1 Introduction

1 The phenomenon of regional integration

Regional integration schemes have multiplied in the past few years and the importance of regional groups in trade, money, and politics is increasing dramatically. Regional integration, however, is no new phenomenon. Examples of *Staatenbünde*, *Bundesstaaten*, *Eidgenossenschaften*, leagues, commonwealths, unions, associations, pacts, confederacies, councils and their like are spread throughout history. Many were established for defensive purposes, and not all of them were based on voluntary assent. This book looks at a particular set of regional integration schemes. The analysis covers cases that involve the *voluntary* linking in the economic and political domains of two or more formerly independent states to the extent that authority over key areas of national policy is shifted towards the supranational level.

The first major voluntary regional integration initiatives appeared in the nineteenth century. In 1828, for example, Prussia established a customs union with Hesse-Darmstadt. This was followed successively by the Bavaria Württemberg Customs Union, the Middle German Commercial Union, the German Zollverein, the North German Tax Union, the German Monetary Union, and finally the German Reich. This wave of integration spilled over into what was to become Switzerland when an integrated Swiss market and political union were created in 1848. It also brought economic and political union to Italy in the *risorgimento* movement. Integration fever again struck Europe in the last decade of the nineteenth century, when numerous and now long-forgotten projects for European integration were concocted. In France, Count Paul de Leusse advocated the establishment of a customs union in agriculture between Germany and France, with a common tariff bureau in Frankfurt.[1] Other countries considered for membership were Belgium, Switzerland, Holland, Austria-Hungary, Italy, and Spain. In

[1] See Paul de Leusse, "L'Union Douanière Européenne," *Revue d'Economie Politique* 4 (1890), 393–401.

Austria, the economist and politician Alexander Peez forged plans for a Middle European Zollverein that included France.[2] And Count Goluchowski, the Minister of Foreign Affairs of Austria-Hungary, passionately advocated the idea of a united Europe in his public speeches. Many other politicians, economists, and journalists made proposals for European union which circulated through the European capitals during that decade.[3] Ultimately, all the projects came to naught.

Half a century later, the idea of European integration was re-invented and the process of merging European nation-states into one prosperous economy and stable polity began. The first step was taken with the creation of the European Coal and Steel Community (ECSC) in 1952. In 1957, Germany, France, Italy, Belgium, Luxemburg, and the Netherlands signed the Treaty of Rome establishing the European Community (EC).[4] The first enlargement of the EC occurred in 1973, with the accession of the United Kingdom, Denmark, and Ireland. Greece joined in 1981, Spain and Portugal in 1986. Nine years later, Austria, Finland, and Sweden became the Community's newest members. In the meantime, European integration had moved beyond trade. In 1979, the European Monetary System was established. And in 1992 the Community adopted the Maastricht Treaty on European Monetary and Political Union. By November 1993, the Community had changed its name to the European Union (EU) to mark the deep level of integration attained.[5]

Integration is not an exclusively European phenomenon, of course. In the 1960s the Latin American Free Trade Association, the Andean Pact, and the Central American Common Market were launched. In the early 1990s, more than half a dozen new integration projects were started in Latin America, the most notable being the Mercado Común del Sur

[2] Alexandre Peez, "A Propos de la Situation Douanière en Europe," *Revue d'Economie Politique* 5 (February, 1891), 121–139; see also his *Zur Neuesten Handelspolitik* (Vienna: Commissionsverlag v. G. Szelinski, 1895).

[3] See, for example, Paul Leroy-Beaulieu, "De la Nécessité de Préparer une Fédération Européenne," *L'Economiste Français* 2 (September, 1898), 305–307; Gustave De Molinari, "A Zollverein in Central Europe," *Gunton's Magazine* 12 (January 1897), 38–46; Handelskammersekretär Wermert, "Einige Betrachtungen über einen Mitteleuropäischen Zollverein," *Annalen des Deutschen Reichs für Gesetzgebung, Verwaltung und Statistik* 12 (1888), 943–954. For a good survey, see Ernst Francke, "Zollpolitische Einigungsbestrebungen in Mitteleuropa während des letzten Jahrzehnts," *Schriften des Vereins für Socialpolitik* 90 (Leipzig, 1900), 187–272.

[4] The Treaty of Rome established two new communities: the European Economic Community (EEC) and the European Atomic Energy Community. The EEC has been referred to as the European Community (EC) for many years. I will follow this convention throughout the book.

[5] I use the terms European Community and European Union interchangeably throughout the book.

(MERCOSUR) comprising Argentina, Brazil, Paraguay, and Uruguay. In North America, a Free Trade Agreement between the United States and Canada was signed in 1989. This agreement grew into the North American Free Trade Agreement (NAFTA) when Mexico joined in 1994. In Asia, the most notable regional grouping is the Association of Southeast Asian Nations (ASEAN), formed in 1967. In 1992 members agreed to establish gradually an ASEAN Free Trade Area. One of the most rapidly expanding groups is the Asia Pacific Economic Cooperation forum (APEC). It was launched in 1989 by Australia, New Zealand, Japan, South Korea, Canada, the United States, and the ASEAN countries. Today it comprises eighteen members. Malaysia also recently promoted the idea of a Japan-centered Asian bloc, the East Asian Economic Grouping (EAEG).

Tables 1.1 to 1.3 provide a sample of the most important regional integration schemes around the world, past and present.

2 Explaining regional integration

This book seeks to introduce analytical order to this multitude of integration schemes and to address the general question of what forces drive the process of voluntary integration. The study is motivated by the belief that there is a general logic to regional integration, or – in the words of Milton Friedman – "that there is a way of looking at or interpreting or organizing the evidence that will reveal superficially disconnected and diverse phenomena to be manifestations of a more fundamental and relatively simple structure."[6] To claim that there are recurring regularities, however, is not to deny the complexity of the phenomenon under study, nor to belittle the importance of differences that remain unexplained by my approach. Regional integration is a product of many and varied forces. This book offers no full account of the phenomenon, neither descriptively nor analytically. It simply seeks to answer a few important questions about regional integration which have remained unaddressed, by incorporating hitherto much neglected factors into the explanation of a complex reality.

This book is also an invitation to the reader to think scientifically about integration and to be wary of so-called explanations that fail basic tests of scientific inference. Unfortunately, these explanations are many. In the context of recent European integration, three popular accounts of the forces driving integration are frequently encountered. First, it is said that politicians, haunted by the horrors of the Second World War, were

[6] Milton Friedman, *Essays in Positive Economics* (Chicago: University of Chicago Press, 1953), p. 33.

Table 1.1. *Selected regional integration schemes in Europe*

Name of integration scheme	Objective
Bavaria–Württemberg Customs Union 1828–1833	Common tariff. Each state retains own customs administration.
Middle German Commercial Union 1828–1831	Closer commercial ties. To keep commercial expansion of Prussia in check. No common tariff.
German Zollverein 1834	Developed from customs union of 1828 between Prussia and Hesse-Darmstadt; all German states eventually joined; laid down the economic foundation for political unification of Germany.
Tax Union (Steuerverein) 1834–1854	Established by Hanover and Brunswick; Oldenburg joined in 1836; Lippe Schaumburg in 1838. Genuine customs union with common tariff, common excises, joint customs administration.
German Monetary Union (Deutscher Münzverein) 1838	Fixed rates (based on the Cologne mark of fine silver) between the thaler of Prussia, Hanover, and other North German states and the florin currency in the South German states.
Moldovian-Wallachian Customs Union 1847	Led to the foundation of Romania in 1878.
Swiss Confederation 1848 (completed in 1874)	Economic and political unification of Switzerland.
German Monetary Convention 1857	Attempt to secure fixed rates between Prussian thaler, South German florin, and the Austrian monetary system; a Union thaler (*Vereinsthaler*) was introduced (equal in value to one Prussian thaler).
Latin Monetary Union 1865	The basis of this union was the French franc (established in 1803 as a metric coin on a bi-metallic base). Belgium based their franc on French coin in 1832; Switzerland in 1850; Italy in 1865 (year of conference establishing LMU); Greece joined in 1867.
Scandinavian Monetary Union 1875	Based on crown of 100 ore; included Sweden, Denmark, Norway.
Benelux 1944	Customs convention between the Netherlands and the Belgian–Luxemburg Economic Union of 1921.
European Community (EC) 1958	By 1968 removal of tariffs and quotas; common external tariff; common policies in agriculture, regional development, research and development, education, economic cohesion etc. Powerful supranational institutions.

	Single European Act (1987): Plan to establish free movement of goods, services, factors of production by 1992. Maastricht Treaty (1993): seeks monetary union (EMU) and closer political union. Members: Austria (1995), Belgium, Denmark (1973), Finland (1995), France, Germany, Greece (1981), Ireland (1973), Italy, Luxemburg, Netherlands, Portugal (1986), Spain (1986), Sweden (1995), UK (1973).
European Free Trade Agreement (EFTA) 1960	Elimination of all tariffs on manufactures by mid-1967; special rules for agricultural trade; various EFTA members sought free-trade agreements (FTAs) with the EC in 1972–1973. Members: Iceland (1970), Liechtenstein (1991), Norway, Switzerland. The UK and Denmark left in the early 1970s. Austria, Finland, and Sweden left in 1994 to join the EU. *European Economic Area* (EEA) (1992): Extended EC law provisions of "EC92" to EFTA. (Switzerland rejects the EEA in 1992.)
European Monetary System (EMS) 1979	Established by members of the EC to coordinate and stabilize exchange rates of member countries. Membership is voluntary.

naturally driven to devise a novel structure of European governance capable of eradicating the very roots of intra-European conflicts. The creation of the European Coal and Steel Community served this purpose directly. It established supranational control over resources that render warfare possible. The concern about securing peace may also have contributed to the set-up of the European Community, and there is evidence that this concern lingered on into the 1980s. But is it the *main* force that has driven European integration? Why then was a rival regional community set up, the European Free Trade Association, given the tendency of rival commercial unions to exacerbate conflicts? Why did not all European countries participate in the peace-building effort from the beginning? Did the United Kingdom, Denmark, and Ireland join the European Community in 1973 because of concerns about peace?

A second set of explanations centers around the notion of leadership. Insightful, charismatic leaders, it is alleged, managed to transcend the narrow-mindedness and selfishness of domestic pressure groups hostile to integration and European unity. But this account is flawed by its inability to explain numerous failures of these leaders and long phases of stagnation in the process of community building.

Table 1.2. *Selected regional integration schemes on the American continent*

Name of integration scheme	Objective
Gran Colombia 1948	Plan to establish a Greater Colombia Economic and Customs Union (members: Colombia, Ecuador, Panama, Venezuela).
Central American Common Market (CACM) 1960	Objective: customs union and joint industrial planning (import substitution industrialization). By 1966, tariffs were removed on 94% of intraregional trade, and 80% of extraregional imports were covered by a common external tariff. Intraregional trade increased from 5.9% in 1958 to 24.2% in 1968. CACM's success story ends with the "Soccer War" of 1969 between El Salvador and Honduras. *1991*: Renewed effort to implement free-trade agreement. (Adoption of timetable for trade liberalization. Members, however, fail to agree on common external tariff by 1992.) *1993*: CACM and Panama sign the Central American Economic Integration Treaty. Members: Costa Rica (1963), El Salvador, Guatemala, Honduras, Nicaragua. *1993*: CACM signs free-trade agreement with Colombia and Venezuela. *1994*: CACM signs free-trade agreement with Mexico.
Latin American Free Trade Association (LAFTA) 1960	Objective: free trade association with joint industrial planning. Common list of products to be liberalized by 1972. Partial implementation in the 1960s. Common list not liberalized on schedule. LAFTA was replaced by Latin American Integration Association (LAIA) in 1980. *1990*: Announcement of renewed tariff reductions and trade liberalization. Members: Mexico and all South American countries, except Guyana, French Guiana, Suriname.
Andean Pact (AP) 1969	Objective: Customs Union and joint industrial planning. Postponed several times. *1989*: AP targets 1995 for the establishment of a free-trade area and 1997 for the establishment of a common market. *1996*: The Trujillo Act changes the group's name to Andean Community and lays down proposals for the strengthening of the political aspects of the bloc through the creation of a secretary general and an Andean Parliament. Members: Bolivia, Ecuador, Colombia, Peru, Venezuela (Chile withdrew in 1976).

Caribbean Community (CARICOM) 1973	Objective: customs union and joint industrial planning. Little progress. *1990*: New schedule outlined establishing a common external tariff. A subgroup of CARICOM, the Organization of East Caribbean States (OECS) agreed to implement CARICOM's external tariff ahead of schedule and to implement a phased removal of quantitative restrictions on all intraregional imports. Members: Antigua and Barbuda, Bahamas (1983), Barbados, Belize (1974), Dominica (1974), Grenada (1974), Guyana, Jamaica, Montserrat (1974), St. Kitts and Nevis, St. Lucia (1974), St. Vincent and the Grenadines, Trinidad and Tobago, Suriname (1995).
Mercado Común del Sur (MERCOSUR) 1991	Objective: Creation of a single market in goods, capital, and people by January 1995, but the treaty was amended by the Protocol of Ouro Preto in December 1994 with the member states agreeing on an imperfect customs union by January 1995. *1995*: MERCOSUR agrees to a five-year program under which it hopes to perfect the customs union. Members: Argentina, Brazil, Paraguay, and Uruguay.
Canada–US Free Trade Agreement (1989) North American Free Trade Agreement (NAFTA) 1994	Obective: Removal of all tariffs and most quantitative restrictions by 1999. Liberalization of trade in services, government procurement, and investment. Objective: NAFTA is a new, improved, and expanded version of the US–Canada FTA. It provides for phased elimination of tariffs and most non-tariff barriers on regional trade within ten years. A few import-sensitive products will have a fifteen-year transition period. NAFTA extends the dispute settlement of the US–Canada FTA to Mexico.

An ever-popular third explanation refers to changed preferences. The timing of a new application for membership, it is claimed, is attributable to the pressure from growing segments of society desirous of being connected to the larger "Euro-culture." These accounts based on *ad hoc* shifts in preferences seem little more than thinly veiled acknowledgements of theoretical ignorance. They shift the causal impetus to the social level, but then leave it unexplained.

The problem with explanations of this kind is not necessarily that they are wrong but that they are insufficient. The fact that a country or a region has a particular historical, political, or geographical trait provides no justification for the inference that there is a causal connection unless it identifies an attribute that can also explain a number of other cases or

Table 1.3. *Selected regional integration schemes in Africa, Asia, the Pacific, and Middle East*

Name of integration scheme	Objective
Southern African Customs Union (SACU) 1969	Based on customs union dating back to 1910. Goods and factor markets are well integrated. Common external tariff is operational. Members: Botswana, Lesotho, South Africa, Swaziland. Namibia joined in 1990.
Communauté Economique de l'Afrique de l'Ouest (CEAO) 1972	Objective: free-trade area. Members belong to the Western African Monetary Union (WAMU) and to the Economic Community of West African States (ECOWAS). Community Development Fund to compensate members for loss of tariff revenue. Members: Benin, Burkina Faso, Côte d'Ivoire, Mali, Mauritania, Niger, and Senegal.
Union Dounière et Economique de l'Afrique Centrale (UDEAC) 1973	Objective: Customs union. Little progress. Common external tariff was abolished *de facto*; intra-union trade in manufactures restricted to those produced by firms enjoying the status of *Taxe Unique* system. Members: Cameroon, Central African Republic, Congo, Gabon, Chad, Equatorial Guinea.
Economic Community of West African States (ECOWAS) 1975	Objective: full economic integration in fifteen years (customs union, development, and policy harmonization). Progress negligible. Includes members of CEAO and the Mano River Union (Guinea, Liberia, Sierra Leone). New project to eliminate non-tariff barriers (NTBs) by 1995. Members: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo.
Southern African Development Coordination Conference (SADCC) 1980	Objective: reduce economic dependence on South Africa through cooperation on projects to foster balanced regional development. Members: Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia (1990), Swaziland, Tanzania, Zambia, Zimbabwe.
Preferential Trade Area for Eastern and Southern Africa 1984	Objective: elimination of tariffs on all goods by 2000. Harmonization of policies. Some progress in tariffs (difficulties due to macroeconomic imbalances and the equitable distribution of costs and benefits). Members: Angola, Burundi, Comoros, Djibuti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Rwanda, Somalia, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe.

Association of South East Asian Nations (ASEAN) 1967	Objective: free-trade area and common industrial projects. Minimal intra-trade liberalization achieved. Industrial cooperation scarcely implemented. Effective in promoting regional political stability. Recent proposals by Thailand to create an ASEAN Free Trade Area (AFTA) within fifteen years. Plan endorsed in 1992 by ASEAN ministers. Members: Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Vietnam. *1997*: ASEAN decides to extend membership to Burma, Cambodia, and Laos.
Australia–New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) 1983	Objective: elimination of all tariffs by 1988 and all quantitative restrictions by 1995. In 1988, agreement for liberalization of trade in services and harmonization of regulatory practices. The agreement was slightly expanded in 1992.
Gulf Cooperation Council (GCC) 1981	Objective: customs union and political cooperation. Harmonization of policies, and customs unions. A common external tariff has not yet been implemented. Members: Bahrain, Kuwait, Oman, Quatar, Saudi Arabia, United Arab Emirates.
Asia Pacific Economic Cooperation forum (APEC) 1989	Started as a consultative body for trade issues. Members signed in 1994 an APEC "free -trade" agreement that is nonbinding and fails to define the scope of free trade. Members: ASEAN countries, Canada, United States, Australia, New Zealand, Japan, South Korea, China (1991), Taiwan (1991), Hong Kong (1991), Mexico (1993), Papua New Guinea (1993), Chile (1994). Vietnam has applied for membership.

Sources (Tables 1.1 to 1.3): Jacob Viner, *The Customs Union Issue* (New York: Carnegie Endowment for International Peace, 1950); Pierre Benaerts, *Les Origines de la Grande Industrie Allemande* (Paris: F. H. Turot, 1933); L. Bosc, *Union Dounières et Projets d'Union Douanières* (Paris: Librairie Nouvelle de Droit et de Jurisprudence, 1904); Sidney Pollard, *European Economic Integration 1815–1970* (London: Harcourt Brace Jovanovich, 1974); Augusto de la Torre and Margaret Kelly, *Regional Trade Arrangements*, occasional paper 93 (Washington: International Monetary Fund, March 1992); Jaime de Melo and Arvind Panagariya (eds.), *New Dimensions in Regional Integration* (Cambridge: Cambridge University Press, 1993); *Latin America Monitor – Central America* 10, no. 12 (December 1993). Jeffrey Frankel, *Regional Trading Blocs in the World Economic System* (Washington: Institute for International Economics, 1997).

phenomena or is logically derived from a theory that has wide explanatory power. It is almost always possible to provide an "explanation" after the event if any amount or type of information about a sufficiently complex single case can be used in constructing the explanation.[7]

At various times, social scientists have searched for more rigorous explanations of economic and political integration. In political science, one major analytical framework for understanding integration is neofunctionalism. It clarifies and refines many of the ideas developed by its predecessor theory, functionalism. It begins with the assumption that supranationality is the only method available to states to secure maximum welfare and then proceeds to provide an insightful account of how integration evolves using concepts such as functional spillover, updating of common interests, and subnational and supranational group dynamics. Neofunctionalism is an important building-block of a comprehensive account of integration. But it is not enough. By its very assumption it fails to give an explanation of the link between welfare maximization and regional integration. It seeks to account for the institutional arrangements within a region in which economic transactions take place, but it leaves these transactions unexamined. Another weakness is that it never fully specifies the conditions under which subnational demands for integration become accepted at the national level. As a result, neofunctionalism fails to answer several important questions: what exactly are the forces that render the nation-state obsolescent? Why is decision-making at the supranational level more efficient? Why have some integration schemes failed? Why does a country seek to join an already existing community and what explains the timing of such a request for membership? Other questions that neofunctionalism fails to address are: what role do external events play in regional integration? What is the impact of community-building on non-members?

Intergovernmentalism is an alternative approach to integration in political science. Unlike neofunctionalism, it assigns a central role to heads of states. It argues that regional integration can be best understood as a series of bargains among the political leaders of the major states in a region. These bargains are the result of converging preferences among these leaders. Small states are often bought off with side-payments offered by the leading states. The emphasis on power-related variables does enable intergovernmentalists to elucidate important features of regional agreements that elude neofunctionalists. Nevertheless, as a theory of integration, intergovernmentalism suffers from several

[7] Mancur Olson, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982), pp. 10–11.