam Treaty. It created a High Representative for Common Foreign and Security Policy, adopted the Schengen acquis, and created a common environmental policy. The Amsterdam Treaty came into force on 1 May 1999.

The next step was European Economic and Monetary Union (EMU) that was created in 1999, with the euro as a “book money”. The cash changeover took place in 2002. In June 1998 the European Central Bank was created.

In 2001 the Treaty of Nice was signed. The Treaty reformed the institutional structure of the EU. Its basic aims were to enhance cooperation, extension of qualified-majority voting and weighting of votes in the Council of the European Union (in favour of more populated EU members), changing size and composition of the European Commission, and a new division of assignments between the Court of First Instance and the Court of Justice. The Treaty of Nice came into force in February 2003

The next step was the fifth enlargement, the biggest so-called Eastern enlargement, by ten countries, with Poland among new member states. It took place in May 2004. And in October 2004 a Treaty establishing a Constitution for Europe was signed by representatives of the 25 then UE member states. During a ratification process two societies rejected the treaty in referenda, i.e. Frenchmen and Dutch.

In January 2007, Bulgaria and Romania became members of the European Union. And in December the Lisbon Treaty was signed in the capital of Portugal. As it was said, the Treaty of Lisbon is going to take Europe into the 21<sup>st</sup> century. So first of all, it is going to make Europe more democratic. It has strengthened the role of the European Parliament, and introduced greater involvement of national parliaments (especially in relation to subsidiarity).

The next aspect is European citizens’ initiative, that enables one million citizens of the UE member states, to summon directly on the European Commission with a proposition of a legislation act. There are some examples

already, like “Stop vivisection” (objective: to phase out experiments on animals, “Suspension of the EU Climate and Energy Package” (inter alia aimed at making fuel and energy cheaper or increasing energy security), “Turn me Off!” (in order to forbid the practice of leaving the lights on in offices and shops when unoccupied).

And the next thing connected with EU democratization. For the first time ever, a country can withdraw from the European Union. Earlier there was no such law, but there is one example, not withdrawing but secession. It was Greenland in the middle of 1980s.

The next feature of the Treaty of Lisbon was to make Europe more efficient. Qualified majority voting in the European Council was extended to new policy areas, that caused that European integration process is going to be more elastic. And the next thing, a quite new office, a function of the President of the European Council was created. The first president was Herman Van Rompuy, the former Prime Minister of Belgium.

Another novelty of the Treaty was to improve lives of Europeans, among others by combating terrorism, tackling crime, including civil protection, public health, territorial cohesion, space, sport, climate change, commercial policy, administrative cooperation or tourism.

The next aim of the Lisbon Treaty was to promote the UE’s values and rights, solidarity, so-called four freedoms, as well as economic, political and social freedom. It also introduced Charter of Fundamental Rights of the European Union into European primary law, and solidarity between the UE members, for example, in the situation of terrorist attack when a natural or man-made disaster occurs.

The last basic aim of the Treaty of Lisbon was to make the EU an actor on a global stage. First of all the European Union has become an organization, it has got a single legal personality. Earlier the legal personalities had only European Communities. Also, progress in security and defense policy was made, and a High Representative for European Union in Foreign Affairs and

Security Policy was established, with Catherine Ashton, as a first person occupying this position.

In December 2009, the Treaty of Lisbon went into force. It was supposed to be January 1, but because of the Irish veto it was delayed. In July 2013, the last enlargement took place. Croatia became the 28th member state of the European Union.

So the key economic achievements, in the European integration are as follows. The first was to create a single market. Next, economic and monetary union. And an efficient system for policy coordination, meaning several European common policies.

The basic feature of economic integration among the UE member states was the fact, that financial and monetary integration took place after the integration of real markets.

### **3. East Asian model of integration**

The model of integration adopted in East Asia is market-based, or another network-based model. It wasn't focused so much on institutions or legal aspect as in Europe, but more on informal relations.

The first feature of East Asian integration model is soft regionalism. It's more soft integration, in contrast to European so-called hard integration, meaning basing on treaties.

The next: so-called the Asian way. Its origin should be referred to Malay culture and its concept of decision-making based on consensus (mufukat) and compromise (musyawarah). It is a specific way of making decisions and informal relations that is unknown in Europe.

The subsequent feature of East Asian integration is bottom-up approach, in contrast to the European top-down one. Therefore in Asia the basic process is regionalization, and then – regionalism, meaning that market mechanism is strong in Asia.

Subsequently, East Asia can be characterized by much lower degree of institutionalization. Relying on the ADB research, half of Asian politicians and entrepreneurs are against creating new institutions. Most of them were for strengthening or consolidation existing institutions. This can be generally connected with history, and the countries' attributing great importance to national independence. Among ten Southeast Asian states, nine of them gained their sovereignty after World War II. The exemption is Thailand.

The next feature of East Asian model of integration is a dominant role of the state over society. In Europe there are very active NGOs, for example this Irish one, forcing the society to vote against ratification of the Lisbon Treaty in June 2008. In Asia, it seems to quite different. A society is driven by a government, therefore there is weaker role of a society in Asian region.

In East Asia there is also a broad range of informal relations. There can be distinguished three of them. The first one is subregional economic zones, like for example Indonesia-Malaysia-Singapore Growth Triangle, or Greater Tumen Initiative. This is quite opposite from European regular policy because here the focus is concentrated on specific regions because of its resources, or infrastructure that has developed over there. In Europe regional policy covers regions, which are parts of countries. And the idea is for convergence to make them the same level of development. Here, some parts of China for example, are outside that relation.

The next range of informal relations is production networks. Very important features of East Asian region are existing comparative advantages, that are extremely differentiated, and the complementarity of resources with a view to accelerating economic growth. That was the base to creating a growth development corridor, that is going from Tokyo up to Jakarta. Because of differences in wages, and in other production factors, it could have developed so quickly and widely, with Japanese keiretsus as important drivers of that process.

The third element of East Asian informal relations is networks of ethnic business. During my researches it occurred that there were two main determinants which created internal trade in the region. The first one, it was establishing bilateral free trade agreements, not like ASEAN and China, ASEAN or Japan, bilateral between for example Singapore and Japan. And the second important determinant was being able to speak the same language. So speaking different languages is an important obstacle for providing trade here in East Asia. Therefore, the strength of the PRC here in East Asia is Chinese diaspora and its business networks located in the region.

#### **4. EU-East Asia – a comparative approach**

Taking a comparative approach into consideration, the emphasis first will be laid on differences and next – on similarities between the two integration structures: the EU and ASEAN+3. In each case, first East Asia case will be discussed, and next – Europe.

The first difference is the triggers. Talking about ASEAN, the basic trigger was the Cold War. The five founders of the Association – the ASEAN-5 countries, i.e. Indonesia, Malaysia, Philippines, Singapore and Thailand – were aimed at stabilizing the region during the Cold War, during ongoing wars and conflicts.

The next trigger is regionalism outside, meaning especially the 1990s, and creating a single market in Europe, and then a Eurozone, and also – a North American Free Trade Agreement. NAFTA entered into force the same day that single market was created, January 1, 1994. Therefore, economic integration among the ASEAN member states started, and the idea of creating an ASEAN Free Trade Area was brought into life, although earlier Singapore proposed such a solution, but it was denied by other countries.

The next trigger was the beginning of transformation in Central and Eastern European Countries (CEECs). It had started in the 1989 in Poland, and it was obvious that the CEECs states would like to apply for a membership in the European Communities. Investors from all around the world, being

aware of the fact started to invest their capital in the CEECs, as a part of future Single European Market. As a consequence, the ASEAN countries started to lose those investments. Therefore, ASEAN started to create one region, that could be attractive for foreign investors.

The next trigger is the Asian financial crisis 1997/98, for a few reasons. The first one was the role of the IMF. Malaysia which refused that assistance, has recovered its economic growth very quickly. On the other hand, ASEAN was expecting to get indirect help from the United States, because the US helped Mexico during the Tequila Crisis in 1994. But there was no direct American help for East Asian countries. Also, the proposition of creating an Asian Monetary Fund was rejected. The idea of establishing the AMF was initiated by Japan a month after the financial crisis occurred in Thailand, i.e. in October 1997. All above-mentioned reasons were triggers for developing financial regionalism among the members of ASEAN+3.

And the last trigger, to be underlined is a great natural disaster, the tsunami in December 2004. Then Japan, a country that developed one of the world most developed alert systems offered other countries in the region to use its technology. It was a kind of Japanese soft power, and also a very good example how solidarity in East Asia can work.

Regarding to triggers in relation to European integration, first of all devastating First and the Second World War ought to be mentioned. The second, the Cold War. Europe was divided by the so-called iron curtain. The Western European countries were parts of the European Recovery Plan (the Marshall Plan). The administration of the US announced launching the assistance, provided that an organization to distributing the money would be established. As a consequence the Organization for European Economic Cooperation (OEEC) was established, replaced in 1960 by the Organization for European Economic Cooperation (OECD), with the US and Canada as member states.

The second trigger in the European integration process was a Common Agriculture Policy (CAP), mainly because of one important reason. In 1968/69 a problem connected with exchange rates in European Economic

Community occurred. The German mark was being revaluated, during the French franc was devaluated. So there was a problem in the settlement system of the main European policy. Therefore the decision was to fix the member states' exchange rates. That was the basis for creating the European Monetary System with European Currency Unit (ECU), and later in 1999 Economic and Monetary Union.

And the last trigger in Europe: economic development that occurred outside. In 1968 Japan became the second world economy, and the Federal Republic of Germany became the third one. Also other countries were developing, and in Europe since the Rome Treaty entered into force in 1958, creating the customs union, the economic integration wasn't deepened. Therefore sometimes the decade of 1970s is called "euroscelerosis".

The next difference between East Asia and Europe is leadership. Taking East Asia as a whole, rivalry to gain dominance in the region between Japan and China can be seen. In the ASEAN generally there is no single hegemonic power, with the dominant role of the Association's founders. In Europe it is still, since the beginning, Franco-German alliance. Those two countries are in front of the integration process in Europe.

The next dissimilarities are rules for membership. In the Association, it is a case-by-case scheme, thus, it is a political decision of the member states. In the UE's case there are very concrete rules. The first ones are the Copenhagen criteria, accession criteria to become a member of the European Union, and the Maastricht criteria to become a member of the Eurozone.

Institutionalization is the subsequent diffidence of the two analysed models of integration. In ASEAN the main institution is the ASEAN Secretariat, situated in Jakarta, Indonesia. In addition intergovernmental cooperation and dialogue is being developed. In Europe there are those seven, mentioned above, common institutions and many other agencies and institutions, like for example the European Anti-fraud Office (OLAF), the European Medicines Agency (EMA), the Office for Harmonization in the Internal Market (OHIM), the European Fisheries Control Agency (EFCA), the European Railway Agency (ERA).

The next difference is the sequence. In ASEAN there were free trade areas. First it was AFTA, the ASEAN Free Trade Area, and others beginning from the ASEAN-China Free Trade Agreement, which triggered another bilateral FTAs in the region. After the East Asian financial crisis 1997, financial initiatives have been laid down, i.e. the Chiang Mai Initiative Multilateralisation (CMIM), the Asian Bond Markets Initiative (ABMI), and Pan Asian Bond Funds (ABF), as parts of the ABMI. In Europe the economic integration process was connected to the Balassa scheme. First, it was a customs union, next, a single market, and at the last, monetary union.

The next difference is the economic integration basis. In ASEAN they are corporate and relationship networks, and supply chain and division of labor. In Europe generally it is one base, competition. Economic competition is amongst the most important common European policies, which creates the market mechanism and integration inside the EU.

A foundation of intraregional trade is the subsequent dissimilarity between East Asia and Europe. In ASEAN it was a market-driven process. In Europe, the foundation can be described as a policy-driven discrimination. A Common Agriculture Policy can be an example of that. After World War II when the General Agreement on Tariffs and Trade (GATT) was created, the USA decided to exclude CAP from the Article XXIV of the GATT. This was going to strengthen Europe against the Soviet Union during the Cold War, but on the other hand it triggered other exemptions afterwards. In case of the ASEAN, following ECs' example, i.e. creating so-called ASEAN fortress would be too expensive, because its main economic partners were outside the region, so it wouldn't be profitable to create such a foundation.

The next difference is regulatory approach. In ASEAN, the foundation is *de facto* economic integration, that describes the intensity of economic links between global economic entities, i.e. regionalisation. In case of Europe it is *de iure*, and it relates to the institutional dimension of integration, i.e. regionalism.

The subsequent dissimilarity is the United States approach to regional transformation. In relation to East Asia it was individual approach, which can be still observed currently. With regard to Europe, the support from the US was comprehensive. The American idea was to strengthen Western part of Europe as a whole, that was reflected among others in establishing the European Recovery Plan or accepting Common Agricultural Policy.

The last dissimilarity is connected with regional identity. In Asia it seems to be rather weak. There are very many different traditions, cultures, religions, that together with historical animosities didn't influenced on creating common East Asian identity. On the other hand in Europe its identity is strong since the ancient times. European countries even since the Middle Ages had joined their power and strengths, aspiring to protect the region from invaders, e.g. Muslims. Cooperation between Christian European countries was the base of integration in Europe.

The follow-up part of the article will discuss the similarities between the two analysed regions. The first one is pillars. There were three, mentioned-above, pillars in the European Union: the European Communities, the Common Foreign and Security Policy, and Police and Judicial Co-operation in Criminal Matters. They existed between 1993 and 2009, when after the Treaty of Lisbon entered into force, they were absorbed into a consolidated EU structure. The planned ASEAN Community is also going to be based on three pillars, i.e. the ASEAN Political-Security Community (APSC), the ASEAN Economic Community (AEC), and the ASEAN Socio-Cultural Community (ASCC).

The next similarity is an idea of creating single market. In Europe, it was established by the Single European Act, and it was based on so-called four freedoms. In ASEAN it is going to be a part of AEC, where the free flow of goods, services, investment, capital, and skilled labor is to be assured among the member states.

A further resemblance is a flag. The European one was adopted in December 1955 by the Council of Europe, and in the 1980s by the European Parliament and all EU leaders. It consists of twelve golden stars in a circle (a symbol of

unity) on a blue background. The stars symbolise the solidarity and harmony among the European peoples. Also a circle in the ASEAN flag is a symbol of unity of its member states. There are four colours, white represents purity, yellow – prosperity, red – dynamism and courage, and blue background shows stability and peace.

Presidency is the next similarity. In the EU it last half a year. For example from January to the end of June 2014 Greece holds the Presidency of the Council of European Union, followed by Italy, and Latvia and Luxembourg in 2015. In the ASEAN it is one year, e.g. Myanmar's presidency in 2014.

The next common feature is an anthem. In ASEAN, that is “the ASEAN Way”. There is also a recommendation by the ASEAN Secretariat to translate the text into national languages. In Europe the anthem is “Ode to Joy.” Both integration structures had got also a motto. In ASEAN it is “One vision, One Identity, One Community”. That was the motto of the Kuala Lumpur ASEAN Summit in 2005. The EU's motto is “United in Diversity”.

## **5. Lessons from the EU**

The first lesson from the European integration process is the importance of amity and peace. It was reconciliation between France and the Federal Republic of Germany that was the starting point of integration in Europe.

Significant role of institutions is the next aspect connected with the EU integration experience. As Jean Monnet said, nothing can be done without people, but nothing can last without institutions. That is naturally provided that concrete institutions are necessary, neutral, objective, and very well organized and governed.

The next lesson, monetary arrangements must be backed by coordinated macroeconomic policy and sufficient structure reforms. The Eurozone crisis is a very good example of that. There was not appropriate policy mix in the Eurozone economies. They were not sufficiently coordinated and the crisis arised.

The next warning is a danger of import credibility. Germany is the biggest economy in Europe, and of course the biggest economy in the Eurozone. During the latest crises it has occurred that the weaker countries, like Greece or Portugal, have been issuing bonds, making use of imported German and generally the Economic and Monetary Union credibility, as the guarantors.

The next aspect is connected with commitment to domestic reforms. It must be underlined that it is hard to cooperate, or create FTAs, custom union, establish harmonized or common policies without implementing internal free trade economies and market mechanism.

Mutual obligation to political support is also very important. It must be supported by politicians. They are negotiating and signing agreements, and next executing decisions and law. Therefore strong leadership is needed, that is able to lead policy focused also on weaker economies participating in the integration process.

The next facet is trade liberalization, which is ought to be effective and profitable for each member state. Taking East Asia into consideration a special notice should be done in connection with structure of economies. Some of them base on the first sector, some on the third one, like Singapore. Thus all member countries should gain from liberalization, otherwise some of them will not be interested in participating in the integration process.

Establish a core group can be also treated as a European lesson. In East Asian region the mentioned rivalry between Japan and China can be observed. Therefore the core of integration among the ASEAN+3 countries, seems to be the Association of Southeast Asian Nations. It has been underlined very often in different documents adopted during ASEAN Summits, ASEAN+3 Summits or even East Asia Summits (EAS). On the other hand, the core group of the Association is ASEAN-5 countries. The question is this process, and the current core group of countries, will evolve in the closer and further future. Another important question is at what extent those countries will lead integration in favour of the rest of the

ASEAN member states, particularly the CLM (Cambodia, Laos, Myanmar) group.

The further lesson is to pool possessed resources in common projects. In East Asia it is important to develop both industrial and agriculture policies, as well as high tech sector, while sharing resources and know-how.

The next thing is to recognize the economic effects of trade, so that each country gains from participating in the economic integration process, and can increase its economic growth and development. The main problem is try to predict the direction of the process, trying to improve it, taking into account the interests of all countries, the agricultural, industrial, and based on the service sector.

The subsequent aspect is connected with the significance of strengthening internal consumption. It is important because it prevents the region from external shocks, like for example decrease of demand in the US, or in the European Union, as it happened during the current global financial crisis 2008+ and the Eurozone crisis. The policy of expanding domestic demand is being pursuing at present in China. But generally the basic East Asian challenge in that case is to decrease disparities among per capita income in the region.

And the last matter, the important one: losers in the integration must be compensated. As many studies show, the worse developed East Asian countries, like CLM, are going economically to loose in case the East Asian Free Trade Area (EAFTA) or the Comprehensive Economic Partnership in East Asia (CEPEA), covering both agriculture and industrial products, is created. For such countries in Europe in the 1970s a cohesion policy was created, as a kind of compensation for underdeveloped regions. Providing that kind of support for sure would favor to obtain the peoples support for integration initiatives in East Asia, as well as it would promote the strengthening of regional identity in the region.

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