DIFFERENT PATHS TO ECONOMIC INTEGRATION IN EUROPE AND IN ASIA

Richard Pomfret

Professor of Economics

and Jean Monnet Chair in the Economics of European Integration,

University of Adelaide, Australia

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ABSTRACT: Europe and Asia followed very different paths to economic integration in the second half of the 1900s. By 2000 much of Europe was linked in an economic union with free movement of goods and factors of production and a common currency. Meanwhile, effective economic integration agreements were absent from Asia, although countries in East and Southeast Asia were becoming linked in global value chains (GVCs). In the 2000s, Asian governments have been more active in negotiating deep trade agreements, of which the distinctive feature is open regionalism. Although the difference between the European Union and the Asian nation state as foci of trade policy will remain, the EU's external policy and many Asian countries' policies are converging towards a model of liberal trade regimes plus collaboration in establishing common norms in other areas that are important to GVC operation (so-called WTO+ issues). The outcome will be greater economic integration in Europe and Asia of countries seeking to benefit from globalization and, while led by Asia and Europe, the process will be open to any willing partners.

Key words: economic integration; open regionalism; global value chains

JEL classifications: F15; F68; F02

Contact:
Professor Richard Pomfret
Institute of International Trade
University of Adelaide
SA 5005
AUSTRALIA

email: richard.pomfret@adelaide.edu.au

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Different Paths to Economic Integration in Europe and in Asia

Regionalism in Europe and Asia went in very different directions in the second half of the twentieth century. By 2000, the European Union (EU) covered much of Europe, and in most of the EU physical border crossing points had disappeared and a common currency was being adopted. In Asia, regional economic integration was negligible, and regional trading arrangements that had been mooted were of limited economic relevance. The final decades of the century saw some bottom-up economic integration in Asia as firms established supply chains that crossed borders.

In the twenty-first century, economic integration in Europe and Asia has similarities as producers have participated in regional supply chains with increasingly fine specialization across countries. The common pattern has seen the same sectors (cars, electronics and clothing) leading the way, with a few emerging economies among the dominant participants. The policy space has been similar, as countries have complemented low formal trade barriers with measures to reduce other costs of international trade. Within the closed regionalism of the EU that is being achieved by legislation enforced by the European Court, while in Asia it is being achieved by a mixture of bilateral, regional and plurilateral arrangements which are increasingly being brought under the umbrella of treaty-based open regionalism.

The first two sections describe the different twentieth century paths and the progression of regional trade agreements from the customs union focus on tariffs and non-tariff barriers to trade to deep integration arrangements that reduce trade costs and behind-the-border obstacles to specialization and trade. The third section analyzes the emergence of international supply chains (commonly referred to as global value chains, GVCs) and their role in stimulating Asian trade agreements is examined in Section 4. The fifth section describes the evolution of the EU's external trade policies and how European and Asian approaches have converged in the 2010s. Section 6 compares the response of European and Asian policymakers to the withdrawal of the USA from regional agreements and its threat to the operation of the multilateral trade system. The final section concludes that the EU and a set of Asian economies have taken on the leadership of the global system by promoting trade agreements that go beyond existing world trade law and are open to other countries to join. This position is firmly based on the mutual benefits from reducing trade costs and allowing specialization and trade along international value chains.

1. Year Zero and the Long Boom

The end of World War II provided the opportunity for a fresh approach to the institutional structure of the global economy. Four of the five major allied powers (the USA, USSR, UK and France) played a dominant role in the process and the major decisions were taken in Washington, Moscow, London and Paris. The initial steps - at Bretton Woods in 1944, the UN Charter in 1945, and the General Agreement on Tariffs and Trade (GATT) in 1947 - were led by the USA and UK. The USSR initially participated in negotiations over the future world system, but soon developed a separate system of planned economies. Europe was divided by an iron curtain.[1] Crucially, apart from the USSR, the largest European economies (the UK, France, western Germany, Italy and Spain) were all on the same side of the curtain

The origins of European integration lie in the aftermath of three Franco-German wars (1870-1, 1914-18 and 1939-45), each more disastrous than the previous one, and the decision by leading French statesmen (notably Jean Monnet and Robert Schumann) to prevent a new war by economic collaboration rather than a vengeful peace. They were supported by key German (Adenauer) and Italian leaders (de Gasperi), and crucially by the USA as the cold war gathered intensity. The initial step, creation of the European Coal and Steel Community (ECSC) in 1951, followed this vision by providing for a supranational authority to oversee the two industries then considered to be at the heart of a modern industrial war economy.

The aftermath of war was different in Asia. The Asian member of the victorious alliance was in civil war that left a split between the government of the People's Republic in Beijing and the Kuomintang regime in Taiwan that occupied China's seat at the UN. The cold war split the two largest East Asian economies; the PRC was allied with the USSR in the 1950s and after the Sino-Soviet split became inward-looking until the 1970s, while Japan was occupied by and then strategically allied to the USA. South and Southeast Asia were dominated by decolonization and nation-building in the late 1940s and 1950s. In southeast Asia, this was associated with fractious relations, as Malaysia was created in the face of Indonesian opposition and Singapore's secession in 1965, and with escalating military struggles in Indochina. The Association of Southeast Asian Nations (ASEAN) was created in 1967 as a strategic alliance among the non-Communist nations, with little economic content before the end of the century.

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

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

By the end of the long boom in 1972-3, both western Europe and much of East and Southeast Asia had thriving regional economies that were integrated into the global economy. European growth was based on strengthened intra-regional specialization and trade within the customs union.[3] In contrast, Japan and the new industrialized economies of Hong Kong, South Korea, Singapore and Taiwan operated as spokes in a world economy centered on the high- income countries of North America and western Europe. The Asian success stories were soundly based on macroeconomic policies, labor markets, port infrastructure and customs systems, and other features conducive to exporting manufactured goods according to comparative advantage. Even in the globally depressed conditions of the decade after 1972 they continued to outpace economic growth elsewhere, so that the Asian region's share of the world economy continued to increase. Nevertheless, Asia as an economic region was fragmented, with most countries pursuing inward-oriented policies.

2. Deep Integration

The 1980s and early 1990s were a period of challenge in the global economy as the established major trading nations recovered from the stagflation of the 1970s, only to face competition from

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

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

the new industrialized economies. Japan and the original Gang of Four were now joined by a second-generation of Asian high-performing economies: Malaysia, Thailand, Indonesia and China. After initial flirtations with "new" protectionism, e.g. measures such as voluntary export restraint agreements or orderly marketing arrangements, the leading trading nations reverted to liberal trade policies, concluding the Uruguay Round of multilateral trade negotiations and establishing the World Trade Organization (WTO) in 1995. They also tried to strengthen their competitiveness by signing regional "deep integration" agreements such as the 1983 Closer Economic Relations (CER) between Australia and New Zealand and the 1994 North American Free Trade Agreement (NAFTA) between Canada, Mexico and the USA.

The clearest example of deep integration was the European countries' program to complete the single market by 1992 - a process ratified in the 1993 Maastricht Treaty and accompanied by adoption of the name the European Union (EU). Among the drivers of the 1992 program was a sense that the customs union completed in the 1960s was an unstable equilibrium. Like riding a bicycle, the process of regional integration had to move forward or be derailed. The potential sources of derailment were exchange rate fluctuations and non-tariff barriers to internal trade. At the time of the Rome Treaty, exchange rates were pegged under the Bretton Woods system, and monetary arrangements were not discussed. In 1969, differing economic pressures led to upward revaluation of the German currency and devaluation of the French currency, disrupting prices of goods traded in the customs union. The Werner Committee in 1970 proposed a ten-year roadmap to a common currency, whose implementation began in 1972. The timing was disastrous, as the Bretton Woods fixed exchange rate system collapsed and the world economy entered years of turmoil. Faced by rapidly increasing prices of oil and other imports, the European countries pursued diverse monetary policies. Exchange rates became more rather than less volatile, and the Werner plan was abandoned in 1976. The striking sequel was that the leaders of France and Germany agreed in 1977-78 to resuscitate the plan for currency union. The European Monetary System was established in 1979 and led two decades later to the introduction of the euro.[4] A specific reason for this outcome was recognition that smooth functioning of a common market was hampered by monetary instability and that adopting

[4] Krugman (1993) highlighted and Rose (2000) attempted to measure the positive effects of a common currency on bilateral trade. Glick (2017) estimates the impact of EU monetary integration.

common policies, such as an agricultural policy with agreed common prices, was virtually impossible with volatile bilateral exchange rates.[5]

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

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

APEC was a much weaker institution than regional trade agreements like the EU or even NAFTA or CER. The concept of open regionalism meant that membership was open to any Asia- Pacific country adopting the, fairly general, principles. It was useful for countries announcing unilateral trade liberalization measures simultaneously, and hence able to appease domestic interest groups by suggesting that they were gaining access to foreign markets as well as opening

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

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

up their own markets. However, any attempt to pressure countries to liberalize, as in APEC's ill-fated 1997 voluntary sector liberalization program, was robustly resisted. APEC further lost momentum in the late 1990s due to failure to muster a response to the 1997/8 Asian Crisis. However, APEC remains a forum for annual meetings of Asia-Pacific leaders.

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

3. The Regional Basis of GVCs

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

Policy support for integration of North American production chains dates from the 1965 US-Canada Autopact, which established rules for the Big Three US carmakers to produce some models in the USA and some in Canada while unifying their North American supply chains. In 1987 a US-Canada Free Trade Agreement was signed, and this was followed by including Mexico in the 1993 North American Free Trade Area (NAFTA). Despite its name, the NAFTA agreement ran over 900 pages and was a means to regulate increased intra-regional trade rather than establishing free trade. Thus, labor-intensive activities could relocate to Mexico creating regional value chains, but detailed rules of origin ensured that most inputs would come from within North America.

In Europe the customs union was established in the 1960s, and barriers to internal trade were further reduced by the 1992 program, establishment of the Schengen zone in which physical border barriers were eliminated, and creation of a common currency in the late 1990s. The extent to which the deeper integration was driven by economics or by desire for ever closer

[7] There is a huge literature on the evolution and analysis of GVCs, e.g. Pomfret (2014), Baldwin (2016), Inomata (2017) and UNIDO (2018).

political union varied among the member states, but an economic consequence was facilitation of cross-country supply chains in Europe. The process of creating value chains had been boosted by the accession of poorer southern European countries in the 1980s and, even more so, by the end of Communism in Eastern Europe and clear intention of new lower-wage countries to join the EU. In sum, the economic basis for European regional value chains was an integrated area of low trade costs due to reduction of border-crossing costs and currency union, whose impact was augmented by exogenous political drivers that increased the diversity of locations within the EU.[8]

The process of creating regional value chains in Asia was a bottom-up process, initially concentrated in the more open and business friendly economies with the cities of Hong Kong and Singapore playing key roles. As wages increased in the city states, their entrepreneurs offshored labor-intensive activities to neighboring areas, Johor (Malaysia) and Riau (Indonesia) for Singapore and Guangdong (China) for Hong Kong. External developments were also important. The rapid appreciation of the yen after 1985 encouraged Japanese carmakers to seek offshore locations for car assembly, and they found Thailand. Malaysia played an important role in electronics value chains. Following the opening of the Chinese economy in 1979, entrepreneurs from the original new industrialized economies started shifting labor-intensive production processes to China in the 1980s and 1990s.[9] In 2001, China joined the WTO. With more formal incorporation into the global economy, China's centrality in Factory Asia increased.

The extent of GVCs is greatest in East Asia and is concentrated in a few participating countries. For example, using two indicators operationalized by Athukorala (2011), the value and share in manufactured trade of parts and components and the concentration of trade in sectors known to be dominated by GVCs, Pomfret and Sourdin (2018) found that GVC trade in Asian emerging economies is dominated by Greater China, South Korea, Singapore, Thailand and

[8] McCallum (1995) demonstrated the importance of the border effect even when tariffs and traditional trade barriers had been reduced to minimal levels. Anderson and van Wincoop (2004) pioneered measurement of the costs of international trade. Sourdin and Pomfret (2012) define and measure trade costs and analyze policies for reducing trade costs, i.e. trade facilitation.

[9] Key intermediaries were in Hong Kong. In the mid-1980s, following currency appreciation and rising wages and land prices, Hong Kong became uncompetitive in labor-intensive manufactured goods but entrepreneurs had management and export-marketing skills, as well as a common language with neighboring Guangdong Province of China, where low-wage labor was abundant and trade costs low. By the end of the 1990s, Li and Fung was the lead company in the world's jeans value chains. Taiwanese and South Korean companies offshoring to China often went through a Hong Kong intermediary to minimize political constraints.

Malaysia, and the values are much larger than for the leading EU emerging economy participants in GVCs (Table 1).[10]

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

(a) Exports and Imports of Parts and Components.

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

(b) Network Trade.

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

Source: Pomfret and Sourdin (2018, Tables 1 and 2).
Notes: value in billions of US dollars, share as a percentage of manufactured imports and exports. Network trade is trade in six SITC 2-digit product categories: office machinery, telecommunications and recording equipment, electrical machinery, road vehicles, professional

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

and scientific equipment, and photographic apparatus. High-income countries (Japan and western Europe) are not included in the source.

4. Asian Regionalism in the Twenty-first Century

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

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

Table 2: Regional Trade Agreements involving ASEAN+6 Countries

	Framework Agreement	Under Negotiation	Signed, but not in force	Signed and in force
Brunei	0	1	2	8
Cambodia	0	1	1	6
Indonesia	0	8	3	9
Lao PDR	0	1	1	8
Malaysia	1	4	3	14
Myanmar	1	2	1	6

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

[12] They can be very specific trouble-shooting exercises. The 2007 Japan-Thailand Economic Partnership Agreement reduced obstacles identified by Japanese carmakers importing components to their assembly plant in Thailand in return for providing better work-permit conditions for Thai cooks in Japan.

Philippines	0	2	1	8
Singapore	0	9	2	22
Thailand	1	8	1	13
Viet Nam	0	4	2	10
Australia	0	7	3	12
China	0	9	2	17
India	1	15	0	13
Japan	0	7	2	15
Korea	0	10	1	16
New Zealand	0	6	2	11

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

ASEAN progressed its economic integration after 2000, initially by strengthening the free trade area and then deepening integration into the ASEAN Economic Community (AEC). A landmark step was Malaysia's removal in 2005 of assembled and knocked-down automobiles from its list of excluded items, acknowledging that an integrated, and protected, car industry had become a poor substitute for trading components and cars along automobile GVCs.[13] However, steps beyond trade in goods moved slowly in the consensus-driven ASEAN debates and the AEC remains far less integrated than the EU, with areas like borderless trade or a common currency not even on the horizon.[14]

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

Bilateral agreements tend to be more limited and are more easily negotiated and implemented than multilateral agreements. Although items included in an agreement will be of particular interest to the signatories, measures such as reducing paperwork at the border or

[13] A similar decision was reached by Australia whose government wound down assistance for the car industry leading to closure of all car assembly plant by 2017.

[14] Even on accession decisions, in the twenty-first century ASEAN seems inert, compared to EU negotiations that are cumbersome and lengthy but have led to accession not only of Eastern European countries but also of the small island economies of Cyprus and Malta. Timor-Leste's request for ASEAN membership seems to be stuck in a non-transparent holding dock.

removing regulatory barriers are intrinsically non-discriminatory, and hence unlikely to lead to the trade diversion associated with twentieth-century trade agreements. The drawback of bilateral agreements is that they can lead to proliferation of regulations and standards that are confusing to traders and inconvenient for GVC coordination, the "noodle bowl" effect (Pomfret, 2011, 89-91). This was most apparent in ASEAN's relations with its six Asian Economic Summit partners (the ASEAN+6 group). Not only did ASEAN's agreements with China, Japan, Republic of Korea, India, Australia and New Zealand have differing terms (e.g. rules of origin for goods to qualify for preferential treatment varied considerably), but individual ASEAN countries had signed separate bilateral agreements with individual +6 partners. To systematize these relationships, in 2012 ASEAN launched negotiations for a consistent Regional Comprehensive Economic Partnership (RCEP) agreement among the ASEAN+6 countries.

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

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

5. The EU’s External Trade Policy

During the 1960s, 1970s and 1980s, the EU’s trade policy focus was inward, on creating the customs union and then completing the internal market. The six signatories of the Rome Treaty participated as a single unit in the Kennedy Round of multilateral trade negotiations, and the outcome of substantially lower tariffs helped to maintain US support for the customs union since access for third countries’ goods was now substantially easier than under previous French or Italian tariffs. In the 1960s competition with EFTA, the Six signed Association Agreements with

Greece in 1961 and with Turkey in 1963. This turned out to be the beginning of a strategy of using preferential trade agreements as an instrument of foreign policy.

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

The pyramid of preferences proved to be a blunt instrument of foreign policy. Countries often fretted about the better treatment received by competitors rather than appreciating the better than MFN treatment that they had been granted. The substantial reductions in the common external tariff eroded the value of preferential tariffs and narrowed the scope for distinguishing between more or less preferred partners. The GSP came under criticism because preferential treatment was subject to upper limits, so that if a poor country did identify a successful export at the GSP tariff it would revertto MFN treatment. Economies whose exports faced MFN tariffs resented the discriminatory treatment.

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

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

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

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

6. The Trump Shock

One of President Trump's first steps after his inauguration in January 2016 was to announce the US withdrawal from the TPP agreement, which meant that the TPP could not be ratified by a sufficient weighted majority. It soon became clear that the new president did not feel bound by existing trade agreements that he perceived to be against US interests, including WTO commitments. Negotiations towards a Transatlantic Trade and Investment Partnership (TTIP) between the USA and EU were halted. In 2018, the threat of a trade war sparked by the US government's tariffs on steel and aluminum in June was followed by an actual US-China trade war. In both cases the US explanations in terms of national security risks and Chinese theft of intellectual property and other malpractice took the disputes beyond normal challenges under world trade law. At the same time, by refusing to fill vacant positions on the WTO appellate board, the USA threatened to vitiate complaints through normal dispute resolution mechanisms.

After the initial shock of US withdrawal, the eleven remaining TPP nations negotiated a new trade agreement called the Comprehensive and Progressive Agreement for Trans-Pacific

Partnership (CPTPP), which incorporates most of the provisions of the TPP and which entered into force on 30 December 2018. RCEP negotiations, which had proceeded slowly since 2012, appeared to be accelerated in 2018. In sum, the more open Asian economies that participated in GVCs responded to the Trump shock by reaffirming their commitment to open regionalism with WTO+ content.

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

The CPTPP brought together Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. RCEP will include some of these countries plus Cambodia, China, India, Indonesia, Laos, Myanmar, Philippines, South Korea and Thailand. The overlaps between the groups suggest strong incentives to ensure compatibility rather than creating idiosyncratic regulations, standards, etc.[15] In sum, the major Asian GVC participants and the EU have created a common trading environment that moves beyond WTO commitments to include areas on which it has proven difficult to achieve consensus on at the WTO.

7. Closed and Open Regionalism

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

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

[15] Some of the RCEP countries (e.g. South Korea and Thailand) have expressed interest in the CPTPP. The UK has also indicated interest in joining the CPTPP post-Brexit, which would highlight the non-regional nature of the agreement.

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

Beyond the differences, both European closed regionalism and Asian open regionalism have ended up with commitments by many countries to globalization and GVC facilitation. This involves openness to the world economy and, because many GVCs have actually been regional value chains, continuous efforts to reduce obstacles to regional economic cooperation. A major challenge for the 2020s is to create a legal/institutional framework in which GVCs can flourish. Especially as GVCs become more truly global, it is desirable to have global standards and regulations.

The first-best outcome would be to agreements within the WTO to include issues that are important to GVCs. However, this is unlikely in view of the tortuous history of the Doha Development Round, initiated in 2001 to include new areas and still running with minimal achievements. The fundamental problem is the requirement for consensus and the contrary objectives of some members, especially those with little GVC participation.

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

So far in the twenty-first century, however, there has been little new progress in this direction, and considerable opposition At the December 2018 Buenos Aires ministerial conference, 71 WTO members agreed on a proposal that could foreshadow a plurilateralagreement on e-commerce being proposed at the 2020 ministerial in Astana. A plurilateralwould avoid the need for consensus but is opposed by many WTO members on the grounds that it undermines the universality of WTO trade law.

Regional leadership is called for because lack of consensus, including blocking positions by several large trading nations, is stymying extension of the WTO beyond its twentieth century coverage. Open regionalism is a second-best approach that is desirable in the absence of WTO progress, especially if access to agreements is not regionally defined. Several Asian countries have shown interest in joining the CPTPP, but even more interesting is the prospect of post- Brexit Britain joining CPTPP and establishing that its boundaries are not limited to Pacific nations. The EU's external trade policy already has shown elements of open regionalism.[16] The EU has signaled its receptiveness to more flexible approaches; the *Trade for All* strategy document (EU, 2015, 5) acknowledged the EU-Asia link and the option of openness to other countries: "the strategy also opens the door to new initiatives, when the conditions are right - in the Asia-Pacific region, in particular, but also in Latin America and Africa."

7. Conclusions and Policy Recommendations

In the second half of the twentieth century it was commonplace to contrast European regionalism with the lack of regionalism in Asia, or with market-driven regionalization in East Asia.[17] In the twenty-first century, the institutional environment for international trade has converged in the two areas around a model of reducing barriers to doing business and conducting trade both within the national and regional economies and as part of engagement in the global economy. In this chapter, I have argued that the increasing fragmentation of production along regional and then global value chains has been a driver of this convergence.

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

In Europe, barriers to internal market integration have been substantially reduced by the 1992 program, Schengen and the euro. Regional value chains can be identified in earlier decades, but they have received a boost since the 1990s when the process of incorporating Eastern

[16] The EU *Trade for All* strategy (2015, 29) states that EU trade agreements should be open to all willing WTO members to join and gives the example of the FTA that the EU signed with Colombia and Peru in 2012, and to which Ecuador acceded as a result of negotiations concluded in July 2014. However, this set of agreements was from the start set in a South American framework.

[17] The regionalism/regionalization distinction was developed by Lorenz (1991; 1992).

European countries with different factor endowments and prices than the first fifteen members into the EU began. External trade policies to create favored partners or to protect favored producers have been abandoned in favor of an open trading regime. Bilateral agreements with major trading partners include areas and even language similar to that of the TPP, e.g. in the e-commerce chapter. Synchronizing the EU agreements with Asian open regionalism should not be difficult.

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

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

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