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## **Asian and European Regional Integration Process in the New Context of Development Challenges Southeast**

**Asia and Eastern Europe from a Comparative Perspective**

**December 1, 2011**

**Minutes of the debates**

### **I. EU and ASEAN regional integration**

#### ***What is ASEAN ?***

ASEAN is the oldest grouping of countries of the world. It was politically organised in 1967. Nothing much happened until 1992 when the world order changed and ASEAN decided to eliminate tariff barriers by 2020. The 1997 crisis was a shock for all countries and they decided to deepen their integration. In 2007 the ASEAN economic community blueprint was signed by all heads of government. In 2008 ASEAN was created as a legal entity but contrary to the EU, there is no institution and no political leadership. ASEAN is led by the heads of the national governments. ASEAN has a population of 600 million people, and a growth rate of 5-6%. The countries are considered as low middle income countries except for Brunei and Singapore. The current crisis has not much affected ASEAN countries since their financial sector was strictly regulated. But since the economies of the countries are very open they are affected by the decrease in growth of their partners.

#### ***What are the concerns of ASEAN now?***

First of all, ASEAN countries fear the impact of the present crisis on their exports. Second, China and India are both considered as opportunity and threat to ASEAN, which leads the ASEAN countries to reinforce their integration made difficult due to the large inequalities between the countries. Indeed they need an integrated market to guarantee free flows of goods, capital and skills, but this represents a long way to go for which large



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investments are needed. The integration dynamics are clearly driven by the private sector considering the variety of the political situations in ASEAN countries.

Thirdly, there is a risk of low middle income trap for ASEAN countries.

Finally ASEAN countries are very sensitive to natural disasters and climate change.

### ***ASEAN as regional player?***

East Asia presents a complex regional architecture in which countries share interests, visions and identity but with competing leadership projects. ASEAN give regional responses to regional partners through regional institution. Considering the 2008-2009 crisis, one possible answer was that ASEAN needs to have a multi-polar economy to rebalance the market towards Asia and rely less on the US. Free Trade Agreements (FTAs) are therefore a tool to enable the implementation of such a development strategy. Since 2007 we can talk of an institutional regionalism in ASEAN with the signature of the charter making ASEAN a legal entity. But ASEAN centrality in the negotiations is challenged by Asian wider integration. Many questions are raised by the FTAs that need to be solved: what kind of structure, what is the main function, what is the rule of origin considering the overlapping framework of FTAs?

### ***What is the EU trade relationship with ASEAN today?***

With the rise of ASEAN as a regional player, the European Union is losing influence in South East Asia since ASEAN is getting more integrated and the European growth is lagging behind. EU remains an important investor in the region and ASEAN countries play an important role in the parts and components trade. Since 2010 the supply chain has been reoriented towards China who became an assembly hub and therefore East Asia exports to China.

### ***What are the impacts of the low European growth on ASEAN countries?***

The low growth perspectives put the current model of trade integration in question. The demographic challenge is increasingly weighing on the European model of development while China extends its domination. The EU trade policy with ASEAN based on multi-lateral agreement is not going far and is increasingly relying on bilateral negotiations.

### ***How can the EU energy policy influence the EU-ASEAN relationships?***

The EU Energy policy and especially the 3x20 strategy will affect trade diplomacy. The upside of this strategy could enable ASEAN countries to tap into mass economic products supported by EU investments. The downside might be the translation of the strategy in higher costs for business due to heavy regulations. Especially if low growth persists, there might be a call for protectionist measures.

### ***What are the crucial issues for ASEAN in such a global context?***

- How far is the liberalisation of the markets really implemented on the ground beyond the documents governments have adopted?
- How effective is the ASEAN way based on informal consultation and no formal agreement?
- How can a deeper integration succeed without any central institutions?



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In order to maintain ASEAN centrality ASEAN needs to become more integrated and more cohesive which supposes a transformation of the attitudes to sovereignty. Considering the pronounced political disparities within ASEAN, no single state can accept some kind of hegemonic power of one country. Moreover there is an increasing competition between ASEAN led projects and non-ASEAN led projects.

Finally another element is crucial for the development of the region, ie the relationship between economics and security which can be seen from two perspectives. An optimistic one based on the vision of economic primacy according to which the more economic interdependence, the more stable, the more secure. And a bleaker perspective according to which a long term peace is only possible if there is a kind of political consensus and agreement between the states guaranteeing that they won't go to war against each other. The economic regional integration has improved but the tensions and the overall security relationship haven't. Cleavages are exacerbated over territorial issues and the diplomacy with China.

***Debate:***

- Is an institutionalisation process or more political integration only possible under exogenous pressure? What could be the endogenous conditions?
- What are the conditionalities and incentives leading countries to be part of ASEAN?
- How concrete are the Bali agreements beyond the rhetoric?
- What are the positions of China and India towards ASEAN?

**II. EU macro-regions and Greater Mekong Subregion (GMS): what are the bases of both cross border dynamics?**

***What is the basis of GMS?***

GMS involves Cambodia, Lao, Vietnam, Myanmar, Thailand and the South of China willing to reinforce cross border relationship. GMS is based on a reflexion to find ways and means to increase connectivity between the countries. It supposes that a better connectivity will improve trade, the standards of living of the people and generate more inclusive growth and reduce poverty. The cooperation between the countries started with investments in infrastructure. Indeed borders concentrate high levels of poverty and those regions despite economic reforms are not benefiting from them. It was therefore decided to open corridors to break the isolation of the border regions. By reducing the time of transport across countries, competitiveness and investments can improve. Corridors are supposed to decentralise development and contribute to the alleviation of poverty. But once transport cost is reduced, work has to be done on the trade facilitation and common shared standards. This step is particularly complex considering the high number of actors involved. It would be interesting to have an insight in the way the EU managed to achieve the single market.

***How can you transform transport corridors into economic corridors?***

Physically the transport corridors are completed. Whole regions are now connected with high standard roads. Qualitative studies have shown that new roads have a positive impact on the development of the regions:

- FDI have not been boosted by the corridors,
- There is a stronger correlation with poverty reduction,
- Wage increases quicker than the cost of living,



- The winners are the skilled labour in the manufacturing industries.
- In the five CLMVT countries, 400 000 people move out of extreme poverty, 1.75 million move out of 2\$ per day poverty groups.

### ***What are the problems raised by the governance of the GMS?***

The GMS started with infrastructures because it seems the “quickest” approach. But now countries have to negotiate on the regulations and standards on how to use the common infrastructures crossing borders and to facilitate trade. But the point is that there is no leadership in the negotiations. The legal situation of the different countries looks like a nightmare and there are many administrative controversies that slowed down the process. Efforts and willingness are therefore needed.

### ***What is the role of China?***

China is investing in roads and looks at resources and market and aims at developing the border areas for economic benefits. Their entry vehicle of China in South East Asia is the heavy reliance on commercial credit. Beijing is supporting the development of the borders by imposing the local officials to accept ADB funding and to report to Beijing. Therefore the regionalism in the region is market-driven with informal coordination and respect for sovereignty. The connectivity approach is a top down initiative with a lack of involvement of the private sector.

### ***What is European Strategy for the Baltic Sea Region?***

The Baltic Sea Region involves 8 countries especially at regional level. Those regions present important disparities in terms of GDP. The European Commission designed the macro-region strategy in order to contribute to the social and economic cohesion and to support regional innovation potential. The cross-border strengths could therefore be reinforced by the inter-regional cooperation. This approach is based on the voluntary involvement of the regions since there is no hard regulatory framework. On the one hand, the good thing is that any organisation or institution can join at any moment but on the other hand it means variable commitment to the concept. This strategy is seen as a new possibility for international cooperation in the identified territories and as a chance for mutual learning and for raising the development level of macro-region.

### ***What are the limits of the Baltic Sea Region strategy?***

Considering the moving configuration of the system, the coordination turns out to be difficult. Therefore the three main limits of this strategy are the following ones:

- The lack of introduction of any EU formal structure,
- No legal framework,
- No specific funds: the strategy must be funded by the existing structural funds.

Clearly there is a lack of leadership and of strong strategic approach. Moreover building the network in some specific sectors is not easy since it has to cover the 8 countries concerned and is also sometimes limited by the knowledge gap of the actors involved.

### ***What is needed to reinforce the strategy?***



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Clearly, an effective coordinated approach is required to create synergy effect. There is a need to align the possibilities for funding of these flagship projects with the funds of the operational programmes but the problem is that the operational programmes were designed long before the Baltic Sea Region strategy was launched which makes the adaptation difficult. It seems also necessary to strengthen the communication on the strategy. It is also expected that the macro-regions will be admitted within the strategic document for spending the SF and will also be integrated in other policies such as environment, transport, R&D etc. Other regional areas are interested in the concept such as the Adriatic regions, the Alpine regions, the Atlantic space.

***Debate:***

- How can you create a positive approach without any incentives?
- When comparing both approaches in South East Asia and in Europe, do you agree that whatever the level of institutionalisation, the core question remains about the capacity of regional and local actors to innovate and to continue the exchanges despite the difficulties?
- What are the resistance and conflicts at local level to implement a new approach?
- How is it possible to reduce the capacities of interest groups that may hinder the smooth functioning of the cooperation?
- What is the role of civil society in such cooperative processes?
- Considering the lack of strong governance in both the GMS and the macro-regions, how sustainable is the strategy and how sustainable is the development that can be brought in?



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