



Robert Schuman

*Comparing Regional Integration Schemes:
International Regimes or Would-be Polities?*

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Comparing Regional Integration Schemes: International Regimes or Would-be Polities

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COMPARING REGIONAL INTEGRATION SCHEMES: INTERNATIONAL REGIMES OR WOULD-BE POLITIES

Introduction¹

The different integration schemes in the world vary in various ways. They vary in functional scope, institutional set-up, size of membership and impact. The different factors used to explain this variance also vary, from economic gains over geopolitics to learning processes and creation of new collective identities.

If the integration schemes in different parts of the world are so different, are they all *sui generis*? Does it make sense to compare them? Some scholars have argued that they have enough common traits to be comparable. Most often at least integration schemes try to create freer trade, if not free trade, between the participating states. Many also try to create freer movement for services and capital. One possible way to look at this is to say that they constitute international regimes, i.e. establish principles, norms, rules and decision-making procedures around which actors' expectations converge.² A good example of an international regime would be the General Agreement on Tariffs and Trade (GATT), now part of the World Trade Organization (WTO). But, as we shall see, one can argue that at least the European Union (EU) has gone beyond being an international regime, instead becoming a multi-level political system or polity.

Although much integration theory has been developed to explain the European case, integration theory has also been used to study integration in other parts of the world, including the Americas. In this paper we shall discuss some theories that may be useful in comparing the EU, NAFTA and Mercosur as well as other integration schemes.

The Concept of International Integration

When early theories of integration were developed there was much discussion in the literature on how to define the concept. It was for instance discussed whether integration refers to a process or to an end product. Of course the two can be combined. Integration could then be defined as a process that leads to a certain state of affairs. Karl Deutsch, for instance, defined integration as “the attainment, within a territory, of a ‘sense of community’ and of institutions and practices strong enough and widespread enough to assure, for a ‘long’ time, dependable expectations of ‘peaceful change’ among its population.” When a group of people or states have been integrated this way they constitute a “security community.” Amalgamation, on the other hand, was used by Deutsch and his

¹ This paper is an extended version of paper presented in Miami at conference on the European Union and the North American Free Trade Agreement, March 31 – April 1, 2003. It relies on earlier writings by the author, in particular the introductory and concluding chapters from Finn Laursen (ed.), *Comparative Regional Integration: Theoretical Perspectives* (Ashgate, forthcoming).

² Stephen D. Krasner, “Structural Causes and Regime Consequences: Regimes as Intervening Variables,” in Stephen Krasner (ed.), *International Regimes* (Ithaca: Cornell University Press, 1983), pp. 1-21.

collaborators to refer to “the formal merger of two or more previously independent units into a single larger unit, with some type of common government.”³

Early efforts to study regional integration mainly concentrated on the European Coal and Steel Community (ECSC) from 1951 and the European Economic Community (EEC) from 1957. In Ernst Haas's classical study of the ECSC, *The Uniting of Europe*, integration was defined as:

... the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectation and political activities to a new center whose institutions possess or demand jurisdiction over the pre-existing national states.⁴

In Leon Lindberg's study of the early EEC, *The Political Dynamics of European Economic Integration*, integration was defined without reference to an end point:

... political integration is (1) the process whereby nations forgo the desire and ability to conduct foreign and key domestic policies independently of each other, seeking instead to make joint decisions or to delegate the decision-making process to new central organs; and (2) the process whereby political actors in several distinct settings are persuaded to shift their expectations and political activities to a new center.⁵

Lindberg considered his own concept of integration more cautious than that of Haas. Central to it was “the development of devices and processes for arriving at collective decisions by means other than autonomous action by national governments.”⁶ It seems fair to say that some joint or collective decision-making is an important aspect of all regional integration efforts. This decision-making can cover a varying number of functional areas (scope), and the decision-making process can be more or less efficient and the common institutions established can be more or less adequate (institutional capacity).

What then explains changes in functional scope and institutional capacity of regional integration efforts? This is the central question in integration theory. Ernst Haas developed the concept of spill-over, which was also applied by Lindberg. According to Lindberg,

... "spill-over" refers to a situation in which a given action, related to a specific goal, creates a situation in which the original goal can be assured only by taking further actions, which in turn create a further condition and a need for more action, and so forth.⁷

Haas saw the EEC as spill-over from the ECSC. He talked about “the expansive logic of sector integration.” He predicted that the process would continue in the EEC. Liberalisation of trade within the customs union would lead to harmonisation of general economic policies and eventually spill-over into political areas and lead to the creation of some kind of political community.⁸

³ Karl W. Deutsch, et al (eds.), *Political Community and the North Atlantic Area: International Organization in the Light of Historical Experience* (Princeton, NJ: Princeton University Press, 1957), pp. 5-6.

⁴ Ernst B. Haas, *The Uniting of Europe: Political, Social, and Economic Forces 1950-1957* (Stanford: Stanford University Press, 1958), p. 16.

⁵ Leon N. Lindberg, *The Political Dynamics of European Economic Integration* (Stanford: Stanford University Press, 1963), p. 6.

⁶ Ibid, p. 5.

⁷ Ibid, p. 10.

⁸ Haas, *The Uniting of Europe*, p. 311.

When the European integration process experienced a crisis in the mid-1960s, however, many scholars concluded that Haas' early theory had been too deterministic. This included Haas himself, who now admitted that he had not foreseen “a rebirth of nationalism and anti-functional high politics.” A revised theory would have to take account of “dramatic-political” aims of statesmen such as General de Gaulle.⁹

In a much-quoted article Stanley Hoffmann argued that the national situations and role perceptions were still rather diverse within the European Communities (EC). In general he argued:

Every international system owes its inner logic and its unfolding to the diversity of domestic determinants, geo-historical situations, and outside aims among its units.¹⁰

So he contrasted the logic of integration with a logic of diversity. The latter sets limits to the degree to which the 'spill-over' process can operate. “It restricts the domain in which the logic of functional integration operates to the area of welfare.” Hoffmann advanced the suggestion that “in areas of key importance to the national interest, nations prefer the certainty, or the self-controlled uncertainty, of national self-reliance, to the uncontrolled uncertainty” of integration.¹¹

Adapting Neo-functionalism: European Integration Revisited

The feeling that early theory had seen the process as too automatic led to various efforts to reformulate integration theory. The effort by Lindberg and Scheingold in the book *Europe's Would-Be Polity* deserves special mentioning.¹² Lindberg and Scheingold now studied the EC as a political system, where inputs in the form of demands, support and leadership are transformed into outputs in the form of policies and decisions. They added three integration mechanisms to that of spill-over already developed by Haas, namely (a) *log-rolling and side-payments*, i.e. bargaining exchanges designed to “gain assent of more political actors to a particular proposal or package of proposals,” (b) *actor socialization*, i.e. the process whereby the “participants in the policy-making process, from interest groups to bureaucrats and statesmen, begin to develop new perspectives, loyalties, and identifications as a result of their mutual interactions,” and (c) *feedback*, which mainly refers to the impact of outputs on the attitudes and behaviour of the public at large. If the public finds the output from the system good and relevant, support for the system is expected to increase.

Integration was seen as a political process by Lindberg and Scheingold. On the demand side various domestic groups have expectations and lobby the governments for certain outcomes. On the supply side coalition formation and leadership are seen as central aspects of the process. To get decisions through the system you must have the support of various groups and individual decision-makers. This is where the role of the independent Commission was seen as important in the EC. The

⁹ Ernst B. Haas, “The Uniting of Europe and the Uniting of Latin America,” *Journal of Common Market Studies*, Vol. 5, 1967, pp. 315-343.

¹⁰ Stanley Hoffman, “Obstinate or Obsolete? The Fate of the Nation-State and the Case of Western Europe,” *Daedalus*, Vol. 95 (Summer 1966), p. 864.

¹¹ *Ibid*, p. 882.

¹² Leon N. Lindberg and Stuart A. Scheingold, *Europe's Would-Be Polity: Patterns of Change in the European Community* (Englewood-Cliffs, NJ: Prentice-Hall, 1970).

Commission can actively try to build coalitions to overcome national resistance to new policies and decisions, i.e. exercise supranational leadership.

Game-Theoretic Perspectives

Regional integration efforts can also be seen as an effort to overcome a fundamental problem in the relations among sovereign states, namely that of defection. According to classical international law states are sovereign. They do not have to accept supranational authorities. They can of course conclude agreements with each other, bilaterally or multilaterally; but once they find that conditions have changed, they are no longer bound by such agreements. And they may be tempted to cheat to gain more for themselves than their partners. So international agreements and cooperation efforts can be fragile and unstable as long as they are based on the classical notion of sovereignty.

Modern game theory discusses this in a formal deductive fashion. The famous Prisoners' Dilemma game illustrates the situation where individually rational actors, which could be states, arrive at sub-optimal outcomes if they act independently. Further, the theory shows that agreements, which should realise optimal outcomes, will often be unstable because actors will be tempted to cheat or defect from the cooperative agreement to realise outcomes that are better for themselves in the short run.¹³

Figure 1. Prisoners' Dilemma

		Actor B	
		Co-operation	Defection
Actor A	Co-operation	3,3	1,4
	Defection	4,1	2,2

Source: Stein, 1982.

¹³ Steven J. Brams, *Game Theory and Politics* (New York: The Free Press, 1975); Arthur A. Stein, *Why Nations Cooperate: Circumstance and Choice in International Relations* (Ithaca and London: Cornell University Press, 1990); Michael Taylor, *The Possibility of Cooperation* (Cambridge: Cambridge University Press, 1987).

The Prisoners' Dilemma (figure 1) can be depicted as a dilemma between co-operation and defection. In its simplest version there are two actors, A and B. Each has to decide between two possible strategies. The values in the matrix are the payoffs for A and B respectively. So the first value is the outcome for Actor A, and the second value is for Actor B. In a one-shot game A is expected to choose the defection strategy because the payoff will be best irrespective of what B decides. The same goes for B, and the collective outcome will be 2,2, which is sub optimal (or Pareto inferior). The optimal outcome, 3,3, can be reached through co-operation, but will be unstable because each actor can gain by defecting (or cheating). It may therefore take a good international regime, possibly including sanctions in order to avoid defection.

Post-war efforts at international cooperation among industrialized countries in the economic area can be seen as a response to the protectionism - and beggar-thy-neighbour policies - of the 1930s. Free trade, it can be argued, will normally be in everybody's interest. Yet, it is not easy to realize. The states tried through the GATT to facilitate and increase international trade. Yet, trade conflicts have remained an important aspect of relations among the industrialized countries.¹⁴

The experience of the EC is instructive in this respect. The EC is first of all a customs union, which should realise free trade among its members (and introduce a common tariff towards third countries). But once the customs union was in place (1968) it gradually became clear that a customs union is not sufficient to realize free trade. Member States could continue to protect their national industries through non-tariff barriers to trade (NTBs). Some of these were technical barriers to trade like different national standards for products.¹⁵

A number of curious cases followed. Many of these eventually were taken to the European Court of Justice (ECJ), which called the bluff. There were cases like the French alcoholic drink *Cassis de Dijon*, which could not be exported to the Federal Republic of Germany because it did not have the alcohol content required by German law; pasta which could not be exported to Italy because it was made of soft wheat instead of durum wheat; bread that could not be exported to the Netherlands because it did not have the salt content required by Dutch law, etc., etc. The ECJ played an important role in stopping this and in enunciating the principle of 'mutual recognition of standards.'

The EC's Internal Market project of the late 1980s can be seen as a renewed effort to overcome Prisoners' Dilemma situations. In the Single European Act (SEA) the Member States accepted the use of qualified majority voting (QMV) in the Council of Ministers to complete the Internal Market. The Commission under Jacques Delors also played a leadership role.

¹⁴ Joseph M. Grieco, *Cooperation among Nations: Europe, America and Non-Tariff Barriers to Trade* (Ithaca and London: Cornell University Press, 1990); John A.C. Conybeare, *Trade Wars: The Theory and Practice of International Commercial Rivalry* (New York: Columbia University Press, 1987); Robert Gilpin, *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987).

¹⁵ Jacques Pelkmans and Alan Winters, *Europe's Domestic Market* (London: Royal Institute of International Affairs, 1988).

These elements of an independent Commission and QMV add up to what could be called supranationality.¹⁶ The Commission is an independent European body; it is there to represent and further the European interest. National interests are represented in the Council (of Ministers); but to the extent that QMV is accepted in the Council, no single member can stop the adoption of measures they do not like. One of the problems of traditional intergovernmental cooperation, and the concomitant rule of unanimity, is that the slowest members will determine the speed. Under such form of cooperation one should expect decisions to be based on the lowest common denominator. The EC on the other hand has created institutions that facilitate the “upgrading of the common interest.”¹⁷

Another important institutional element in the EU is the ECJ which makes binding decisions. Community law is different from traditional international law. It has primacy if it conflicts with national law; and much EC legislation has direct effect.¹⁸

If we compare the EU with other regional integration organizations some of these institutional differences become apparent. None of the other regional schemes have created independent supranational bodies like the EC Commission; none of them have accepted anything resembling Community law and real limits on their sovereignty in the form of binding majority decisions.¹⁹ In the EC there has been a pooling and delegation of sovereignty. According to Moravcsik this is done to assure ‘credible commitments.’²⁰

Integration is not only about getting optimal outcomes. There is also an element of redistribution in integration schemes. The game that can illustrate this is the Battle of the Sexes. Whereas the question about efficiency is the question of reaching the Pareto-frontier, the question of distribution is the question of where you end up on the Pareto-frontier. An element of power enters the equation. Whereas liberal institutionalists scholars have looked at efficiency, realists and neo-realists have emphasized the question of power.²¹

¹⁶ Robert O. Keohane and Stanley Hoffmann, “institutional Change in Europe in the 1980s,” in Robert O. Keohane and Stanley Hoffmann (eds.), *The New European community: Decisionmaking and Institutional Change* (Boulder: Westview Press, 1991), pp. 1-39.

¹⁷ Ernst B. Haas, ‘International Integration: The European and the Universal Process,’ *International Organization*, Vol. 15(4), 1967, pp. 366-392.

¹⁸ Jean-Victor Louis, *The Community Legal Order* (Luxembourg: Office for Official Publications of the European Communities, 1990).

¹⁹ See also Werner J. Feld and Gavin Boyd (eds.), *Comparative Regional Systems: West and East Europe, North America, The Middle East, and Developing Countries* (New York: Pergamon Press, 1980); Joseph Jamar, *Intégrations régionales entre pays en voie de développement* (Bruges: De Tempel, Tempelhof, 1982).

²⁰ Andrew Moravcsik, *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht* (Ithaca: Cornell University Press, 1998).

²¹ Stephen D. Krasner, “Global Communications and National Power: Life on the Pareto Frontier,” *World Politics* 43 (April 1991), pp. 336-366.

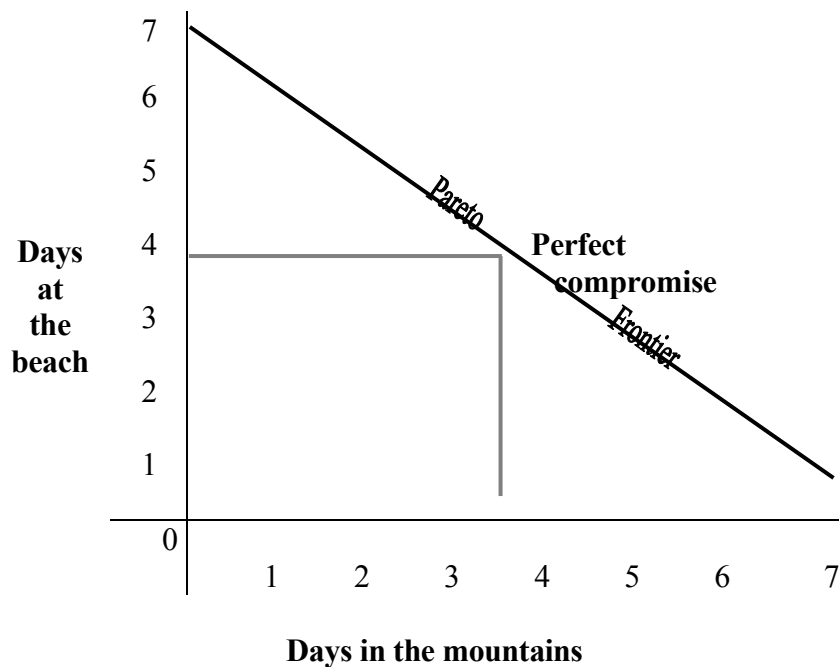
Figure 2. The Battle of the Sexes

		Actor B	
		Mountains	Ocean
Actor A	Mountains	3,4	0,0
	Ocean	0,0	4,3

Source: Krasner: 1991.

The Battle of the Sexes (Figure 2) is often illustrated by a couple going on holiday. What happens if the male partner prefers the mountains and the female partner prefers to go to the beach? If the greater part of the holiday is spent in the mountain the male partner will have won the little power game. This game can also be illustrated as different points on the Pareto frontier (see figure 3), where $3\frac{1}{2}, 3\frac{1}{2}$ is the perfect compromise.

Figure 3. Pareto Frontier



Source: Little, 1997.

In the following we shall take a closer look at two recent contributions to integration theory, namely the contributions by Moravcsik and Mattli. Both suggest models that are rather simple and useful for understanding regional integration.

Liberal Intergovernmentalism

When Andrew Moravcsik developed his approach to the study of European integration, ‘liberal intergovernmentalism,’ he proposed a two-step analysis of integration, first national preference formation, then interstate bargaining.²² Later he added a third step, institutional choice.²³ The model is simple and could be used to study integration in other parts of the world than Europe. The framework is summarized in table 1.

²² Andrew Moravcsik, “Preferences and Power in the European Community: A Liberal Intergovernmental Approach,” *Journal of Common Market Studies*, Vol. 31(4), 1993, pp. 473-523.

²³ Moravcsik, *The Choice for Europe*, 1998.

Table 1: International cooperation: A rationalist framework

Stages of Negotiation	National Preference Formation	Interstate Bargaining	Institutional Choice
Alternative independent variables underlying each stage	What is the source of underlying national preferences?	Given national preferences efficiency and distributional outcomes of interstate bargaining?	Given substantive agreement, what explains the transfer of sovereignty to international Institutions?
	Economic interests or Geopolitical interests?	Asymmetrical interdependence or Supranational entrepreneurship?	Federalist ideology or Centralized technocratic management
	↓	More credible commitment? ↓	↓
Observed outcomes at each stage	Underlying national preferences	Agreements on substance or pool decision-making in international institutions	Choice to delegate →

Source. Moravcsik (1998), p. 24.

The first stage is to try to explain national preference. The central question asked by Moravcsik here is whether it is economic or geopolitical interests that dominate. The answer based on major decisions in the European integration process is that economic interests are most important.

The second stage, interstate bargaining, seeks to explain the efficiency and distributional outcomes. Here two possible explanations of agreements on substance are contrasted: asymmetrical interdependence or supranational entrepreneurship. Moravcsik arrives at the answer that asymmetrical interdependence has most explanatory power.

The third stage explores the reasons why states choose to delegate or pool decision-making in international institutions. Delegation in the EU refers to the powers given to the Commission and the ECJ. Pooling of sovereignty refers to the application of majority decisions. To explain institutional choice Moravcsik contrasts three possible explanations: Federalist ideology, centralized technocratic management or more credible commitment. The answer is that states delegate and pool sovereignty to get more credible commitment.

Using theories of decision-making, negotiations and international political economy in an elegant combination has allowed Moravcsik to construct a simple framework for the study of international cooperation, including international integration.

In the last chapter in *The Choice for Europe* Moravcsik suggests that his study has implications for International Relations theory in general and that it could be used to study regional integration in other parts of the world than Europe. In a brief discussion he mainly looks at regional trade dependency as the underlying factor explaining the demand for integration. We reproduce the table he includes (Table 2).

Table 2: Regional trade dependence of Germany, United States, and Japan as proportion of GNP, 1958 and 1990.

	Intra- Regional Trade/GDP (1960)	Intra- regional Trade/GDP (1990)	Intra- regional Trade (1980s)	Industry Trade/Regional
Germany (vis-à-vis EC6 then EC12)		6%	21%	66%
United States (vis-à-vis Canada & Mexico)		1%	2%	60%
Japan (vis-à-vis Northeast Asia, ASEAN & India)		2%	3%	25%

Source: Moravcsik (1998), p. 495.

We see that intra-regional trade in relation to GDP is much higher in Europe than in North America and East Asia. If we look at intra-industry trade, which is considered conducive to trade liberalization, Europe is ahead of North America and East Asia. But intra-industry trade is quite high in North America, too. This produces a ranking, where one should expect most demand for integration in Europe, followed by North America and with East Asia on a third place. Moravcsik summarizes:

Bringing together these simple indicators ... the political economy theory predicts very strong pressures for trade liberalization in Europe, more moderate pressure in North America, and very little pressure in East Asia. This is indeed what we observe.²⁴

²⁴ Moravcsik, *The Choice for Europe*, p. 495.

He goes on to say “geopolitical theories have difficulty explaining this outcome.” He does admit, “these data are more suggestive than conclusive.” But, he says, “they do suggest that the primacy of political economy observed in postwar Europe is not just a contingent fact about Europe but a generalization about postwar industrial nations.”²⁵ He finishes the discussion by saying that “the comparative political economy of regionalism deserves more intensive study, beginning with the assumption that Europe and other regions face similar challenges and opportunities.”

Towards a Political Economy Logic of Regional Integration: Mattli’s Contribution

In Moravcsik’s short discussion of comparative regionalism emphasis is on the demand side. Walter Mattli has dealt with regional integration from a comparative perspective, comparing European experiences with experiences in other regions of the world. He also emphasizes the importance of supply factors, especially “the presence of an undisputed leader among the group of countries seeking closer ties:”

Such a state serves as a focal point in the coordination of rules, regulations, and policies; it may also help to ease distributional tensions by acting as regional “paymaster”.²⁶

Successful integration depends both on demand from market actors and supply from political actors. Willingness to supply integration “depends on the payoff of integration to political leaders.”²⁷ On the supply side both “commitment institutions” (such as the Commission and ECJ in Europe) and an institutional leader are considered important. In the German *Zollverein* the role of regional paymaster was played by Prussia. It is argued that Germany has played such a role in the EU. A central question on the supply side is how to overcome collective action problems associated with both Prisoners’ Dilemma and coordination games. There must be mechanisms to deal with the temptation of defection as well as distributional inequities.

Looking at integration in different regions of the world over time Mattli finds two puzzles:

1. Why have so many attempts at integration failed while a few have been crowned with success?
2. What explains when outsiders seek to become insiders? (Outsiders can become insiders either by joining an existing economic union or by creating their own regional group).²⁸

Once an integration scheme starts it will have external effects (externalities) because of discriminatory policies among the insiders. Outsiders may face trade and investment diversion, which will create demand for joining (the first integrative response) or creating an alternative scheme (the second integrative response). In Europe the European Free Trade Association (EFTA)

²⁵ Ibid, p. 496. In a footnote Moravcsik makes the following statement: “Although we can reject objective geopolitical circumstances as the source of preferences, we cannot entirely dismiss the role of ideas. Yet until ideas are clearly measured and more precisely theorized, claims for the importance of ideology and ideas cannot be more than speculative” (fn 26, *ibid.*, p. 496).

²⁶ Walter Mattli, *The Logic of Integration: Europe and Beyond* (Cambridge: Cambridge University Press, 1999), p. 14.

²⁷ Ibid, p. 13.

²⁸ Ibid, p. 41.

was an example of the second response in 1960. But eventually most EFTA countries joined the EC/EU, examples of the first integrative response.

Some integration schemes outside Europe, it is argued, can be seen as second integration responses to developments in Europe. The creation of the EEC in 1958 was a factor behind the Latin American Free Trade Association (LAFTA) in 1960. Later, “efforts to deepen integration through the Single European Act raised fears of a “Fortress Europe,” triggering a veritable tidal wave of integration projects throughout the world in the late 1980s.” However, “none of the projects of the second integrative response type is guaranteed automatic success.” It all depends on whether the conditions are met. On the supply side absence of leadership can cripple integration (example the Andean Pact) and unwillingness to address distributional issues (such as in LAFTA) can undermine the prospects for integration.²⁹

Mattli has illustrated the varying outcomes of integration in a figure that we reproduce in slightly shortened form (Table 3). Leaving out some of the integration schemes studied by Mattli we notice that he has the EU, NAFTA and EFTA until 1973 with highest success rate (1973 was the year the UK and Denmark left EFTA to join the EC). The lowest success rate is given to the Central American Common Market (CACM) after 1969, ASEAN, the Economic Community of West African States (ECOWAS), LAFTA and the Andean Pact (as well as the Carribean Community and the Arab Common Market, which we have not included in the table). In the middle groups we find two contemporary schemes, the Asia Pacific Economic Cooperation Forum (APEC) and MERCOSUR.

Table 3: Outcomes of integration schemes

		(Uncontested) regional leadership	
		Yes	No
(Potential) market gains from integration	Relatively significant	3 EU NAFTA EFTA (until 1973)	2 EFTA (after 1973) APEC MERCOSUR
	Relatively insignificant	2 CACM (until 1969)	1 CACM (after 1969) ASEAN ECOWAS LAFTA Andean Pact

Success rate: 3 highest
1 lowest

Source: Adapted from Mattli (1999a), p. 66.

²⁹ Ibid, pp. 63-64.

The Mattli framework for studying regional integration also has the clear advantage of simplicity, singling out a small number of variables as decisive for the success of integration. It pays equal attention to demand and supply factors. Among the things suggested by the scheme is the problem of leadership for schemes like MERCOSUR and APEC despite the presence of significant potential market gains from integration. Can and will Brazil be a leader in MERCOSUR? Can and will Japan - or the United States - be a leader in APEC? We also notice that Mattli does not see great prospects of integration among ASEAN countries, despite renewed integration efforts from 1992.

Degrees of Economic Integration

Most – if not all - integration schemes involve economic integration. Economists distinguish between various stages of economic integration. Bela Balassa’s classic five steps of economic integration are given in table 4.

Willem Molle has introduced some further distinctions, giving the following stages of economic integration: free trade area, incomplete customs union, customs union, incomplete common market, common market, economic union, monetary union, economic and monetary union, political union and full union. Political Union is reached when ‘integration is extended beyond the realm of economics to encompass such fields as anti-crime policy (police) and foreign policy, eventually including security policy.’ Full union involves ‘complete unification of the economies involved.’ A full union is likely to involve social security, income tax and macro-economic and stabilisation policy. The latter ‘implies a budget of sufficient size to be effective as an instrument of these policies.’ The end of the continuum thus is ‘some form of a confederation or federation’.³⁰

Table 4: Balassa’s Categories of Economic Integration

	No Tariff or Quota	Common External Tariffs	Free Flow of Factors	Harmonization of Economic Policies	Unification of Policies, Political Institutions
Free Trade Area	X				
Customs Union	X	X			
Common Market	X	X	X		
Economic Union	X	X	X	X	
Total Economic Integration	X	X	X	X	X

Source: Nye, 1971, p. 29.

Applied to the different integration schemes in the world it is clear that the EU has progressed furthest. The Maastricht Treaty (1992) included the plan for Economic and Monetary Union (EMU). Today 12 of 15 member states have introduced the single currency, the euro. The EU has not gone very far in the fiscal policy area, but the Stability Pact sets requirements for

³⁰ Willem Molle, *The Economics of European Integration: Theory, Practice, Policy*, Second Edition (Dartmouth: Aldershot, 1994), p. 12.

national fiscal policy. Some harmonisation of taxation policies has been tried, but with somewhat limited success. Taxation, including spending for social welfare, remains largely a national responsibility. The EU budget can maximum take 1.27 percent of the EU GDP.

On the political side the EU deals with foreign, security and lately also defence policies as well as Justice and Home Affairs Co-operation, the latter including police co-operation. As such the EU has become a political union, but the EU remains rather weak in these political areas where the member states have been unwilling to transfer sovereignty to common institutions. Consensus or unanimity still dominates in 'high politics' areas and the Commission and ECJ gets less involved than in economic matters. In many ways the EU can be compared with a federal state in economic areas, but not in the political areas, where the institutional set-up remains intergovernmental or 'confederal'.

Looking at integration in other parts of the world many integration efforts include at least efforts to create free trade. This is clearly the case of NAFTA, Mercosur and the Asean Free Trade Area (AFTA). Many of these efforts began – or restarted as second generation efforts - in the early 1990s and could be seen as responses to the internal market programme in Europe and to some extent the difficulties of concluding the Uruguay Round of the GATT. Facilitation of investments is often a part of these schemes, too. But most states hesitate more about free mobility of persons. The EU has realised the four freedoms as part of the internal market: free movement of goods, capital, services and persons. None of the other integration schemes have gone so far in establishing a common market, but at least the Mercosur aims in that direction. A more detailed comparison between existing integration schemes along the stages of economic integration could be an interesting research project. Finding out why some regions go further than other regions remains a central research question. To answer that question we need not only look at the interests of the participating countries but also the role of the common institutions created during the process and possibly other factors.

International Regimes

Integration schemes usually involve a certain degree of joint-decision making and the creation of some common institutions. As such they all involve the creation of regional international regimes.

Back in the early 1980s Stephen Krasner gave what has become known as the consensus definition of international regimes:

Regimes can be defined as sets of implicit or explicit principles, norms, rules, and decision-making procedures around which actors' expectations converge in a given area of international relations.³¹

Regional integration schemes may well include more than one 'given area of international relations.' They may set out to create free trade, a customs union or a common market, as we

³¹ Krasner, "Structural Causes and Regime Consequences," p. 2.

have seen. But they may also include co-operation related to security issues. Usually they affect expectations and political activities. Sometimes economic co-operation is most important, like in Mercosur and NAFTA. Sometimes security related co-operation precedes efforts to create free trade as happened in the case of ASEAN. Sorting out security related issues before economic integration started was also important in the case of Mercosur. In Europe, from the initial plans for a common market to Economic and Monetary Union (EMU) economics have taken a central place. Political co-operation developed slowly in parallel with economic integration, first through European Political Co-operation (EPC) from 1970, later through the EU's second pillar, Common Foreign and Security Policy (CFSP), introduced by the Maastricht Treaty in 1992. But the original Schuman Plan in 1950, which started the process of integration in western Europe, was also very much motivated by security concerns, viz. the age old Franco-German problem. As the French Foreign Minister Robert Schuman said at the time:

By pooling basic production and by creating a new high authority whose decisions will be binding on France, Germany and the other countries who may subsequently join, this proposal will create the first concrete foundation for a European federation which is so indispensable for the preservation of peace.³²

Comparing the different integration schemes, one difference remains striking: As already emphasized, the EC created stronger common institutions than other regions in the world have done. In the EU's first pillar important powers have been delegated to the European Commission and the ECJ and decisions have increasingly been taken by a QMV in the Council of Ministers.

When writing about international institutions in 1989 Robert Keohane argued that institutions affect states in three ways;

1. the flow of information and opportunities to negotiate;
2. the ability of governments to monitor others' compliance and to implement their own commitments – hence their ability to make credible commitments in the first place; and
3. prevailing expectations about the solidity of international agreements³³

The concept of credible commitments was later used by Andrew Moravcsik's in his effort to explain institutional choice in the EU.³⁴ The EU has gone much further in pooling and delegating sovereignty than other integration schemes or wider international regimes such as the GATT. Is such pooling and delegation of sovereignty necessary to get credible commitments? Political leaders in other parts of the world have shied away from the bold step of delegating and pooling sovereignty. But can classical intergovernmental co-operation create 'credible commitments'?

In recent years we have seen an institutionalist turn in social sciences. 'Institutions matter' we are told. If so, different institutions presumably matter differently. Neo-functionalists have tended to be sceptical about the possibility of creating 'credible commitments' through classical intergovernmental institutions.

³² Schuman [1950] in S. Patijn, *Landmarks in European Unity* (Leyden: A.W. Sijthoff, 1970), p. 49.

³³ Robert O. Keohane, *International Institutions and State Power: Essays in International Theory* (Boulder: Westview Press, 1989), p.2.

³⁴ Moravcsik, *The Choice for Europe*.

Keohane suggested ‘institutional variation’ over three main kinds of institutions, viz. conventions, international regimes and international organisations. ‘Variations in degrees of institutionalization exert substantial effects on state behaviour,’ he said. Secondly, for an institutionalist perspective to be relevant, ‘the actors must have some mutual interests.’³⁵

Supranational Politics

To apply Keohane’s distinctions from 1989 to the EU we need to add some further distinctions. One of the EU’s founding fathers Jean Monnet mentioned the ‘negative experience of international co-operation, whose institutions were incapable of decision-making.’ He therefore proposed ‘a joint sovereign authority’ for the first European Community, the ECSC in 1950.³⁶ He also wanted to ‘abandon the unanimity rule in favour of a new system in which, to everybody’s advantage, the idea of the common interest would replace that of the national interest – or rather, the national interests of six separate countries.’³⁷

None of the other integration schemes in the world have gone so far in the direction of giving common institutions ‘supranational’ powers. In that sense the EU is certainly *sui generis*, and some scholars have argued that the EU is more than an international regime (or international organisation), but less than a federal state.³⁸

Writing about the EC in 1991 Keohane and Hoffmann echoed this:

1. The EC is best characterized as neither an international regime nor an emerging state but as a network involving the pooling of sovereignty.
2. The political process of the EC is well described by the term “supranationality” as used by Ernst Haas in the 1960s (although not as often used subsequently).³⁹

At the same time, Keohane and Hoffmann did emphasise that ‘the EC has always rested on a set of *intergovernmental bargains*.’

In comparisons between the EU and other regional institutions we therefore need to add supranational institutions (or politics) to those mentioned by Keohane in 1989. Further on an institutional axis we could also add federal states. On Keohane’s other axis, mutual interest, we could use a rationalist game theoretic perspective, starting with conflicting interests (deadlock) over dilemmas of common interests (Prisoners’ dilemmas) via dilemmas of common aversions, especially co-ordination games with distribution problems (Battle of the Sexes) to situations of no conflict (harmony).⁴⁰

³⁵ Keohane, *International Institutions and State Power*, p. 2.

³⁶ Jean Monnet, *Memoirs* (New York: Doubleday, 1978), p. 295.

³⁷ *Ibid*, p. 353.

³⁸ William Wallace, “Less than a Federation, More than a Regime,” in H. Wallace, W. Wallace and C. Webb (eds.), *Policy-Making in the European Community* (Chichester: John Wiley and Sons, 1983), pp. 403-436.

³⁹ Keohane and Hoffmann, “Institutional Change in Europe in the 1980s,” p. 10.

⁴⁰ See especially, Arthur Stein, “Coordination and Collaboration in an Anarchic World,” *International Organization*, Vol. 36(2), 1982, pp. 299-324 and Krasner, “Global Communications and National Power,” but also Joseph M. Grieco, “Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism,” *International Organization* 42 (August 1988), pp. 485-507 and Duncan Snidal, “Relative Gains and the Pattern of International Cooperation,” *American Political Science Review* 85 (September 1991), pp. 701-726.

The relation between these two axes is tricky. It may be curvy-linear. In Prisoners' Dilemma situations good institutions are required to get Pareto-efficient solutions. Under the Battle of the Sexes institutions have to contribute to solving problems of distribution. In the case of Simple Co-ordination Games there are neither problems of defection nor distribution. So no regimes are needed. When there are fundamental conflicts of interests (Deadlock) no co-operative institutions will emerge. Nor are they needed at the other end of the continuum in situations of harmony.

What this latter axis suggests is that the configuration of interests (or preferences) structures different kinds of situations that affect the institutional requirements if joint decision-making is to take place. The two fundamental situations requiring good institutions are the dilemmas of common interests, where the issue is one of reaching efficient solutions, and dilemmas of common aversions, where the problem is one of distribution.⁴¹

We have tried to summarise the essentials of the argument in Table 5. In pure conflict situations it is limited what institutions can do. Some convergence of interests will have to take place. At the other end harmony of interests require no institutionalisation. 'Parallel unilateral action' as advocated in East Asia and within APEC should be sufficient. The problem for AFTA and APEC is that harmony of interests does not necessarily exist. Domestic pressures have made it impossible for APEC to progress towards freer trade in sensitive areas.

Simple co-ordination problems – like whether to drive on the left or right side of the road – require decisions, but no elaborate regimes. They are basically self-executing once decided upon. It is suggested that the so-called Open Method of Co-ordination (OMC) invented by the EU and applied to employment policy under the Amsterdam Treaty and a number of issues under the so-called Lisbon strategy of 2000, which set the strategic goal for the EU 'to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion.' It is a good question, however, whether the problems the EU is trying to solve with the OMC are all simple co-ordination problems. So far progress seems to have been limited.

⁴¹ For a German discussion of how different game situations structure international relations, see Michael Zürn, *Interessen und Institutionen in der internationalen Politik: Gundlegung und Anwendung des situationsstrukturellen Ansatzes* (Opladen: Leske und Budrich, 1992).

Table 5: Nature of Issues and Institutional Requirements

Nature of Issue	Conflicting interests/pure conflict	Dilemmas of common interests (PD) Temptation to defect	Co-ordination problem with distributional issues	Simple co-ordination problem	Harmony of interests
Institutional requirements	Institutions to no avail Convergence of interests Required	Pooling and delegation of sovereignty Sanctions against defection	Pooling and delegation of sovereignty Budgetary means	Open Method of Co-ordination (OMC) sufficient	Institutionalisation not necessary 'Parallel unilateral action' sufficient

Source: Compiled by the author

Used in a comparative perspective this raises the question whether other mechanisms than pooling and delegation of sovereignty can provide for 'credible commitments' when there are temptations to defect from agreements or distributional inequities follow from integration. The most obvious candidate for such a mechanism is leadership (or hegemony). There can be no doubt that leadership is in any case an important variable in processes of integration as underlined already by Lindberg and Scheingold (1970) and later by Mattli (1999). Thomas Pedersen has studied the role of France and Germany in the European integration process. These two countries have performed a kind of 'co-operative hegemony' he suggests (Pedersen, 1998).

Multi-Level Governance

In recent years the term 'governance' has emerged. Robert Keohane's presidential address to the American Political Science Association in 2000 was entitled 'Governance in a Partially Globalized World'.⁴² International Relations scholars started talking about 'governance without government' in the international system in the early 1990s.⁴³ The term has also increasingly been used in relation to the EU.⁴⁴ Part of this literature puts emphasis on the multi-level nature of the EU polity.⁴⁵ The literature also discusses the problem-solving capacity of multi-level governance.⁴⁶ We shall not review this literature here. Suffice it to say that much of this literature has the 'supranational' EU level as an important level. In that sense there are some parallels to earlier neofunctionalist theories, which also saw the role of the European Commission and the ECJ as important.

⁴² Robert O. Keohane, "Governance in a Partially Globalized World," *American Political Science Review*, Vol. 95, No. 1 (March 2001), pp. 1-13.

⁴³ James N. Rosenau and Ernst-Otto Czempiel (eds.), *Governance without Government: Order and Change in World Politics* (Cambridge: Cambridge University Press, 1992).

⁴⁴ Simon J. Bulmer, "The Governance of the European Union: A New Institutionalist Approach," *Journal of Public Policy*, Vol. 13, No. 4, 1994, pp. 351-380 and Markus Jachtenfuchs, "Theoretical Perspectives on European Governance," *European Law Journal*, Vol. 1, No. 2 (July 1995), pp. 115-133.

⁴⁵ Gary Marks, Lisbet Hooghe and Kermit Blank, "European Integration from the 1980s: State-Centric v. Multi-Level Governance," *Journal of Common Market Studies*, Vol. 34, No. 3, 1996, pp. 341-378.

⁴⁶ Fritz W. Scharpf, "Introduction: The Problem-Solving Capacity of Multi-Level Governance," *Journal of European Public Policy*, Vol. 4, No. 4 (December 1997), pp. 520-538 and Fritz W. Scharpf, *Governing in Europe: Effective and Democratic?* (Oxford: Oxford University Press, 1999).

Some of the governance literature puts emphasis on networks. Various scholars have based studies of particular policy studies on network approaches.⁴⁷ According to John Peterson the study of networks is particularly useful at the sub-systemic level.⁴⁸ Such networks also play a role in other parts of the world. Business leaders, especially, may form networks and put pressure on leaders to produce integration even short of strong common institutions, such as has been happening to some extent in the case of ASEAN.⁴⁹ But will such efforts last short of commitment institutions or undisputed leadership?

The moment the EU polity starts resembling a federal system it can be studied on the basis of theories from comparative politics⁵⁰ and compared with federal systems.⁵¹ It seems to us that such comparisons would not make so much sense for NAFTA, Mercosur or ASEAN.

Concluding Remarks

The EU is currently going through yet another treaty reform. A Convention of the Future of Europe is producing a 'constitution' for Europe.⁵² The Convention is preparing another Intergovernmental Conference, which will finalise the new constitutional treaty of the EU in view of creating efficient and legitimate governance in a much enlarged EU. Ten new members have been accepted by the meeting of the European Council in Copenhagen in December 2002. If membership is accepted by referenda and confirmed by national parliaments in the applicant countries the EU may well have 15 new members in May 2004. This suggests that European integration has kept moving over the years, with ups and downs, but on balance expanding scope and deepening integration while also widening. The Schuman-Monnet initiatives in 1950 put Europe onto a new trajectory which has now reached the 'constitutional' phase.

Scholarship on regional integration faces the challenge of developing more comparative research designs for additional empirical research. Back in the early years of integration studies Nye presented a comparative study.⁵³ More recently Mattli has done so as well.⁵⁴ But most existing studies are single case studies or comparisons of a couple of integration schemes.

⁴⁷ See for instance, D. Marsh (ed.), *Comparing Policy Networks* (Buckingham: Open University Press, 1998).

⁴⁸ John Petersen and E. Bomberg, *Decision-Making in the European Union* (Basingstoke: Macmillan, 1999).

⁴⁹ Kjell Eliassen and Catherine Børve Mønsen, "Institutions and Networks: A Comparison of European and Southeast Asian Integration," in Erik Beukel et al., *Elites, Parties and Democracy: Festschrift for Professor Mogens N. Pedersen* (Odense: Odense University Press, 1999), pp. 49-74.

⁵⁰ Simon Hix, *The Political System of the European Union* (New York: St. Martin's Press, 1999).

⁵¹ Carl J. Friedrich, *Europe: An Emergent Nation* (New York: Harper and Row, 1969); Alberta M. Sbragia, "Thinking about the European Future: The Uses of Comparison," in Alberta Sbragia (ed.), *Euro-Politics: Institutions and Policymaking in the "New" European Community* (Washington, DC: The Brookings Institute, 1992), pp. 257-291; Kalypsa Nicolaidis and Robert Howse (eds.), *The Federal Vision: Legitimacy and Levels of Governance in the United States and the European Union* (Oxford: Oxford University Press, 2001).

⁵² Finn Laursen, "Vers un traité constitutionnel?" *L'Europe en formation* (Nice), No. 1, 2002, pp. 29-40.

⁵³ J.S. Nye, *Peace in Parts: Integration and Conflict in Regional Organization* (Boston: Little, Brown and Company, 1971).

⁵⁴ Walter Mattli, "Explaining Regional Integration Outcomes," *Journal of European Public Policy*, Vol. 6(1) (March 1999), pp. 1-27.

Questions for further research include the role of interests and values, negotiations and institutions, and the impact of integration. More detailed comparative studies of the role of commitment institutions and leadership would especially be useful. Have second generation integration schemes turned out to be as resilient as predicted by some in the early 1990s? Or will they slip back as happened to many integration efforts in the 1970s? On this fundamental question the jury is still out.

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