“Different Models of Regional Policy: EU, MERCOSUR, and ASEAN”

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Ken Masujima (Kobe University)
(kmasu@kobe-u.ac.jp)

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Regional Policy or according to today’s official appellation Cohesion Policy of the European Union (EU) is widely (and rightly) regarded as a model of a public policy to tackle regional income gaps. Indeed in other regions of the world, regional income disparities are wider (MERCOSUR: Mercado Común del Sur, ASEAN: Association of Southeast Asian Nations). In the case of MERCOSUR, FOCEM (Fondo de Convergencia Estructural del MERCOSUR), since its creation in 2006, is being strengthened to include human rights dimensions. As for ASEAN, the task of reducing region-wide income gaps is now incorporated as a priority issue. These developments tend to reinforce the view that EU Cohesion Policy is looked upon as a model. However, in spite of this recognition of the significance of a public policy to reduce regional disparities, and despite the diffusion of EU style regionalism around the globe as seen by inter-regionalism promoted by the EU itself, Cohesion Policy is actually not sought after by other regional institutions around the world as a model to follow. How can we explain this apparent gap in perception and reality? This paper argues that there are different models of regional policy adapted to regions with different phase of integration. It is no coincidence that Cohesion Policy is more often referred to by countries with substantial size (Russia, China, and Brazil). It shows that EU style regional policy presupposes the existence of a centralized bureaucracy in charge of conceptualization and implementation, which is absent in other regions of the world. This paper attempts to classify existing models of regional policy based on the criteria of institutional settings of implementation.

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1. Role of “development” in regionalism

This paper tries to analyze the place of development in today’s regionalism on the world stage. The focus of analysis is regional public policy to deal with the question of development within a region in the world. These regional public policies are usually set up in the process of regional integration to deal with asymmetries within a region.

(1) Review of literature

In order to see a broader picture of where the question of development is located in the literature on regionalism, a brief review of the literature on regionalism which shed light on development is in order.

1) Developmental regionalism

Hettne is one of the first to systematically investigate the relations between development and regionalism. Hettne’s focus is on macro-level relations between regionalism and development. Thus he analyzed how regionalism contributes to development on a global level. Exceptionally he also mentioned the central place of development in the consideration on regionalism in Africa (for other regions, he does not mention, as the development question is most pressing in Africa). However, he gives only a passing mention about regional redistribution in the context of what he terms “developmental regionalism”. He does not dwell upon the question of regional asymmetries or the role that regional development policy can play in regionalism.

2) Trade and non-trade cooperation

Some of the research by economists is of interest to the question of asymmetries and policy measures to deal with it. Since today’s regionalism increasingly involves economic especially trade activities on a (international) regional basis by states, this strand of research is of actuality.

In this context, the distinction between trade and cooperation components

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is pertinent for our purposes. Devlin, Estevadeordal, and Krivonos put forward the classification of North-South regional arrangement based on trade (T) and cooperation (C) components.\(^3\) According to their study, regional cooperation can be divided into trade-related cooperation (T) and non-trade cooperation (C). It is usually the case that successful trade related cooperation (T) leads to non-trade cooperation (C). This is the case with the EU, which started first as an attempt at the creation of a customs union. The opposite case is (C) leading to involve trade (T). The case of ASEAN fits into this schema, since ASEAN started as a grouping for regional security arrangement. It is interesting to note that both today have (T) and (C). There is another case where regionalism started involving both (T) and (C). MERCOSUR fits with this model.

As can be expected, the kind of regional policy to tackle asymmetries can be found in (C). In the cases under review here (EU, MERCOSUR, and ASEAN), all end up being (T) and (C) despite coming through different trajectories.\(^4\)

3) Various schemes of regional policy

Another study by economist is by Langhammer.\(^5\) He presents two types of pure South-South regional integration: 1) Asian type, and 2) Latin American-African type. The Asian type is characterized by being informal and avoiding contractual commitments. The Latin American and African type is more contractual and formal. It is no wonder that the experiences of European integration were met with intense interest and sought after in this type of regional integration.

He lists an interesting case of regional redistribution scheme adopted in

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\(^4\) It is interesting to note in this regard that in what is often referred to as the new regionalism of the 1990’s, non-trade cooperation was mostly ignored except for the hangover of the ANDEAN Community. Devlin and Giordano, “The Old and New Regionalism: Benefits, Costs, and Implications for the FTAA”, in Antoni Estevadeordal, Dani Rodrik, Alan M. Taylor, and Andrés Velasco eds., Integrating the Americas: FTAA and Beyond (Harvard University Press, 2004).

Africa: using tax transfers for reducing regional disparities. These examples can be found in the French-speaking West African monetary union and Central African equivalent where so called community solidarity tax collected is used to pay compensation for land-locked Sahel countries which lost tariff revenue due to removal internal tariff. Another example is South African Customs Union (SACU) whose revenue is pooled under the custodianship of South African and shared by Botswana, Lesotho, Namibia, and Swaziland (only the residual is paid to South Africa).

In Asia and Latin America, regional policy is assumed by Asian Development Bank and Inter-American Development Bank respectively.

4) Classification of regional integration based on economic structure

A recent study of comparative regionalism by Krapohl and Fink is pertinent for our purposes here. They point to the need to analyze background conditions of regional integration in the developing world in order to bridge European integration studies and comparative regionalism. They present three types of regional integration based on economic structure: 1) Industrialized regions characterized by high intra-regional interdependence (EU type), 2) Developing regions without asymmetries characterized by high extra-regional interdependence and limited economic asymmetries (ASEAN and CARICOM: Caribbean Community type), and 3) Developing regions with asymmetries characterized by high extra-regional interdependence and high economic asymmetries (SADC: Southern African Development Community and MERCOSUR type).

The empirical conclusion of this study is daunting. Regional integration basically reinforces pre-existing economic structures. Thus South-South regional integration with asymmetries type (SADC and MERCOSUR) should end up reproducing extra-regional interdependence and high asymmetries.

This necessarily brief review of the literature suggests some of the important points in analyzing regional public policy to tackle intra-regional disparities. First, as Hettne mentions, this issue is to be situated within a larger framework of developmental regionalism. Second, structural

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characteristic of regional integration needs to be analyzed, according to various types of integration as presented above.

(2) Rationales for regional policy

Following this review of literature, we now turn to the analysis of regional policy. The most famous example of regional policy is the EU’s Cohesion policy. The compensatory regional transfer mechanism is introduced, following the example of the EU, in numerous other regional institutions, by MERCOSUR and CARICOM. ASEAN is following suit but reflecting its non-binding style as identified by Langhammer, in a piecemeal way.

There are several justifications for such financial transfer mechanism. We can list the following: 1) economic rationale, 2) side-payments, 3) regional social policy, and 4) regional public goods.

1) Economic rationale

Economists identify at least the following four mechanisms whereby regional integration brings about regional disparities.8

a) Trade liberalization disequalizes factor production prices. This can encourage factor mobility, which may bring about factor outflow and a consequent decline in per capita income.

b) Preferential reduction of tariffs which may carry with it the risk of trade diversion. If the costs are distributed unevenly, inequalities between them can increase and some territories may experience a real decline in income.

c) Location of firms in imperfectly competitive industries may lead to relocation of some sectors under trade liberalization. This creates disparities in wages between the regions.

d) Cumulative causation mechanism according to which integration may lead to concentration of economic activities due to efficiency, advantages of thick labor markets, linkages between firms, and provision of business infrastructure. This will favor established center at the experience of the

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7 Here we use Cohesion policy and Regional policy interchangeably unless otherwise noted.
periphery.

It is said that EU’s cohesion policy is based on insights from economic geography. Above all, the “new economic geography’ with its emphasis on geographical concentration of economic activities due to regional integration constitutes a theoretical underpinning of European cohesion policy. 9

2) Side payments

It is asserted in many studies on EU regional policy that one of the motives (if not the most important) has always been to ease the concern held by less developed new member countries toward regional integration. The ERDF (European Regional Development Fund), which is a first organized step of European regional policy, was set up as a result of the threat by Italy and Ireland to boycott the 1974 Paris Summit.10 From the beginning, EU regional policy was conceived as a means of side payment rather than a substantial development policy.

3) Regional social policy

Bob Deacon has been promoting studies on global social policy. He identified three levels of what he terms global social policy: national, regional, and global. Deacons et al mention European regional policy and other similar regional development policy in connection to regional social policy.11

Although EU regional policy should be considered as development policy (with its emphasis on infrastructure projects), but it contains many elements which should be of the domain of social policy (measures to deal with unemployment, social exclusion).

4) Regional public goods

There have been attempts by Sandler to define “regional public goods”.12

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12 Todd Sandler, “Regional Public Goods, Aid, and Development”, October 2007,
A pure public goods is characterized by its benefits being non-rival and non-excludable. Intervention by regional organizations is required to provide adequately such goods which member countries do not have the incentives to provide.

Regional policy can be justified as contributing to regional public goods (reducing regional disparities and increasing regional solidarity) under this heading.

This approach has been employed more often in connection with regional development banks (Asian Development Bank, Inter-American Development Bank), but should apply to other regional organizations’ public policy.

2. Different Models in EU regional policy

(1) Evolution of EU regional policy

The literature on EU’s cohesion policy abounds. For our purposes here, it suffices first to sketch a brief historical outline of the policy. However, in order to elucidate the factors and forces which produced actual policy, a rather detailed review of historical studies on the evolution of EU regional policy is in order.

The Treaty of Rome (1957)

At the start of the European Community, the problem of regional disparity was already on the minds of policy makers of the time. However, the Rome treaty of 1957 largely ignored the question.\(^\text{13}\)

In the Treaty of Rome, the preamble read: member states wish to “strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various

\(^{13}\)Michael Hodges and William Wallace eds., Economic Divergence in the European Community (London: Published for the Royal Institute of International Affairs by George Allen & Unwin, 1981), pp. 205-206. The issue of convergence was there from the time of the Treaty of Rome and before. However, since the differences in stance on economic policy between France and Germany were large, and the question as to who would assume the burden of developing Mezzogiorno was not solved, the negotiators thought it better to leave it to later. This is why the question appears only in the preamble of the treaty.
regions and the backwardness of the less favoured regions”. Besides, 1) Article 2: putting the above as one of the official goals of the EEC, 2) Article 130: assigning to the European Investment Bank the task of financing the improvement of the least developed regions, 3) Protocol on Italy\textsuperscript{14}, and 4) Article 158: “The Community shall aim at reducing disparities between the levels of development of the various regions”\textsuperscript{15}, were nonetheless inserted.

Favorable economic conditions helped to hope that divergence will automatically be solved. These conditions disappeared by 1980. German success in adapting to the changing world economic conditions after 1973 and 1978 oil shocks in contrast to Britain and Italy shattered the hope of market integration bringing benefit to all.\textsuperscript{16}

-ERDF (1975)

It was in this context that the ERDF came into existence. Husson points out that it was really thanks to the British that the ERDF saw the day.\textsuperscript{17} They feared that the EU budget support for agriculture will benefit French farmers more than their own. The British supported the Commission and Italian proposal to set up a new regional funding mechanism which had hitherto been rejected. The quota of 40 \% for Italy and 28 \% for the UK was set up by the member countries. The whole mechanism of the fund was well controlled by states: EU contribution is only to be given to projects submitted by states and according to pre-established national quotas, eligible zones are established by states and not by the Community, priority areas correspond to states priorities. The Commission’s only task was to check if the bills submitted by states are conform to technical criteria.\textsuperscript{18}

Two different positions were visible: 1) complementarity approach (France), favoring national policy and reducing Community aspects, 2) concentration approach (Italy and Ireland), concentration of resources on disfavored

\textsuperscript{16} Hodges and Wallace, Economic Divergence..., p. 213.
\textsuperscript{17} Claude Husson, L’Europe sans territoire (Paris: éditions de l’aube, 2006), pp. 37-38
\textsuperscript{18} Ibid.
regions. The final outcome was a compromise of the two positions.\textsuperscript{19}

Reform of 1988

It was largely in response to the introduction of Single Market, that an overhaul of regional policy was introduced in 1988. The fear that single market would bring more disparity especially to disadvantaged regions was widely shared. The entry of new members, Greece (1981), Portugal and Spain (1986) exacerbated the existing disparity (Greece’s GDP per capita was 52 per cent of the EC average).\textsuperscript{20}

With the reform of 1988 (and revised in 1993 with the creation of Cohesion Funds), European regional policy was profoundly reorganized and rationalized. New objectives were created (6 objectives) according to which eligibility of countries and regions is defined. In the process, member states powers were curtailed to the benefit of the Commission.

The review of literature on historical evolution of the EU regional policy seems to shed light on two principal factors which brought about actual policy developments: 1) enlargement and 2) phases of regional integration. The historical contingency of present day EU regional policy leads the way towards the two-fold model of EU regional policy that is presented below.

(2) Two different models of EU regional policy

We can actually speak of two different models of EU regional policy, derived from its historical evolution.

1) specific-dispersed model

This is the model adopted during 1975-1988. It is characterized by specific sector intervention without coordination and means. Member states dominated planning as well as implementation. Policy was meant more as a interstate bargaining to adjust contributions (side-payments) than as a real regional development policy. The process is thus inter-governmental.

2) structural-concentrated model

After the profound reform of European regional policy, we can discern a different model of regional policy. Its characteristics are structural (not

\textsuperscript{19}Varsori and Mechi, "At the Origins of ...", pp. 245-246.
only ERDF but other structural funds—the EAGGF Guideline Section and the European Social Fund—are coordinated and concentrated (with priorities and objectives). It is based on the principles of a) territorial and financial concentration, b) programming, c) partnership, and d) additionality. The process can be characterized as multi-level governance (the Commission, the member states, various levels of regional and local authorities).\footnote{Socio-economic partners were to be added by the reform of 1993.}

It seems to us that when we talk about EU models of regional policy, we should actually conceptualize these two different models, detached for analytical and comparative purposes from historical circumstances.

### 3. Is the EU “model” useful to other regions?

There are abundant studies on the central place that EU experience occupies in the study on comparative regionalism. More specifically the litterature on policy transfer often takes as implicit assumption that in the field of regionalism the EU is the reference from which to judge and measure the pace and degree of regionalism in the world.

There are a number of studies of reginalism around the world which take up the question of whether the EU model in regional policy can be applicable to the region in question. The views of these studies on whether the EU model should be sought after differ as we shall see below.

However, the contention here is that we should really talk about two different models of EU regional policy when refering to European experiences. We shall come back to this basic assertion in the final section.

The case of MERCOSUR is taken up here, since MERCOSUR created, as we have seen, a regional mechanism to deal with disparities (FOCEM). The case of ASEAN shall also be analyzed, but due to lack of litterature, in a brief way.

(1) MERCOSUR and European experiences of regional policy

In the studies on the problem of social cohesion in Latin America, some studies promote the idea that the EU and Latin American regional organizations (MERCOSUR etc) undertake a multilateral cohesion policy.\footnote{Carlos Garcimartín y Jesús Ruiz-Huerta, “Integración y cohesión social en las}
Even without going that far, there are studies on European regional policy and its applicability to MERCOSUR.

As has been pointed out, MERCOSUR’s mechanism to deal with regional disparities is FOCEM. It is interesting to note that the Article 2 of the Asuncion Treaty (1991) which founded MERCOSUR states that “the common market will be founded on the reciprocity of rights and obligations among members states”. As was the case with the Treaty of Rome, priority was put on increasing competitiveness, and in the case of MERCOSUR, especially of the two largest founding economies, Brazil and Argentina. It was in 2003 that Paraguay, the smallest country in MERCOSUR which has been losing economic ground further since the launching of MERCOSUR in 1992, has formally made a proposal for addressing asymmetries in MERCOSUR. The Decision 27/03 (mandating a study on the establishment of structural funds) led to the setting up of a Structural Convergence Fund at the December 2004 Presidential Summit Meeting. Its importance lies in it being a political symbolism rather than an economic significance since the amount involved was very limited.

The differences surrounding MERCOSUR and the EU in adopting regional policy are considered significant. One prominent author puts the following four differences which separate the EU from MERCOSUR:

1) the four member countries of MERCOSUR are all developing countries with limited resources for transfers
2) internal inequality is serious (poorest region is in the largest country, and per capita income of one of the smallest countries in higher than the regional average) so distributional matters are conflict prone
3) the case for interregional cohesion has played only a secondary role in the regional discourse
4) members states (especially Brazil) have shown strong resistance to centralization of community(MERCOSUR) authorities

These are indeed serious obstacles for any proponent to apply and implement an European “model” of regional policy.

Relaciones entre la unión europea y americana latina”.

24 Ibid., p. 369.
25 Ibid., pp. 369-370.
(2) ASEAN and European experiences of regional policy

ASEAN is striving for realizing ASEAN Economic Community (AEC) in 2015 whose blueprint was adopted by ASEAN leaders in 2007. According to this blueprint, the AEC is to be composed of four pillars, 1) a single market and production base, 2) competitive region, 3) equitable economic development, and 4) intergration into the global economy. The question of regional economic disparities concerns mainly the third component, equitable economic development.

The developmental gap within ASEAN has widened dramatically since the entry in the late 1990s of the three Indochinese countries, Vietnam, Laos, and Cambodia, and Myanmar (CLMV). The “ASEAN divide” thus refers to developmental gaps between six ASEAN member countries (ASEAN-6: Indonesia, Malaysia, Singapore, Thailand, the Philippines, and Brunei) and CLMV countries. Thus in 2004, the biggest gap in terms of GDP per capita within ASEAN was 152 times, between Singapore (US$25,207) and Myanmar (US$ 166).

ASEAN leaders were quick to realize that the ASEAN Free Trade Area (AFTA) would worsen the already wide existing gap between orginal ASEAN-6 and CLMV. They launched the Initiative for ASEAN Integration (IAI) in November 2000 to bridge the gap between ASEAN-6 and CLMV in the field of infrastructure development, information and communication technology, human resource development, and promoting regional economic integration. The Hanoi Declaration on Narrowing the Development Gap for Closer ASEAN Integration was issued at the end of the Ministerial Meeting in Hanoi in 2001.

In official ASEAN documents sub-regional arrangements are mentioned as part of ASEAN’s regional development initiative. They include not only ASEAN Mekong Basin Development Cooperation (AMBDC) but the Greater Mekong Sub-region (GMS) and Ayeyawaddi-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS) which were originally stated as non-ASEAN activities (involving Mekong Basin countries and non-ASEAN

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27 Ibid.
members such as China and the Asian Development Bank).  

As the pace of ASEAN integration accelerates (AFTA in 1992, and ASEAN Economic Community blueprint in 2003), there are increasing references to European experiences. The Secretary-General of ASEAN acknowledged this in the following terms in 2007: “Community building is an ambitious task. Undertaking this with an eye to a deadline on eight short years away can be a daunting challenge. It is by no accident that ASEAN has been looking at the European Union’s rich experience as we map out our own plans for becoming a Community by 2015.”

However, the same Secretary-General cautions against taking the EU as a model: “We are not looking to take the EU model lock stock and barrel. We simply cannot. The very nature of ASEAN as an intergovernmental organization differs from that of the EU”. But according to him, the EU has “good ideas and best practices” that ASEAN is looking for. He cites three such tasks: 1) the need for ASEAN to become a more rules-based organization, 2) narrowing the development gap, and 3) cultivating a stronger sense of an ASEAN identity. On the second point of narrowing development gap, he refers in particular to the role of EU’s “Structural Fund” and the European Bank for Reconstruction and Development (EBRD).

The main challenge for ASEAN to work toward reducing regional asymmetries is identified as “lack of resources”. Unlike the EU, ASEAN-6 countries which are expected to contribute are not economically endowed except Singapore and Brunei. This is one reason why development assistance from outside is often called for in ASEAN’s official documents.

What can we say about the relevance if not applicability of EU experiences to other regions of the world from the analysis with regard to MERCOSUR and ASEAN so far?

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29 “Forty Years of ASEAN. Can the European Union be a Model for Asia?” Talk by the Secretary-General of ASEAN at the Konrad Adenauer Foundation, Berlin, 16 July 2007, available online at [http://www.aseansec.org/20891.htm](http://www.aseansec.org/20891.htm), accessed on December 21, 2007.

30 Salazar and Das, “Bridging the ASEAN...”.
If we compare EU’s cohesion policy as it stands today and other regional policy efforts in other regions around the world, there is no denying that the kind of objectives, principles, institutions, and background policy frameworks (like competition policy) cannot easily be modeled after. As one former EU official put it, without the supra-national secretariat (the Commission), it cannot be put in place in other regions of the world. Can the EU “model” be still relevant to other regions of the world?

Indeed there are those who argue that the EU was a special case. It is a supra-national organization. The EU is composed of more or less homogeneous countries. There is no important gap among the member countries. The EU is in the North and the situations in the South are different. Without going into polemics with these often-made assertions (“myth” in our view), if we pay more attention to historical evolution of the EU experiences, as we have seen, there is not only one “EU model”. In the case of regional policy, what is more relevant for MERCOSUR and ASEAN is not today’s Cohesion policy. The ERDF, with intergovernmental bargainig in planning and implementation, should sound more familiar and useful to the leaders of MERCOSUR and ASEAN.

It is true that the general framework policy conditions (especially competition policy regulating state aid) surrounding regional policy needs to be singled out as contributing to discipline and make the policy more efficient. This is indeed a significant hurdle for regionalism in other parts of the world. However, my interviews with policy-makers in MERCOSUR and ASEAN suggest that looking at the EU not exclusively through the prism of the present may help in gaining insights and hints from rich European experiences. The EU has a political function in other parts of the world, of…frightening. As soon as the leaders of other regions of the world hear the “EU”, their immediate reaction is to insist that the EU is different. The EU is frightening because it seems to cast doubt on the viability of member states’ power and prerogatives. It seems pertinent therefore to point out that the EU is not just the story of supra-national region building (which is not borne out by recent historiography).

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31 The author interviewed a former official of the Secretariat of MERCOSUR who stated that reference to the EU was not all appreciated by member governments.