

8

*Regional Integration
and Globalization*

Have I said clearly enough that the community we have created is not an end in itself? The community itself is only a stage on the way to the organized world of tomorrow.

JEAN MONNET

Statesman regarded by many as the architect of European unity
Mémoires, 1976

Modern communications technology interdependence and economies of scale throughout the private and public sectors make it increasingly necessary to go beyond the limits of the nation-state in organizing significant aspects of economic, social, and political activity. The preceding chapters have discussed the process of globalization and some of the global governance challenges posed by it. The search for supranational problem solving and international cooperation is not always global in nature, however.

Alongside globalization, the post-World War II period also has seen numerous attempts at regional integration, more pronounced in some parts of the world than in others and with varying degrees of success. Moreover, the publication of Samuel Huntington's *The Clash of Civilizations and the Remaking of World Order* in 1996 has popularized a worldview that sees the future not so much as one of an increasingly harmonious international community functioning with more global governance, but rather as one of a world of more or less antagonistic regional blocs made up of countries with geographical proximity and people coming together based on history, culture, and religion.

Thus, when discussing "better" globalization, it is necessary to discuss also regionalization and how it relates to, competes with, or complements globalization. Is the world moving toward regional "superstates" that will gradually replace the old, smaller nation-states? Must global governance be developed within a framework in which Huntingtonian and

regional superstate blocs will become the new emerging constituent units of the international system? Is better global governance possible in a world of competing megaregions? What kinds of regional cooperation are really being developed? How do regional organizations, such as the regional development banks, fit in with the global organizations discussed in the preceding chapters? Are regional blocs of the type foreseen by Huntington in the making? How are local, regional, and global dynamics likely to interact in transforming the international system?

The European Union is to date the most ambitious and successful of the regional integration processes undertaken in recent years. The second half of this chapter will focus on the EU as an extraordinary historical process that has resulted in a significant amount of supranational governance. How much further along the European integration process will proceed is the subject of considerable debate. Regardless, much can be learned from the European experience, and much of the debate is not only about the future of the EU, but about future forms of supranational governance worldwide.

Europe has not been the only part of world that has pursued some form of regional integration, nor is it alone in debating its future and its borders. Well over a hundred regional cooperation arrangements now exist, most in the form of regional trade agreements with various degrees of additional features relating to investment, travel, and economic cooperation. Some of these arrangements include attempts at political cooperation, but most are purely economic in nature and basically focus on trade.¹

Despite their great diversity, the East Asian countries have been trying to move toward regional cooperation at least since the 1970s. Latin America, where countries share a common history and language, has long

1. See Ethier (1998) for an overview and theoretical analysis of what has been called the "new regionalism." There are five general types of regional economic integration. A *free trade area* includes a group of nations that have reduced or fully dismantled internal barriers to trade in goods and services but have not adopted common external tariffs (i.e., the countries maintain individual tariffs with regard to outside countries). A *customs union* is a group of nations that have established a free trade area and a common external tariff regime (i.e., trade policy is consistent throughout the member countries). A *common market* involves a group of nations that have established a customs union and, in addition, free mobility of capital and labor across borders, which typically implies harmonization of rules, regulations, standards, specifications, and other commercial policies between member countries. An *economic community* is a group of nations that have established a common market and, in addition, work to coordinate and harmonize fiscal and monetary policies. Finally, an *economic union* is a group of nations that have established an economic community and, in addition, have unified social, fiscal, and monetary policies and a common currency.

202 *A Better Globalization*

sought some degree of integration. As part of the Americas, Latin America also has been part of efforts to better integrate North and South America. Within Latin America and the Caribbean are subregional organizations and groupings that reflect cooperation and integration initiatives. The North American Free Trade Agreement (NAFTA) has brought together the United States, Canada, and Mexico in a free trade zone. The Arab countries, which also share a common language and much common history, have talked about regional integration since they gained independence. In the 1950s, the United Arab Republic briefly brought together several Arab countries under Egyptian leadership. Greater regional integration has also been an objective for African countries.

But what is the current state of the world in terms of regionalization? The brief summaries that follow about integration efforts in the different world regions serve not only as a backdrop for the subsequent, more detailed discussion about the European Union, but also as background as to how regional and global integration dynamics interact. Are globalization and regional integration competing trends, with more regionalization leading to less globalization and vice versa? Or do they complement one another?

East Asia

East Asia includes one giant (China), another giant in terms of economic size (Japan), and other economically important nations ranging from Australia to South Korea. In all, East Asia totals 31 countries, with other major players including Indonesia, Thailand, Malaysia, the Philippines, Vietnam, and New Zealand. The region is also home to numerous smaller nations, including several tiny island economies.

East Asia is ethnically and religiously diverse and has no common language. Two countries, Australia and New Zealand, have populations of largely non-Asian origin. Until the 1990s, the region was also divided ideologically between the communists and their adversaries allied to the United States. After the collapse of the Soviet Union and the liberalizing reforms in China, this sharp ideological divide gradually disappeared.

The degree of integration through trade has been increasing very rapidly in East Asia. The share of intraregional trade in total trade has risen from about one-third to over one-half since 1980.² The expansion

2. As a comparison, the share of intraregional trade is about 60 percent in the European Union and 46 percent in North America. The rate of increase, however, is fastest in East Asia. See Kawai (2004) for an analysis of Asian economic integration and interdependence.

of trade has been closely linked to foreign direct investment, with Japanese firms as major players increasingly locating production in Southeast Asian countries. Much trade has taken the form of intrafirm shipments within the framework of increasingly integrated production circuits. Over the last decade, this deep regional integration has also extended to China, although given the size of the Chinese economy, the segments of industry that are part of this integrated East Asian economy are smaller than in the other countries. The degree of East Asian interdependence is also reflected in the high degree of cross-county correlation of macroeconomic variables such as GDP growth, investment, consumption, and inflation.

The 1997–98 financial crisis spurred Asia to enhance cooperation in the financial and macroeconomic domain.³ The sudden nature of the crisis and the speed with which it spread were a deep psychological blow to a region accustomed to uninterrupted growth, and one which had been so much admired for its economic “miracle” to be emulated by other regions of the world. The regional nature of the crisis clearly reflected the degree of interdependence. Early on, Japan wanted to launch a regional monetary fund and rescue package to help stem contagion and limit the macroeconomic downturn. The US Treasury and the International Monetary Fund (IMF) strongly resisted this initiative on the grounds that it would undercut the IMF during the critical phase of negotiating conditions that would accompany Fund lending, thus reinforcing moral hazard. While Japan’s original plan to set up a kind of regional IMF did not materialize, it did pledge \$30 billion to a regional recovery fund and continue to push for regional integration and cooperation. This early commitment helped turn around expectations and stabilize the East Asian economies. Japan also joined the United States, the Asian Development Bank (ADB), and the World Bank in promoting needed corporate restructuring in the region. Two years after Japan’s initial efforts, the Association of Southeast Asian Nations (ASEAN) met with Japan, Korea, and China (ASEAN + 3) in Chiang Mai to establish a regional network of swap arrangements to help manage currency attacks and contagion. Members requesting liquidity support can immediately obtain short-term financial assistance for the first 10 percent of the Chiang Mai facility. The remaining 90 percent becomes available as part of an IMF-supported program. This constitutes an example of a regional initiative with a clear global link, reconciling regional solidarity with global governance.

3. This section is based on information provided in Kawai (2004).

In the fall of 1998, one year after the Asian crisis erupted, ASEAN also established a regional economic surveillance mechanism, which included measures to monitor economic and financial variables as well as a regional peer review process. This was followed in May 2003 by the ASEAN + 3 Economic Review and Policy Dialogue conducted by the regional finance ministers to focus on macroeconomic trends, risk management, capital flows, and the financial sector. The dialogue arrangement has no formal secretariat, but the ADB provides information to the meetings. Headquartered in Manila, the ADB has a membership of 63 countries, with total lending volume of \$6.1 billion in 2003 (Asian Development Bank 2004).

East Asia faces a number of rather unique “border” issues. Australia and New Zealand, which are culturally and ethnically more European than Asian, nevertheless are geographically part of Asia. Moreover, the Pacific Ocean creates economic and transportation links with many Pacific island states as well as the western rim of the Americas looking toward Asia. These Pacific links have led to some loose forms of cooperation. The Asia-Pacific Economic Cooperation (APEC) forum was established in 1989 to promote trade and investment links, facilitate business, and augment economic and technical cooperation in the region (Asia-Pacific Economic Cooperation Secretariat 2003). In addition to the major East Asian countries, APEC includes American countries such as the United States, Mexico, Chile, and Canada. Its vision is articulated in what are known as the “Bogor goals” adopted in 1994: establishment of free trade and open investment in the Asia-Pacific region by 2010 for the advanced economies and by 2020 for the developing economies. To achieve these goals, APEC has outlined a strategic framework called the Osaka Action Agenda that delineates general principles, including nondiscrimination, transparency, flexibility, and consistency with the World Trade Organization (WTO). Member economies prepare individual action plans and periodically submit them to peer review. Several policy and cooperation initiatives have ranged from training financial sector supervisors and regulators to submitting corporate governance reforms to peer review and examining economic and institutional factors affecting remittances of expatriate workers.

Developments in East Asia over 1998–2004 demonstrate that in many ways the Asian miracle continues. In many countries, growth has returned to close to precrisis levels, and the huge amounts of accumulated foreign exchange reserves provide a formidable cushion against possible economic shocks. While the Japanese economy is no longer the growth

engine it was from the 1960s to the early 1990s—Japanese growth averaged less than 1 percent in the post-Asian crisis period—the increasing weight of China and its phenomenal growth performance have ensured high regional growth averages. Other medium-sized countries such as Korea, Thailand, Taiwan (Republic of China), Singapore, and Malaysia have also overcome the crisis and are growing in the 5 to 7 percent average range. The Philippines and Indonesia have to carry heavier debt burdens and seem more vulnerable. Finally, Australia and New Zealand, with their more mature economies, have a much lower growth rate. Overall, however, the economic performance of East Asia continues to be impressive. China is already attracting more direct foreign investment than any other country, including the United States. In less than two decades, China will likely rival the United States and the European Union in economic size, although the per capita income gap will remain large for a long time.

How much is regional cooperation in East Asia likely to develop over the next two decades? The experience of the last few years suggests that quite advanced forms of regional economic cooperation will contribute to stabilizing the East Asian growth process. The interdependence of the East Asian economies has created a powerful interest in regional stability, and the memory of the 1997–98 crisis encourages cooperation. It is unlikely, however, that East Asia will turn inward or move toward some form of political union. The East Asian economies trade a lot with each other but are also oriented toward the global market, with their growth driven by integration into global production and consumption circuits. There are no strong signs of resurgent regional protectionism, and the East Asian countries are likely to engage in and support further multilateral trade liberalization. Economic links to the United States are strong, complemented by growing links to Latin American economies. Links to Europe also remain important, augmented more recently by ties with India, the Russian Federation, and Central Asia.

The picture that is emerging for East Asia is one of a powerful and dynamic region developing effective and diverse internal economic cooperation mechanisms, while at the same time staying open to the world and very much part of both the global economy and international system. The East Asian nations will seek recognition of their increasing weight, but provided that such a legitimate demand is satisfied, there is little reason to expect that East Asia will develop in ways antagonistic to other regions or to global cooperation.

South Asia

South Asia includes the giant nation that is India with more than 1 billion citizens, as well as Pakistan, Bangladesh, Sri Lanka, and the small Himalayan states of Bhutan and Nepal. South Asia has long been one of the poorest regions of the world. Over the past decade, however, it has also become one of the fastest growing regions, due in large part to a remarkable transformation in India that has gradually moved the country to an annual average rate of per capita growth close to 5 percent. India by itself, like China, is emerging as one of the world's largest economies.

The decades-old rivalry between Pakistan and India has limited cooperation in South Asia, although India now has strong links with its other neighbors. Ties also are likely to increase between India and East Asia, as India may join some of the East Asian cooperation organizations.

For its part, Pakistan has developed strong economic links with many Middle Eastern countries, particularly Saudi Arabia. The tension between Pakistan and India has declined recently, and if political problems between the two nations over Kashmir can be resolved, greater economic cooperation may become possible within South Asia. That said, the emergence of a South Asian cooperation zone or some kind of a regional bloc is unlikely in the near future.

Latin America

Latin America has a long history of efforts to forge regional cooperation. The Organization of American States (OAS) traces its origins to Simón Bolívar's proposal for a League of American Republics at the 1826 Congress of Panama. The modern OAS is a post-World War II organization conceived in 1948. All 35 independent countries of the Americas have ratified the OAS charter and belong to the organization, although the Cuban government, despite Cuba being a member, has been excluded from OAS participation since 1962. The OAS promotes cooperation in the Americas and in 1994 adopted the goal of establishing a Free Trade Area of the Americas (FTAA) by 2005, a goal that will not be reached by its target date.

The Americas are home to a number of subregional customs unions. The Caribbean Community and Common Market (CARICOM), established in 1973, brings together such countries as Jamaica, Barbados, Guyana, and many other small economies. Inspired by the European

Union, CARICOM has ambitions to evolve toward a strongly integrated regional single market and economic zone. Its revised treaty provides for joint sectoral policies, fiscal harmonization, a single currency in the future, and a Caribbean Court of Justice to apply the treaty. To date, however, there has been little progress beyond the common market arrangement.

Mercosur, the Southern Cone Common Market, is a regional economic cooperation agreement set up between Argentina, Brazil, Paraguay, and Uruguay in 1991. In 1998, Mercosur created a mechanism for political consultations, and the process of institutionalizing that mechanism has been furthered by the recent establishment of a Committee of Permanent Representatives and a Dispute Settlement Court. Several Latin American countries have become associate members of Mercosur with access to preferential trade terms.

The Andean Community is a subregional organization comprised of Bolivia, Colombia, Ecuador, Peru, and Venezuela. It began operating in 1997 as the successor to the Andean Pact, which had been formed in 1969. The Andean Community is an economic and social integration organization that promotes liberalization of subregional trade, implementation of a common external tariff, harmonization of foreign trade policies, and coordination of economic policies, all of which are encompassed in the community's common foreign policy. Furthermore, a free trade area was established in 1993 and a common market is to be formed by 2005. The institutional reforms that created the Andean Community have attempted to extend integration into the political sphere by forming an institutional framework known as the Andean Integration System, which includes a presidential council, council of foreign ministers, commission, general secretariat, court of justice, parliament, development corporation, reserve fund, and social, education, business, and labor institutions. However, integration beyond the economic sphere has stagnated due to the reluctance of the member states to part with any national sovereignty (Martínez 2002).

NAFTA, the largest and best known of the American regional trade agreements, followed the Canada-US Free Trade Agreement of 1989 and was established in 1994 as a comprehensive agreement linking Canada, the United States, and Mexico. The agreement immediately ended tariffs on a wide range of goods and stipulated more gradual elimination of other tariffs. While NAFTA has provisions that go beyond trade as such, reaching into areas such as intellectual property rights and investment

regulations, it does not include longer-term political integration objectives, nor does it create supranational bodies or a body of law that would take precedence over national law, as is the case for the European Union.

The Inter-American Development Bank (IDB), the regional development bank for Latin America and the Caribbean, had annual lending of \$6.8 billion in 2003. The IDB was founded in 1959 as a partnership between 19 Latin American countries and the United States, with European countries and Japan joining later. In Latin America today, the IDB is probably as important as the World Bank in terms of deployment of financial and staff resources. Of course, the IMF is still the most important institution in terms of macroeconomic crisis management and lending to overcome financial crisis.

Neither the Americas nor Latin America as such is emerging as a regionally integrated political or economic bloc. As in Asia, diverse forms of regional and subregional cooperation are progressing, particularly in trade and development banking, but there is no process of political integration comparable to that of Europe. Moreover, regional integration has been running parallel to participation in WTO-sponsored multilateral trade liberalization, and Latin America has also participated in the global UN system and the Bretton Woods institutions. The major Latin American nations such as Brazil, Mexico, and Argentina have been proactive leaders in attempts to form intercontinental alliances with other major developing countries, such as India, China, and South Africa, on various global issues, particularly trade.

Arab Countries

The Arab world⁴ from Iraq to Morocco, and from Yemen to Syria, shares a written language, a great deal of common history, and a broad identification with Islam, although not all Arabs are Moslems.⁵ Despite these bonds, which should create the conditions for strong regional cooperation, there is little effective cohesion in the Arab world. The functions of the Arab League in bringing together all Arab countries have been largely ceremonial. Some progress has been made with the Arab Free Trade

4. The members of the Arab League are Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, United Arab Emirates, and Yemen.

5. A significant number of Egyptians, Lebanese, Syrians, and Palestinians are Christian. Other Arab nations have smaller numbers of Christians and other minorities.

Agreement, decided on within the Arab League framework in 1997 with the aim of achieving free trade among Arab countries by 2008. Nonetheless, intraregional trade barriers in the form of tariffs and nontariff restrictions remain high and inter-Arab trade represents only 8 percent of the Arab countries' foreign trade.

Regional development banks and development organizations, such as the Arab Fund for Economic and Social Development, the Kuwait Fund, and the Islamic Development Bank (IsDB), have played a considerable role in financing projects throughout the Middle East and Africa. They represent the most successful aspect of regional cooperation in this part of the world. To some extent, the activities of these development banks reflect the huge income and wealth differentials in the Arab world, which make resource transfers from the rich to the poorer countries both feasible and a political necessity. The Arab Monetary Fund, with its headquarters in the United Arab Emirates, has attempted to develop some regional monitoring and a macroeconomic consultation process with a certain degree of success. Overall, however, the Arab countries have not developed cooperation mechanisms that are as extensive as what has emerged in East Asia or even in Latin America.

Organization of the Islamic Conference

Islam, more than any other religion, still links the temporal and spiritual sphere. The Islamic *Oumma* or "community of faith" has a meaning and a political-emotional connotation for most Moslems for which there is no modern equivalent among other religions, except perhaps the Jewish faith in the context of Israel, where religious and temporal identity are also interlinked. There is an Organization of the Islamic Conference (OIC), whereas there is no similar organization grouping countries in which the majority of citizens are from the other big world religions. The OIC, established in 1969, is composed of 56 member states that "decided to pool their resources together, combine efforts and speak with one voice to safeguard the interest and ensure the progress and well-being of their peoples and those of other Muslims in the world over."⁶ The Islamic Conference is made up of three main bodies: the Conference of Kings and Heads of State and Government, the Conference of Foreign Ministers, and the General Secretariat. In addition, it has four specialized institutions: the Islamic Development Bank, Islamic Educational, Scientific and Cultural

6. See the OIC website at www.oic-oci.org/.

Organization, Islamic States Broadcasting Organization, and International Islamic News Agency, as well as numerous ministerial committees. In the economic sphere, the OIC strives to strengthen intra-OIC economic cooperation through a General Agreement on Economic, Technical and Commercial Cooperation, an Agreement on Promotion, Protection and Guarantee of Investments, and a Framework Agreement on Trade Preferential System.

The OIC's permanent General Secretariat was established in 1970 and the organization's charter was adopted in 1972. The charter enumerates the fundamental principles of the OIC, including nonintervention in the domestic affairs of member states, the unmitigated sovereignty of each nation, peaceful settlement of disputes among member states, and, similarly, a pledge to refrain from using force against another OIC country. Unfortunately, the bloody war between Iraq and Iran, which cost well over a million lives in the 1980s, is just the most obvious example of how these resolutions have failed to translate into reality.

Africa

In many ways, Africa is the most fragmented of the large regions of the world—aggressed and exploited by colonialism for many centuries, its inhabitants enslaved at home or kidnapped for slavery in the Americas and the Middle East, and its natural resources plundered by colonizers. Only after the Second World War, and initially with the support of the Soviet Union,⁷ were Africans able to reach for self-rule and independence. Unfortunately, with their borders having been arbitrarily drawn by the colonial powers, the African nation-states that emerged had little of the sense of common national identity that was an ingredient in the emergence of nation-states in Europe and, to a lesser extent, elsewhere. The national borders that emerged in the postcolonial period were mostly inconsistent with tribal identities or geographical realities.

Moreover, while the African Union encompasses the whole of the African continent, North African Arab countries such as Egypt and Tunisia have a stronger emotional attachment to Arabism and the Middle East than to sub-Saharan Africa. Further, many sub-Saharan African

7. While the Soviets were by no means pursuing altruistic aims in Africa or elsewhere, the communist ideological challenge and the assistance provided by the Soviet Bloc to various independence movements contributed to ending the empires of the colonial powers.

countries can be grouped as Francophone or Anglophone, reflecting their cultural and linguistic heritage from the colonial period.⁸

Nonetheless, regional integration emerged as a prominent issue in Africa in the 1960s as a correlate to inward-looking development. At the time, regional integration was conceived as entailing free trade within Africa and a unified protectionist stance toward the rest of the world (Hoff 1999). Subregional cooperation schemes proliferated, viewed as building blocks of a pan-African economic union, and consequently African nations established over 200 regional groupings and agreements, largely between 1970 and 1985, though without many concrete results. Inspired by the development of the European Union, interest in regional integration resurged in Africa during the 1990s based on a new paradigm of a multi-lateral liberal trading system in accord with the dynamics of globalization. Modern African regionalism thus buttresses the characterization by Schiff and Winters (2003) of regional integration over the past 10 years as based on a more outward-oriented model, in line with the worldwide shift away from import substitution as the preferred model of development.

After coordinated industrial development in southern Africa proved largely unsuccessful due to the lack of supranational institutions to enforce regional decisions, the Southern African Development Community (SADC) charted a different course in the 1990s by evolving into a regional economic integration organization to facilitate the pooling of its member countries' resources. The SADC has proposed establishing a free trade area by 2008, and member nations have reduced all external tariffs and pursued trade agreements with the United States, the European Union, Mercosur, and ASEAN. Similarly, pursuant to the 1981 treaty that established the Preferential Trade Area (PTA) for Eastern and Southern Africa, the PTA was transformed in 1993 into the Common Market for Eastern and Southern Africa (COMESA). COMESA encompasses 20 eastern and southern African countries, 385 million people, and a combined GDP of over \$180 billion. It became a free trade area in 2000 and is designed to develop into a customs union in 2004 and, eventually, an economic community.

The West African Economic and Monetary Union (WAEMU), composed of Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo, might actually be the most advanced regional organization in Africa in terms of level of integration attained, having made

8. Angola, São-Tome, and Mozambique have kept linguistic ties with Portugal.

concrete progress in establishing a common market. In addition, the Southern African Customs Union (SACU), established in 1969 by South Africa, Botswana, Lesotho, Namibia, and Swaziland, is the oldest customs union in the world. In 1993, the 16 West African member states of the Economic Community of West African States (ECOWAS) revised the organization's treaty to accelerate economic integration and augment political cooperation. Similarly, the Intergovernmental Authority for Development (IGAD), originally formed in 1986 to address drought and desertification in its seven member nations, was revitalized in the mid-1990s as a political, economic, development, trade, and security entity.

As for pan-African integration, the Organization of African Unity (OAU) was succeeded in 2002 by the African Union (AU), which includes 53 nations and promotes the political and economic integration of Africa and the integration of the continent into the global economy. The AU defines itself as "Africa's premier institution and principal organization for the promotion of accelerated socioeconomic integration of the continent . . . based on the common vision of a unified and strong Africa and on the need to build a partnership between governments and all segments of civil society . . . in order to strengthen solidarity and cohesion amongst the peoples of Africa." The structure of the AU includes an assembly, the main legislative body, an advisory Executive Council made up of the foreign ministers of the member nations, a pan-African parliament, an administrative commission, an advisory Economic, Social and Cultural Council, and a Peace and Security Council with mandates to intervene to prevent genocide and crimes against humanity and to engage in peace-keeping missions.

Functionally, the AU has introduced a voluntary peer review scheme whereby member states are expected to monitor one another's adherence to democratic practices and prudent economic policy. Plans also are in place to establish a central bank, a monetary fund, an investment bank, a human rights court, a rapid reaction force for the Peace and Security Council by 2010, and an African Economic Community with a single currency by 2023. However, many question the financial capacity of the AU, with its \$43 million annual budget, to carry out its ambitious schemes, and in 2004 the AU asserted that it needed a Marshall Plan. The AU also oversees the New Partnership for Africa's Development (NEPAD), a strategic socioeconomic development framework adopted by the OAU in 2001 that centers on the Capital Flows Initiative, under which African

heads of state have pledged commitment to democracy and good governance, protection of human rights, regional and continental integration, peace and security, capacity-building, and the African Peer Review Mechanism in return for increased overseas development assistance (New Partnership for Africa's Development 2001).

The African Development Bank Group, now headquartered in Tunis, has also played a significant role in African regional integration, though it disburses less financing annually to sub-Saharan Africa than do the World Bank and the primary bilateral donors. All 53 African nations and 24 nonregional countries are members of the Bank Group. The nonregional countries primarily fund the group's activities and hence have considerable voting power. The Bank Group is made up of three institutions. First, the African Development Bank (AfDB), established in 1964, makes nonconcessional loans to creditworthy borrowers, including governments and, increasingly, the private sector. In 2003, the AfDB had total lending of \$1.1 billion, but stricter lending policies introduced in the late 1990s have meant that the 38 poorest African nations are ineligible to borrow from the Bank (African Development Bank Group 2003). Instead, most sub-Saharan African countries rely on the two soft loan institutions of the Bank Group: the African Development Fund (AfDF) and the Nigerian Trust Fund (NTF). Established in 1972, the AfDF makes highly concessional loans for poverty alleviation, health, education, and good governance to African nations that cannot access commercial credit. Total AfDF lending in 2003 was \$1.4 billion. The NTF was established in 1976 by the Nigerian government to assist the poorest AfDB group members. Its total lending in 2003 was \$32 million.

While African nations aim to overcome constraints to development faced by individual countries by aggregating into larger economic and trading units, the effectiveness of regional integration in Africa has been limited by insufficient infrastructure and transport links as well as weak institutions. As a result, intraregional and intra-African trade have not significantly increased in recent years, and economic convergence and policy harmonization have been halting.

However, while regional integration schemes have produced only marginal benefits with regard to intraregional trade and economies of scale, they have facilitated trade agreements, such as the SACU-US Free Trade Agreement, that transaction costs likely would have precluded if not for the aggregation of a number of African nations. For some, even many

Africans, the ultimate objective of African integration schemes remains amalgamation into an African economic community. The emergence of such a community would strengthen Africa's self-confidence and allow Africans to increase their influence in international affairs. It is not likely, however, that Africa will emerge as a regional bloc with well-defined borders and strong political cohesion. The more likely scenario is one of increased cooperation among the subregions and, hopefully, stronger links to the world as a whole. North Africa will continue to have a dual allegiance to the Arab world and the African continent, while also developing increasingly strong links with the European Union.

Commonwealth of Independent States

The Soviet Union broke up in surprisingly peaceful fashion in 1990–91, giving birth to 15 new nation-states, all ex-Soviet Republics.⁹ There were, of course, extensive economic and infrastructure ties between these ex-Soviet republics, and regional cooperation was immediately on the agenda. Russia, Belarus, and Ukraine initially formed the Commonwealth of Independent States (CIS) in 1991 to replace the Union of Soviet Socialist Republics. By the time of formal inception of the CIS in January 1992, Moldova, Tajikistan, Armenia, Azerbaijan, Turkmenistan, Kazakhstan, Kyrgyzstan, and Uzbekistan had also joined, and Georgia joined in 1993. The CIS is thus comprised of both Slav and non-Slav former Soviet republics. The CIS has a Council of Heads of States, Council of Heads of Government, Council of Foreign Ministers, Defense Ministers, and Border Troop Commanders, Inter-Parliamentary Assembly, Executive Committee, Interstate Economic Committee, and Collective Security Council, which arranges joint exercises under the Collective Security Treaty.

The primary impetus behind establishment of the CIS was to avert a collapse of interrepublican trade by maintaining economic, financial, and monetary cooperation between the former Soviet republics; facilitate market reform and liberalization; promote coordination in internal and external policies (the Alma-Ata Declaration); and prevent interrepublican conflicts through clear recognition of borders. However, the CIS does not

9. The Soviet break-up was not entirely peaceful, as the Caucasus and Tadjikistan saw their share of armed conflict and there has been the fighting in Chechnya inside the Russian Federation. Nonetheless, compared to what could have been, the post-Soviet order emerged with a minimum of bloodshed. The contrast with the bloody breakup of Yugoslavia is striking.

have any supranational powers—though obligations established under agreements are binding on member states—and consequently its exact role is uncertain.

As for the economic realm, the heads of state signed an agreement in 1993 establishing an economic union based on free trade, harmonized monetary and foreign economic policies, and the fostering of direct production links. The Economic Union Treaty called for reduced internal tariffs, common external tariffs, and a system for payments and settlements. The CIS Free Trade Zone Treaty was signed in 1994, and in 1999 a protocol replaced the existing bilateral free trade zone with a multilateral one, a step toward the creation of an economic union. However, CIS cooperation initiatives were hampered throughout the 1990s, especially by the lack of effective enforcement powers. Intra-CIS trade actually declined, whereas trade with the outside world, especially the European Union, increased.

In response, Belarus, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan formed the CIS Customs Union in 1996, and in 2000 they signed the Eurasian Economic Community (EEC) integration treaty to augment the customs union with sanction and enforcement capability. The EEC is modeled in part on the European Union, North American Free Trade Agreement, and Mercosur, and it includes its own court, the power to dismiss noncooperative member states, and negotiating responsibilities with organizations such as the WTO. It seeks recognition by the United Nations as a regional international organization. It is not clear whether the EEC will be more successful than prior CIS economic cooperation efforts.

Diversity and Cooperation versus Regional Blocs

This brief survey of the world's regions, regional organizations, and efforts at cooperation depicts an extraordinarily diverse scenario worldwide. Trade and economic interests drive the most advanced types of cooperation, which take the form of common markets or free trade zones. Regional development banks play a significant role and provide certain regional public goods in terms of the environment, infrastructure, and regional knowledge. Latin America may be the most well-defined region geographically and culturally, although it is ethnically diverse. The other regions face more difficult border problems. Many countries belong to more than one region—Algeria, for example, is an Arab, African, and Moslem country. Australia is Asian up to a point. Armenia and Azerbaijan

are hard to classify. Mexico is very much a Latin American nation but is now part of a North American Free Trade Area and deeply integrated with the US economy. The Ukraine is the second largest country in the CIS but has its sights set on the European Union. Spain is clearly part of the European Union but is also a leading Latin country with strong economic and emotional ties to Latin America.

Attempts to initiate and strengthen regional cooperation have been substantial and widespread. However, in most regions, cooperation outside of the sphere of trade and development banking remains rudimentary. Most nation-states big and small still face the world as well as the globalization process essentially as individual nation-states. Many, particularly in Africa, have barely been able to become nation-states. Across the world are countries of vastly different sizes (consider China and Malta), degrees of development, military and economic capabilities, and regional affinities.

With such glaring differences across the world, the formation of regional trade blocs could indeed have a detrimental effect on the progress of global trade and economic integration, especially if the WTO system breaks down. On the whole, however, regional cooperation has promoted economic opening and improved growth performance. Regionalism is not, however, an alternative to an overarching framework of political and economic governance. Moreover, Huntington's cohesive civilizational blocs have not, so far at least, materialized. Regional cooperation has slowly progressed in all of the world's regions, particularly in Asia, but nowhere has it taken, or is it taking, the form of real regional political integration.

Nowhere, that is, except in Europe. The exceptional postwar story of Europe is worth discussing separately in any analysis directed toward "better" globalization. Even with its successes, however, Europe entered a new phase of turmoil with the enlargement to the east in 2004. In sum, the extraordinary story of Europe, postwar to date, has a significance beyond the continent that is profoundly linked to the debate over the nature of globalization and the forms that global governance might take in the future.

The European Adventure

The keynote speech to the Annual Congress of Young European Entrepreneurs in Istanbul in June 2002 focused on the upcoming European

Constitutional Convention. The audience of some 800 strong included young people from all over the world. Suddenly during the speech, two young women in the second row of the conference hall stood up together, and one raised her hand and shouted: "I am French and she is German. We are together and we will never again be at war!"

The audience erupted in applause, and as the speaker I was happy to have been interrupted in this way. Resuming my speech, I said that many young men and women from Greece and Turkey—two countries also mired historically in disputes but one now a member of the European Union and the other a candidate for membership—shared just such contemporary European values and also were ready to raise their hands in the same way.¹⁰

Two years later, a draft constitution was indeed approved at the European Summit, but the atmosphere was far less encouraging. Michael Howard, leader of the British Conservative Party, flatly declared: "I don't want to live in a country called Europe." Turnout for elections for the European Parliament in early June 2004 declined to 45.7 percent of eligible voters from nearly 50 percent in 1999, and eurosceptic populist-nationalist parties increased their share in some countries by as much as 15 to 20 percent.¹¹

Clearly, Europe arrived at a crossroads in 2004–05 that lay somewhere between the idealism of the two enthusiastic young women in the conference hall and the array of feelings—ranging from apathy to defiance—that at any moment could block or undermine the momentum toward greater European integration that has been moving forward since the 1950s.

Today three different visions of Europe are competing to shape the future. First is the vision of a Europe consisting of a large customs union, with the old nation-states retaining most of their sovereignty. For those sharing that vision—let us call them the "sovereignists"—some of the power that has gradually moved to the European institutions in Brussels should be handed back to the nation-states. The European Union would

10. At the time of writing in July 2004, Greece won the European soccer championship in Lisbon. Polls taken by the media in the days before the final game reported that the public was rooting for Greece—in Turkey!

11. For more on the European elections, see www.elections2004.eu.int/ep-election/sites/en/results1306/index.html. On the European Union draft agreement, see http://europa.eu.int/futurum/documents/other/oth250604_2_en.pdf. Appendix C provides a summary of the proposed European Constitution.

continue as a loose association of nations with minimal pooling of sovereignty. The sovereignists do not foresee a common fiscal policy, see little merit in the euro, do not support a European defense and security policy, and see no point in having a European constitution. They want to minimize whatever can be decided by majority or qualified majority voting in the European Council, which is the highest decision-making body of the European Union. They oppose more power for the European Parliament and want to curb existing powers of the European Commission. The sovereignists strongly emphasize national governments as the constituent units and see all European institutions as deriving their legitimacy solely from decisions taken by the national governments.

Sovereignists can be found on both the right and left end of the political spectrum. The more extreme sovereignists on the right are militant nationalists who do not regard global governance any more favorably than European governance. The more moderate majority sovereignists do not espouse old-style militant nationalism and are sometimes favorably disposed to limited global governance within the framework of global institutions such as the United Nations, the Bretton Woods institutions, or the WTO. Many heads of government, particularly in the United Kingdom and Eastern Europe, could be classified as such moderate sovereignists. The moderate sovereignists in many European countries are generally favorable to a strong alliance with the United States. They basically accept an international system led by the US superpower and view this acceptance as a requirement of realism. They are not particularly obsessed with *defining* Europe, culturally or otherwise, nor are they keen to draw Europe's *borders*. The moderate sovereignists have been favorable to enlargement in general, and they have no fundamental objection to Turkey joining the union, although some of them have catered to popular fears of immigration and diversity. The moderate sovereignists would not be averse to having other countries join the EU in the long term, such as the Ukraine and the nations of the Caucasus, even though these countries have not been officially accepted as candidates.

A second vision of Europe is diametrically opposed to the vision of the sovereignists. I shall call those who share the second vision "superstate Europeans." The superstate Europeans essentially want to see Europe evolve into a new 21st century integrated superstate, reproducing the characteristics of the old nation-states with what would amount to a federal government, an army, a common currency, and common economic policies. It is important to emphasize that many of the superstate Europeans do not explicitly formulate their goal to be a federal superstate. It

is, rather, that they cannot help but conceptualize the future of Europe in terms of a superstate. Many, if asked, will deny that they want a superstate, but they nonetheless argue about Europe as if it was to become one.

Some of the superstate Europeans, numerous in Germany, for example, have a basically pacifist world view and are not keen on trying to make Europe a military superpower. Others, more numerous in France, would like to see a United Europe emerge explicitly as a political-military counterweight to the United States. The superstate Europeans are concerned about Europe's borders: they would like to have final clarity on where Europe ends, or where it begins. Thinking of Europe essentially as a nation-state, it is very important for them, therefore, to describe the territory as well as the nature of this superstate. Because they know that a nation-state has always been in need of national identity, they are quite concerned with describing "European identity." Given that there is no European language and given Europe's ethnic diversity, the search for a European identity tends to emphasize history and religion. In many ways the superstate Europeans think of European integration *as if* it were a modern version of the unification by Bismarck of the German states in the mid-19th century, which is to say as the creation of a larger new state from a number of smaller existing states. Since old-style national identity based on language and some idea of joint ethnicity cannot work to define Europe, there are attempts to rely on Christianity and on historical images and emotions. Often these are historical images of enemies and wars fought for the "nation" or for the "faith." The superstate Europeans rightly sense that any successful political project must be backed by some emotional energy. Thankfully, in 21st century Europe it should not be necessary to ask people to die for a "cause" anymore, but purely economic considerations or the building of common bureaucratic institutions are not sufficient to create a strong sense of community and common purpose.¹² The problem is that the superstate Europeans search for the required emotional energy almost exclusively *in the past*. A politician in France recently declared that to be European it was not sufficient to be Christian, but one had to have been Christian for at least 15 centuries!¹³ The superstate Europeans tend to want to define Europe in opposition to the "other," just as old-style nationalists did with respect to the nation.

12. There is a worrisome recent tendency to imply that that "something" is Christianity, and that Europe should be "emotionally Christian." This goes beyond practicing a certain faith, and acceptance of such a view would destroy the secular nature of European democracy.

13. Jean-Louis Boulanges quoted in *Le Monde*, March 25, 2004.

220 *A Better Globalization*

There is emerging a third, forward-looking vision of Europe. Such a vision is much more difficult to define precisely because it is trying to invent something new that cannot be easily described by an analogy with something that exists or has existed in the past. It is most appropriate to describe those who are attempting to formulate this third vision as the “21st century Europeans.” These Europeans understand that it is neither possible nor desirable to reenact the history of the 18th and 19th centuries in the 21st century. The feeling of “belonging” that a European citizen of today must experience cannot have an adequate source in ethnicity and/or religion, but must derive primarily from shared values and a shared project for the future. The 21st century Europeans are inspired by *constitutional patriotism* championed by Jürgen Habermas, Germany’s premier philosopher. Among European statesmen, the most articulate proponent of constitutional patriotism is German foreign minister Joschka Fischer. Fischer’s association with Habermas dates back to the 1980s, when they ran seminars together in the back room of “Dionysus,” a Greek restaurant in Frankfurt (Jan-Werner Müller, 2004). This kind of patriotism is closer to the liberal version of American patriotism than classical German patriotism based on race and language. American patriotism has been mostly “modern” in that it has not been based on race or religion. The new European patriotism referred to here is different from American patriotism, however, in that it does not need to go as far as the latter in identifying a clear territory with the “nation,” and it needs to go further than American patriotism in associating emotions with an ongoing project of “governance building” as Europe both integrates and expands.¹⁴ The 21st century Europeans believe that Europe must be negotiated and built continuously. Their vision is dynamic and oriented toward the future; while learning from the past, Europe should not try to re-create a real or imagined past. Their vision of 21st century Europe is also not at all directed *against* the “other” or the enemy. On the contrary, these Europeans are keenly aware of the fact that the European project was needed precisely because Europe wanted to *overcome* the images of

14. Note that there are elements of a nonterritorial patriotism also in America despite the fact that the United States has a well-defined geographical territory. American patriots often appeal to “liberty” enshrined in the constitution as a universal value to believe in and fight for. A strong belief in individual freedom is a source of American patriotism not linked to ethnicity, territory, or religion. Americans often conceptualize their going to war as a defense of universal “freedom” without there being a clear territorial threat to the American nation-state.

the past, the fear of the “other,” and the emotions that had, again and again, led to war and even genocide. The 21st century Europeans feel part of the world¹⁵ and are inspired by the Kantian tradition of searching for universal and perpetual peace. Europe is not only a project of peace among Europeans, but also a project of peace for the world, with Europe as a power standing for peace. Many of the great statesmen who laid the foundations of Europe 60 years ago were in fact 21st century Europeans, as illustrated by the quote from Jean Monnet at the beginning of this chapter.

It is useful to distinguish between these three visions for the sake of clarifying the arguments and structuring the debate, although when one analyzes the views of any one particular political leader in Europe, it is often possible to find a mixture of these visions rather than just one vision in its pure form. The three visions have different implications for the many practical policy decisions that the European Union has to make in the 2005–06 period, when the new constitution will be debated and voted on, with the vote taking the form of a referendum in many countries.

The sovereignists could do without a constitution. They generally support the long since agreed-upon common trade policy and agree, therefore, to the existing pooling of trade policy authority in Brussels with one European trade commissioner negotiating for the union. They fought hard at the Constitutional Convention in Brussels to preserve the prerogatives of the national governments and national parliaments and to prevent what they see as “creeping federalism.” They tend to think in terms of traditional national interest as emphasized in the realist school of international relations theory. Thus, British sovereignists believe that British national interest requires a continuing special and privileged relationship with the United States and strong links with the Commonwealth. French sovereignists in the tradition of de Gaulle emphasize the need for independence from the United States and strong links to francophone Africa. They have been more “European” than their British counterparts, mainly because postwar circumstances allowed France to have a very strong influence on the European institutions and they saw Europe as a source of French power and influence. There are sovereignists in all European countries, and as just illustrated with reference to Britain and France, they do not necessarily pursue the same foreign or economic policy goals.

15. Timothy Gatten Ash (2004, 91–93) recently drew attention to this contract between what he calls the “world nation” Europeans and the “patriots of transnational Europeanism.”

222 *A Better Globalization*

They do share a common reluctance, however, to devolve greater authority to Brussels, and they jointly and largely successfully fought to restrain federalist tendencies during the constitutional discussions at the European Convention. They do not support any move toward single European representation in international organizations such as the United Nations.

The moderate sovereignist leaders will support a yes vote on the European Constitution at the occasion of the referenda and national parliamentary votes planned in 2005 and 2006. The moderates are generally strong enough in their parties, and their views will carry the parliamentary groups. They will be in conflict, however, with the more extreme sovereignist and populist groups, and the behavior of voters in the case of referenda is harder to predict. The moderate sovereignists have a problem. They cannot put much enthusiasm into a campaign for Europe. They do not really have a vision that can capture the imagination. What they have to offer is “practicality:” it is difficult to carry on with the day-to-day business of government in Europe without some of the unifying and simplifying elements of the new constitution. It is impractical to rotate the chair of the European Council every six months between 25 or more members, it is unwieldy to carry on with a commission of 25 or more members, and it is unreasonable to have a single country block an otherwise widely supported council decision. But there is little emotion or enthusiasm behind the moderate sovereignist stance, and this may lead to major problems with moderate voters who may simply abstain as many did during the elections for the European Parliament. The more extreme sovereignists, on the contrary, will be able to put emotion (negative emotion!) into their “no” campaign and draw their supporters to the polls.

The superstate Europeans did not achieve the stronger federal structures that they had hoped for in the draft European Constitution, but they still see the existing draft as a step forward and will, by and large, call for a yes vote. They are favorable to developing a common security and defense policy and would like to have Europe speak with one voice in international affairs. They would support a powerful single European seat in the United Nations Security Council as proposed in chapter 3. They are also favorable to merging the European seats on the boards of the Bretton Woods institutions. They are strongest in “core” Europe, i.e., France, Germany, the Benelux countries, and the Mediterranean countries, although they have been losing ground as the economies of most of these countries have slowed down and the European project has not been

able to deliver economic growth and full employment in the last decade. They are also facing resurgent nationalism and a negative reaction to what is perceived as bureaucratic and excessively centralized decisions in Brussels. The superstate Europeans correctly perceive the huge gains Europe has made in terms of creating an area of peace and political stability, and they rightly stress that while Europe may be experiencing some economic difficulties, it is still a very prosperous region with social services and a standard of living largely unrivaled elsewhere in the world. They sense, also correctly, that Europe needs an emotional push, a renewed political energy to consolidate the gains of the past, to absorb the 10 countries that joined in 2004, and to achieve a new sense of purpose and cohesion in and around the European institutions.

The problem is that the vision of the superstate Europeans is increasingly inspired by the past. Their appeals to religion, culture, and nostalgia are unable to capture the spirit of our times. There is no European nation in the sense that there are French, Spanish, German, or Polish nations, and it will not be possible to create one in the traditional sense. Moreover, in their effort to encourage a European identity based on past allegiances and religious feelings, they stress differences with the "other." That "other" is sometimes the United States, but more often Islam. The superstate Europeans sometimes begin to share dangerous common ground with the populist nationalists. By doing so, they run the danger of giving credence and respectability to racism and xenophobia and actually facilitating the propaganda of the extreme sovereignists who appeal to some of the same emotions, although with very different aims.

The 21st century Europeans, or the patriots of transnational Europeanism, to use Timothy Garten Ash's term, have the task of building a renewed allegiance and enthusiasm for the European project in a different way. They share both a sense of achievement and European purpose with the superstate Europeans. They know that to progress, Europe needs a new constitution with a greater role for qualified majority voting, a smaller and more effective commission, and greater support for and legitimacy of the European institutions. They also know that a political project cannot be successful without an emotional commitment and an appeal that can mobilize and succeed in ensuring participation. Practical rules and directives are not enough to generate such mobilization. The challenge for the 21st century Europeans is to define the European project, following Jean Monnet, in a truly progressive and dynamic way as *Europe's contribution to building the 21st century*.

The new progressive Europe cannot be built on old identities or old ways of thinking. Europe must contribute to global governance, not undermine it by seeking to build a regional bloc based on some form of cultural or religious nationalism and exclusion. Europe should not be built “against” other regions, other cultures, or imagined enemies. Europe should not try to exclude, but include. Europe should celebrate diversity, not encourage the building of new psychological walls.

For Europe to be able to function within and play that supportive role for global governance, it does need something like the new draft constitution, however imperfect the compromise draft that emerged from the convention may be. The constitutional draft was, of course, an imperfect compromise. It would have been desirable to produce a simpler text. It would also have been desirable to give the European Parliament the right to actually nominate the president of the commission in a somewhat more open and “Eurodemocratic” process than having the council decide who should be nominated. The parliament today has little choice but to accept the council’s choice, which is another factor reducing the democratic visibility and effectiveness of the European Parliament.¹⁶ Nonetheless, the constitution would be a major step forward. Europe does need more qualified majority voting in the highest decision-making bodies. It does need greater cohesion in foreign and defense policies. The existing draft can be the basis for progressively greater integration in the medium term. As proposed in chapter 3, the European Union should speak and vote with one voice on the UN Security Council. It should do the same on the proposed United Nations Economic and Social Security Council. The European Union should also increasingly pool its foreign assistance. In the economic domain, greater Europe-wide coordination of fiscal policy is highly desirable, and a rethinking of the stability pact allowing stronger Eurozone-wide, procyclical fiscal policy is necessary. European budgetary arrangements should eventually be revised to allow some part of the European budget to be financed by a Europe-wide tax. On all these issues, the superstate or federalist Europeans are right. On other matters, it is quite possible, however, that judicious use of the principle of subsidiarity would lead to some competences being given back to national and regional authorities. The drive to create the single European market

16. With Valdo Spini, an Italian socialist, I proposed an amendment to the constitutional draft that would have required that 10 percent of all eurodeputies coming from at least a third of the member countries nominate a candidate for the presidency of the commission. The proposal was not accepted by the convention.

has led to some excessive regulation and standardization. Was it really necessary, for example, to exactly define what is “chocolate” at the European level? Are such European standards really necessary? Could one not let countries set some of the rules and standards in line with local traditions and tastes, without doing serious harm to the dynamism and integration of the European economy?

Europe and Global Governance

The most important characteristic of 21st-century Europe is that it should be built as part of rather than in opposition to efforts to support better and more effective global governance. The building of a strong Europe is not an attempt to build a new empire, but an endeavor to end, once and for all, the age of empires.

Were Europe to have a common seat and thus a stronger voice in the United Nations, for example, the European voice could call for strengthening international institutions and the application of international law. Europe should encourage and support similar moves toward improved cooperation in and among Asia, Latin America, and Africa, promoting a vision of a world integrated for the common good, rather than one divided into antagonistic geopolitical blocs. The borders of either Europe or of the European Union cannot be defined forever, just as the borders of many other areas of cooperation will remain fluid. Moreover, cultural, economic, and political borders may not neatly coincide. Spain can have strong ties to Latin America and be fully European, Turkey can have strong ties to Central Asia and the Middle East and be European, and the United Kingdom can be European but with strong ties to North America. More cooperation in Asia, Latin America, Africa, and other regions would facilitate more effective global governance. The belief that should drive forward Europe’s political progress is the possibility of “better” globalization, the pride of being an example of multilevel governance for the world to see, the extension of democracy, and the pooling of sovereignty that can make the years ahead an age of peace and shared prosperity.