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Regional Integration --- Is Europe Special?

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Abstract

European integration has long been a reference, if not a model, for Asian integration. Recent developments cast doubt on the desirability and viability of the European version of integration, even of integration itself. As the world's economic centre of gravity shifts towards the east, Europe is seen by some as "just a museum". Unemployment stays high in some areas, the Greek debt crisis is not yet resolved, some European banks still have difficulties, the refugee crisis and terrorism continue to menace. The crises have changed Europe, unlike EMU (Economic and Monetary Union), EBU (European Banking Union) remains incomplete.

Is there anything for Asia to learn from the construction of the EU? Can or should the European experience be replicated in Asia? If yes, what are the roles of China and Japan? A key to answering these questions is to understand what is and isn't special about Europe. This paper attempts to clarify these points to derive some meaningful implications to Asian integration, and suggests a possible way forward in the form of integration at sub-national instead of national levels.

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Regional Integration --- Is Europe Special? [1]

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We must ask ourselves: if globalisation defined the 20th century, what will define the 21st?
--- Jin Liqun, President, Asian Infrastructure Investment Bank

Introduction

European integration has long been a reference, if not a model, for Asian integration. Recent developments cast doubt on the desirability and viability of the European version of integration, even of integration itself. As the world's economic centre of gravity shifts towards the east, Europe is seen by some as "just a museum". Unemployment stays high in some areas, the Greek debt crisis is not yet resolved, some European banks still have difficulties, the refugee crisis and terrorism continue to menace. Then there is the tide of anti-globalisation and populism rising on both sides of the Atlantic, rapidly eroding the post-war liberal international order.

Is there anything for Asia to learn from the construction of the EU? Can or should the European experience be replicated in Asia? If yes, what are the roles of China and Japan? A key to answering these questions is to understand what is and isn't special about Europe. The purpose of this analysis is to clarify these points, to derive some meaningful implications to Asian integration.

We look back on the two recent milestones of European integration; EMU (Economic and Monetary Union) and EBU (European Banking Union). Comparing these two is interesting because EMU reached its final stage while EBU did not. In relation to our question of whether Europe is special, Europe had the special conditions which kept the integration process going when EMU was completed, which Europe no longer had when EBU began. The euro crisis and its aftermath introduced a new economic and political dynamic. Crudely put, the divide between Member States with low debt levels and those with high debt levels is now starker. This, together with the governance reforms

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and austerity measures taken in response to the crisis, is encouraging democratic upheaval in both the high debt and low debt Member States. Support for integration can no longer be taken for granted in Europe. In this sense, post-crisis Europe is not special and is more similar to today's Asia and other regions. Given this, we conclude by suggesting a way forward in Asia.

1. Early attempts at EMU

Europe's Economic and Monetary Union (EMU) started in 1970, perhaps earlier than is generally recognised[2]. On the surface, EMU is about exchange rate stability and co-ordination of monetary policy, so it could have been called Monetary Union (MU). But the Europeans chose to call it *Economic and* Monetary Union, because they knew that economic convergence was necessary to make monetary convergence work.

On 6th March 1970, the European Council assigned a committee of experts presided by Pierre Werner, then Prime Minister and Finance Minister of Luxembourg, to make proposals for achieving Economic and Monetary Union (EMU) by 1980. The French wanted a currency that was as strong as the US dollar, but did not want it to be the Deutsche Mark. German Chancellor Brandt supported EMU to alleviate France's fears towards his Ostpolitik.

The Werner committee submitted on 8th October 1970 a plan comprising 3 steps to achieve EMU. This was the Werner plan. The first stage was to start from January 1971 and last for 3 years. During this first stage, members were to work at "concertation" of short-term monetary and fiscal policy while narrowing the fluctuation band of their exchange rates against the US dollar using the swap network with the IMF. In the second stage, they would establish the European Monetary Cooperation Fund (FECOM). In the third and final stage, the FECOM was to turn into the European Central Bank issuing the single currency in 1980.

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[2] Europe had envisioned monetary unification even earlier. Jeanne Monnet, the right-hand man of French Foreign Minister Robert Schuman, thought the steps he was taking were leading towards monetary and political integration in Europe. The first concrete plan for monetary unification was the European Commission's plan in 1962 called "Action Programme for Stage 2". The plan's stage 1 was already achieved by that time; stage 2 was to be up until 1970 when stage 3 would start. During stage 2, countries were to actively and permanently co-ordinate monetary policy, build a mechanism to help each other in times of balance of payments crises and set economic policy guidelines for the medium to long term. After this stage, the members would fix their exchange rates and begin monetary union in stage 3. German Chancellor Adenauer supported the plan, but the Economy Minister Erhard was against it. French President De Gaulle was not keen, and the plan's fate was sealed.

On 10th April 1972, the Basle Agreement was concluded with a view to implementing, from 24th April, the intervention system of the central banks to limit fluctuation between exchange rates of Belgium, France, Germany, Italy, Luxembourg and the Netherlands to a maximum of 2.25%. This meant that European exchange rates were kept inside a 4.5% fluctuation band against the US dollar while keeping a 2.25% fluctuation band against each other, and the system was called the "snake inside the tunnel"[3].

The snake started on 24th April 1972, with the EC nine and Sweden and Norway as members. Austria and Switzerland did not join the snake but took measures to stabilise their currencies against the members of the snake. Within a month of its start, the UK, Ireland and Denmark left the snake. Denmark re-joined later but the UK and Ireland did not. Italy left the snake in March 1973. France left in January 1974, re-joined in July 1974 and left again in March 1976. In the end, the snake turned into a small Deutsche Mark region, with only Denmark and the Benelux three as members. The Werner plan had to be officially abandoned in Paris in 1974.

Why was Europe's first attempt at EMU unsuccessful? Of course, the end of Bretton Woods had an effect, but the true cause was that the Europeans were not yet ready. The "inconsistent triangle" tells us that we cannot have the following three at the same time; (1) independent monetary policy, (2) stable exchange rates and (3) free movement of capital[4]. Policymakers and economists did not fully recognise what this meant. They did not really understand the implications of giving up monetary policy independence to a supra-national central bank, which was necessary to fix the exchange rate forever. In addition, monetary unification involved not just monetary policy but also fiscal policy. A huge fiscal deficit is an incentive to cause inflation, which damages fixed exchange rates. We only need to remind ourselves of how the Bretton Woods system ended, when the centre country, the USA, began to have high inflation. So, to have a successful EMU, members needed to be ready to give up autonomy, or sovereignty, in terms of both monetary and fiscal policy. Giving up so much sovereignty requires a resolve to put

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[3] The exchange rate between the currencies of Belgium and Luxembourg which had been fixed since 1922 was called the "worm in the snake". When the Smithsonian Agreement was abandoned in February 1973 and major currencies floated, the European exchange rate system became the "snake in the lake". When the ERM started in 1979, some called it the "rattle snake" because it had a noisy warning system called the "divergence indicator" which we will talk about shortly.

[4] To have monetary policy autonomy and free movement of capital, giving up exchange rate stability is a sufficient but not necessary condition. If the monetary policy authority is comfortable with the level of exchange rate that happens to prevail in the markets, then it will not have to devote monetary policy to foreign exchange market intervention. This period of monetary policy autonomy lasts until which time the exchange rate determined by market forces becomes unacceptable to the authorities.

priority on integration.

2. EMU and EMS

Europeans would eventually show this resolve when introducing the euro in their most recent EMU project, but only after their difficult experiences with the Exchange Rate Mechanism of the European Monetary System (EMS). The EMS started in 1979, and its main protagonists were Chancellor Helmut Schmidt and President Giscard d'Estang. At first, the EMS was supposed to be more than just the Exchange Rate Mechanism (ERM). The European Monetary Fund (EMF), a fund made from members' foreign exchange reserves to help members with balance of payments difficulties, was supposed to start in 1981. But the plan was quietly withdrawn due to opposition from the Bundesbank. Another aspect of EMS that did not go as planned was the role of the European Currency Unit (ECU), which was a basket currency[5]. The official exchange rates of member currencies were set against the ECU. When the divergence from the official rate went over 75%, an early warning sign called the "divergence indicator" went out. Seeing this sign, both the weak and the strong currency nations were supposed to intervene in the foreign exchange markets and help bring back the exchange rate closer to the official rate. The actual purpose of this divergence indicator was to make sure the Germans, whose currency tended to get stronger, to join in the intervention. But the ECU did not become the centre currency of EMS, the Deutsche Mark played that role instead. And it was almost always the country with the weaker currency that intervened to keep the exchange rate within the band.

Thus, the EMS ended up having just ERM, with the Deutsche Mark at the centre. Moreover, several currencies went in and out of the ERM. There were two major currency crises, in 1992 and 1993. In the former, the lira and the pound were forced out of the ERM[6].

The ERM experience bears out the importance of both economic and political factors in the success of an integration project. Europeans, above all the French, wanted to make sure the Deutsche Mark did not take the monetary centre-stage of Europe. So, the Europeans composed the ECU, set it at the centre of the system, and put in place the "divergence indicator". But markets preferred the Deutsche Mark, which became the

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[5] After 1999, ECU came to be called the "euro".

[6] This was when the UK Chancellor Norman Lamont lost the battle against George Soros' Quantum Fund, and afterwards famously quipped "je ne regrette rien" (I regret nothing).

central currency of Europe. And the Germans did not intervene because that meant increasing German money supply when the German economy did not need or want inflation. After the ERM crises, people especially in the Anglo-American world said that EMU was over and there will never be a single currency in Europe.

3. EMU and the euro

But in fact, the crisis was an incubator for the euro. The ERM crisis made Europeans keenly aware of the importance of giving up policy autonomy to obtain exchange rate stability. At the same time, the Single Market was bringing down technical, legal and physical barriers to trade. The main remaining obstacle to smoother trade was exchange rate fluctuations and the hazard of exchanging one currency into another. With the Single Market, the benefit of a single currency became greater than the cost of losing policy autonomy. The end of the Cold War also played a role. To make German reunification acceptable, Germany chose to show their commitment to Europe by giving up even their most precious prize and symbol, the Deutsche Mark.

Thus, the political and economic circumstances were pointing towards a successful EMU this time. The Maastricht Treaty, which began the process of EMU, was signed in February 1992. The first stage of EMU began in July 1990, demanding Member States to remove capital controls. The start of stage II was in January 1994, and involved the establishment of the European Monetary Institute (EMI) in Basle, and measures to induce economic convergence. The Cannes Summit of June 1995 determined that the third stage will start in 1999 (instead of 1997). The Madrid summit of December 1995 gave the name "euro" to the coming single currency, and determined that the euro notes and coins will start circulating by January 2002 at the latest.

The path was not smooth. When a European treaty is signed at the EU level, it must be ratified by all Member States. It took Denmark two tries to ratify the Maastricht Treaty by referendum. In France, the treaty was ratified by referendum only by a small margin, with 51.05% in favour. And some Germans sued over the ratification of the Maastricht Treaty. The lowest point was between 1996 and 1997, when the Europeans themselves seemed to lose faith, with the economic downturn raising unemployment and making it difficult to meet the Maastricht convergence criteria on the deficit to GDP ratio.

But in the end, the economy improved and both Germany and France met the deficit to GDP criteria for 1997. By the time of the Luxembourg summit of December 1997, the Germans were ready to accept the formation of what is today called the Eurogroup, and in January 1998, a concrete schedule of introducing the euro was announced. The European Monetary Institute, the European Commission and many other institutions started publishing reports on the practical aspects of the euro introduction. After that, Europe went straight into the third stage; the introduction of the euro for 11 Member States, in January 1999. Greece joined the euro in 2001, and euro notes and coins started circulation in 2002 as scheduled.

After all the negotiations, institutional arrangements and preparations, it is the financial markets that make or break a currency arrangement such as the euro. The euro was successfully introduced because the economic and political conditions were favourable enough. This convinced the financial markets that the single currency was a logical consequence of the Single Market, and that European leaders were completely and jointly committed to its introduction.

4. The euro crisis and EBU

We saw that the ERM crisis was an incubator for the euro. When the euro experienced a crisis, that in turn gave birth to another important European project, the European Banking Union (EBU).

Before we discuss the EBU per se, it would be helpful to briefly look back on why the euro crisis occurred. There is one important yet under-recognised role which the euro was expected to play. That was the role of encouraging structural reform. As explained earlier, the “inconsistent triangle” dictates that you cannot have an independent monetary policy, stable exchange rates and free flow of capital at the same time. Since Europe removed capital controls, the choice was either independent monetary policy or stable exchange rates. Independent monetary policies lead to “asymmetries” such as differences in interest rates. Asymmetries can exist not just in interest rates; they can be in unemployment rates, inflation rates or productivity etc. Asymmetries do not sit well with stable exchange rates because exchange rates move when one currency is sold in exchange for another. And the reason why people buy one currency and sell another is because of asymmetries.

Europeans knew well the importance of removing asymmetries, through their earlier attempts at EMU. One of the major steps they took was the Lisbon Strategy of 2000. That year, the European summit was held in Lisbon, and there they decided a ten-year plan to become the world’s most advanced knowledge-based economy, by structural reform. They set numerical targets on values such as the labour market participation rate and the ratio of R&D spending to GDP, on which progress reports had to be produced. If all the Member Stares became equally productive, then many of the asymmetries will have disappeared. But the Lisbon Strategy worked on a system called the Open Method of Co-operation, without penalties and with only peer pressure.

The Lisbon Strategy did not end in success[7], and asymmetries remained. Considering this fact, it was not surprising that the euro crisis occurred. If there are asymmetries, exchange rates need to adjust. If exchange rates cannot adjust because they are fixed, then something else must adjust in response to the asymmetries.

For example, the German and Greek economies were asymmetric in almost every possible way, so the exchange rate between the German and Greek currencies, had it still existed, would have had every reason to change. But the exchange rate was no longer there. Something else had to change and play the role of the adjustment variable. The burden fell on the interest rates. When the asymmetry between the Greek and German fiscal deficit situation came to the surface in 2009, interest rates on Greek government bonds began to soar. So did interest rates on bonds issued by Ireland, Italy, Portugal and Spain through the contagion effect (although each had a different reason to experience this rise). The result was the euro crisis.

5. EBU

As noted earlier, the EBU was initiated in response to the euro crisis. The European Council of June 2012 stated the objective of EBU was to 'break the vicious circle between banks and sovereigns', partly in response to taxpayers' anger against bank rescues. In December of the same year, EBU was an important element in the timetable for achieving the "true EMU" of the Van Rompuy report, jointly prepared by the European Council, the European Commission, ECB and the Eurogroup.

Europe had already started the reform of financial supervision during 2009 and 2010, following the de Larosiere report[8]. As the euro crisis worsened, the extent and

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[7] Europe launched a new strategy called Strategy 2020 for the new decade.

[8] There were two pillars, the European System of Financial Supervision (ESFS) for micro-prudence and the European Systemic Risk Board (ESRB) for macro-prudence. There are three institutions within ESFS, together called the European Supervisory Authorities (ESAs). They are the European Banking Authority (EBA) in London, European Securities and Markets Authority (ESMA) in Paris and European Insurance and Occupational Pensions Authority (EIOPA) in Frankfurt. As for European Systemic Risk Board (ESRB), it was established under the European Central Bank following Regulation (EU) No 1092/2010. Importantly, decisions by the ESRB had no legal binding force. In contrast, the Single Resolution Board (SRB) of the Single Resolution Mechanism (SRM) as part of EBU has the legal power over the bankruptcy

complexity of mutual interdependence between financial institutions revealed itself to be a clear threat. At the same time, voters' anger over the conduct and protection of financial institutions mounted. It was within such a context that Europe embarked upon EBU.

The three pillars of EBU are the Single Supervisory Mechanism (SSM), the Single Resolution Mechanism (SRM) with the Single Resolution Fund (SRF), and Deposit Guarantee Schemes (DGS). The foundation of these three pillars is called the Single Rulebook. The Single Rule Book contains the Capital Requirements Directive CRD IV package, Bank Recovery and Resolution Directive BRRD) and regulations regarding depositor protection. Approximately 8,300 EU financial institutions are obligated to follow these rules. The European Banking Authority (EBA), one of the ESAs of the ESFS produces Binding Technical Standards (BTS) to implement the CRD IV and BRRD. Euro area members are automatically EBU members, other EU members can opt in.

The SSM started on the 4th of November 2014. The ECB is the single supervisory authority, directly supervising 129 "significant institutions"[9]. The other banks, called the "Less significant banks", remain under supervision of national supervisory authorities. The ECB is also in charge of licensing banks. Banks outside the euro area can join SSM. In general, when the supervisory authority is placed inside the central bank, conflict of interest issues arise. For instance, if the central bank could try to prevent bankruptcy of financial institutions by adopting a monetary policy stance that is too loose for macroeconomic health. Nevertheless, the SSM was established within the ECB because that was the only possible choice.

The political agreement to establish the SRM, the second pillar of EBU, was reached between the European Parliament and European Council in March 2014. The Single Resolution Board (SRB) was established, based on the regulation to establish the SRM which came into force on the 19th of August 2014. At the same time, another directive made it obligatory for EU Member States to establish their National Resolution Authorities (NRAs). The SRB started operations on the first of January 2015, and became fully operational in January 2016. As of December 2016, it has not yet taken any

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process.

[9] The significance criteria are as follows: (1)the total value of its assets exceeds €30 billion, (2) it is economically important for the specific country or the EU economy as a whole, (3) the total value of its assets exceeds €5 billion and the ratio of its cross-border assets/liabilities in more than one other participating Member State to its total assets/liabilities is above 20%, (4) it has requested or received funding from the European Stability Mechanism or the European Financial Stability Facility. A supervised bank can also be considered significant if it is one of the three most significant banks established in a particular country. https://www.bankingsupervision.europa.eu/banking/list/criteria/html/index.en.html

resolution decision. The SRM has final responsibility for the resolution of all euro area banks. But there is division of labour with the NRAs and the SRM is mainly responsible for big banks that operate across borders. This divided state is expected to continue until 2024.

The SRB manages the Single Resolution Fund (SRF), which was established by the regulation adopted on 14th July 2014 that became applicable from the 1st of January 2016. Credit institutions and certain investment firms in the 19 participating Member States within the Banking Union contribute to the fund. SRF will be "gradually built up and reach the target level of at least 1% of the amount of covered deposits of all credit institutions within the Banking Union by 31 December 2023"[10].

As for the third pillar, the Deposit Guarantee Scheme (DGS), it is taking time to materialise. The European Parliament and European Council reached a political agreement over the DGS Directive in March 2014. Per European Parliament (2014), the SRF, DGS and the European Stability Mechanism (ESM) facility will contribute to the third pillar of EBU. DGS sets the upper limit of deposit protection at EUR 100,000, but with exceptions. For instance, if there are special reasons such as having just sold a house, a higher amount will be protected. In addition, depositors will have the guaranteed part of their deposit reimbursed within 7 working days and even sooner to receive a small amount of funds for basic living expenses. The DGS directive admits the possibility of using the funds not just to protect depositors but also for capital injection.

6. Post-crisis Europe

The difficulty in establishing the DGS is one manifestation of a deep-rooted malaise afflicting post-crisis Europe. It reflects the fact that the economic and political conditions that enabled integration to continue up to the crisis no longer exist. Quite aside from the fact that one large Member State, the UK, is preparing to leave the EU, there is now a split between Member States with sound public finances and relatively strong economies on the one hand, and those with large public deficits and debts as well as weaker economies on the other. Germany, a prime example of the former, is intent on the maintenance of fiscal discipline by all Member States. Countries in the latter group (and some

[10] https://srb.europa.eu/en/content/single-resolution-fund. Although the European Commission's homepage categorises SRF as part of the second pillar, some see the SRF and DGS together as the prefunded "buffer between a failing bank and the taxpayers". http://www.pwcacademy.lu/Pages/courses/modules/the-deposit-guarantee-scheme-and-the-single-resolution-fund.aspx. Per this page, the SRF should ultimately total EUR 55 billion at European level and will work hand in hand with DGS.

economists) criticise this approach by saying it does nothing to improve the economic and fiscal situation. Behind this split is the divergence in public opinion within the Member States. Since all of them are democracies, it is not surprising that the political leaders act in ways that represent voter apathy towards more integration.

As for the DGS itself, the reason behind the delay in establishing a pan-EU DGS is opposition by some Member States, most notably Germany that feel extremely uncomfortable about pooling resources without sufficient guarantee that taxpayers will not end up rescuing unwise lenders. European Commission (2014e) clearly states that a "pan-EU DGS is not currently under discussion" but "could be a potential option in the future once the current banking reforms (e.g. BRRD Bank Resolution and Recovery Directive) have been implemented and the other elements of the banking union such as the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) are in place". What is possible today is voluntary mutual borrowing by Member State DGS. And five years after its entry into force, "the Commission will submit a report, and, if appropriate, could put forward a new legislative proposal".

On 23rd November 2016, the European Commission unveiled a proposal on how to incorporate the Total Loss Absorbing Capacity (TLAC) rule published by the G20-linked Financial Stability Board (FSB). TLAC will force banks to issue debt that can be easily written down or converted into equity during resolution, absorbing loss without legal challenges. Thirteen banks are foreseen to come under this rule, among which the number of French banks included is four, second only to UK banks. France is opposing this narrow application of rules, and arguing alongside Italy that the TLAC rule for European banks should not be any stricter than the international version. Germany and the Netherlands, on the other hand, argue that the Commission's proposal is not enough to ensure that risk is reduced. The European Council on 15th December 2016 did not adopt the Commission proposal and instead concluded that it "underlines the need to complete the Banking Union in terms of reducing and sharing risks in the financial sector, in the appropriate order"[11], reflecting the opinions of the Netherlands and Germany (which have general and federal elections in March and September respectively, in 2017).

DGS, the important third pillar of EBU, cannot come into being without agreement on risk reduction. Thus, the EBU is expected to remain incomplete for a while longer[12]. In the meantime, another financial crisis could strike at any moment. The failure (at least

[11] http://www.consilium.europa.eu/en/press/press-releases/2016/12/15-euco-conclusions-final/

[12] This does not mean EBU is a complete failure, in fact it has played an important role already. For the achievements of EBU and implications for Asia, see Darvas, Schoenmaker and Véron (2016).

so far) of EBU to take its full form testifies to the importance of the economic and political environment in which a new integration project is launched. As mentioned earlier the euro crisis and its aftermath brought into stark contrast the asymmetry in economic performances of high-debt and low-debt Member States. Because they are democracies, voter apathy and industry interests on both sides can seriously hinder progress in negotiations. Interests of the different Member States have always collided, throughout the history of European integration. What is different today is the absence of overall support for the idea of integration on the part of the citizens.

7. Populist upheavals and integration

As we saw in the previous sections, domestic political forces can hugely influence the fate of integration and international negotiations. 2016 turned out to be a year of major upheaval on both sides of the Atlantic, with the unexpected additions of Brexit and the Trump victory to an already volatile situation on the Continent.

Even before voters in the UK chose Brexit on 23rd June, 2016, antipathy towards the EU was becoming more and more apparent across Europe. After Brexit was chosen, populist politicians advocated even more loudly their anti-EU, anti-immigration and anti-foreigner policies. These parties include Spain's Podemos (meaning "we can"), France's Front National (FN), Germany's Alternative für Deutschland, Italy's Five Star Movement (MoVimento 5 Stelle) and Northern League (Lega Nord; LN), the UK's United Kingdom Independence Party (UKIP), the Netherlands' Freedom Party (Partij voor de Vrijheid; PVV), Finland's Finns Party (which used to be called True Finns, Perussuomalaiset)[13]. But since these parties are on both the left and right, at least at this stage it is unlikely that they will form a grand coalition. Some scholars, such as Professor José Ignacio Torreblanca at the National University of Distance Education (UNED) in Madrid and the European Council on Foreign Relations, as well as Professor Mariely Lopez-Santana at the George Mason University see this as proof that the conflict is no longer "left vs. right"

[13] Exceptions in the trend are the loss of support for Syriza (acronym of a phrase indicating far left coalition) which won the Greek elections in January 2015, and the Austrian Presidential elections in December 2016. In Greece, the liberal-conservative New Democracy regained ground, leading Kyriakos Mitsotakis, elected head of New Democracy in January to say that "Greece may be the first to beat populists, at their own game" (http://www.economist.com/news/europe/21711069-centre-right-new-democracy-party-dull-technocratic-and-leading-polls-tired-syriza). As for the mostly ceremonial position of President of Austria, Alexander Van der Bellen, a member of the Austrian Greens was elected, allowing the EU to avoid getting its first far-right head of state.

but "insiders (with jobs) vs. outsiders (without jobs).

Economists and political scientists around the world now have the task to analyse the reasons behind this change in voter sentiment away from an open, liberal order. For some voters, openness is the perceived or real cause of job-losses, and policies must respond to these voters.

Meanwhile, in the year 2050 Asia is expected to produce 50% of the world GDP. This chapter concludes by asking what this trend against globalisation means for Asia, and what if anything Asia can learn from the European experience.

Perhaps because the degree of integration in Asia is far less advanced than in Europe, Asia is not yet experiencing the same explosion in anti-integration sentiment. And Asia's relatively high growth rate may be behind the continued support for globalisation. But Asia has its own reasons why integration can be difficult. The economic and political conditions that existed in pre-crisis Europe do not exist in Asia today. In terms of economic conditions, one obvious issue is the difference in the levels of economic development in Asia. We also need to remember that Europe took successful steps forward in integration when the economies were doing well. In Asia, Japan has been stuck in a state of slow growth for over two decades, and the public debt and deficit levels are nowhere near the levels that EU Member States had to approach to join the euro. And China has just lowered the expected growth rate for 2017 to 6.5%. As for the political conditions, China and Japan are unlikely to have the kind of working relationship shared by France and Germany soon[14].

In post-crisis Europe, Democracy has become so prone to picking up anti-establishment, anti-integration voices. Increasingly, nations are divided within, between those who support integration, and those who don't. But this does not mean international trade and investment are no longer desirable. International trade and investment can continue, be it at a more subdued level, between nations whose governments do not necessarily represent people who support integration.

At this stage, nations negotiate international treaties, and national borders are drawn not along voter sentiment about openness and integration. This makes it difficult for nations to agree on integration processes, because nations are split within. If, on the other hand, voters in different nations could sign a treaty to form a union such as the EU, integration could proceed and openness could be maintained.

In fact, when we look at Scotland after the Brexit decision, this is similar to what they

[14] As argued above, the relationship between France and Germany is no longer what it used to be, and it may change more radically depending on who wins the elections in 2017.

are aiming at. Scotland voted overwhelmingly against Brexit, in the referendum (in June 2016) as well as in the parliamentary vote (in February 2017). The first minister of Scotland Nicola Sturgeon has demanded Scotland's continued membership of the single market to be "an integral element" of Brexit negotiations. She is threatening to hold another independence referendum. But Prime Minister May, in her speech to the Scottish Conservative Conference on Friday 3rd March, declared that she was "ready to change the devolution settlement (with Scotland) to take control of farming and fisheries policy" after the UK left the EU. Clearly, this is unacceptable to the First Minister. Given the Scottish dependence on the UK (63% of Scottish exports went to the rest of the UK while only 16% went to the EU in 2015, Scotland receives the second highest public spending after Northern Ireland), the Scots are unlikely to vote to leave the UK. But staying in post-Brexit UK is not going to solve the problems for Scotland. They would benefit if powers regarding agriculture, fisheries and the environment were devolved, not to Westminster but to Holyrood, from Brussels.

The implication to Asia would seem to be the following. China and Japan could begin by integration at levels more local than the national level. If citizens of one city or region can agree an integration treaty with another one in another country, integration could start from there. The region/city would have to be a "special zone" where such international agreements are allowed. The benefits of starting from a region to region/city to city agreement is that unless a mass of anti-integrationists move in, the integration process will be relatively smooth. If both nations see benefits from such an arrangement, and the economic and political conditions are right, this is not impossible.

Integration between regions/cities may sound like a pipe-dream, it would have been one until Brexit and the Trump victory happened. The two events showed clearly that we could no longer take the liberal international order for granted, and importantly, we could no longer assume without question that the national level is the ideal level for international negotiations and agreements. The US-Japan relationship is arguably the strongest relationship between nations built after the Second World War. And yet, American voters have just elected a new President that is ready to destroy TPP.

Conflict is more likely avoided when people can put a human face on a "nation" with which they decide to co-operate or not. If actors on both sides can see in their mind's eye human faces they have closely interacted with, done business with, negotiated and written agreements with, then hostilities can be prevented. This is the major lesson of post-war Europe.

Economic co-operation and integration, be it on a smaller, regional level, can create on both sides such close human relationships and trust, the mutual understanding that "he or she is someone we can do business with".

In this century, we may be seriously re-asking ourselves what nations are for, in particular whether the "nation" is the ideal unit for international negotiations and integration. What is happening in the UK after the Brexit vote shows that the European region is once again moving ahead of the rest of the world. But if integration between smaller units proceeds and succeeds in Asia, Asia will be showing the way to Europe and the rest of the world.

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