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國際學碩士學位論文

**European Integration Legitimacy since the Euro-
crisis and Lessons for East-Asian Cooperation**

유로通貨危機 이후 유럽 地域 統合의
正當성이 東아시아 地域 協力에 주는 含意

2014 年 2 月

서울대학교 國際大學院

國際學科 國際地域學專攻

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**European Integration Legitimacy since the Euro-
crisis and Lessons for East-Asian Cooperation**

A Thesis Presented by

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Graduate Program in International Area Studies
For the Degree of Master of International Studies

February 2014

The Graduate School of International Studies

Seoul National University

European Integration Legitimacy since the Euro-crisis and Lessons for East-Asian Cooperation

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2014年2月

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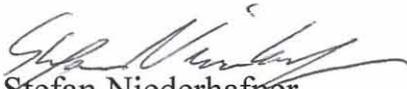
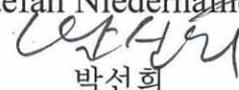
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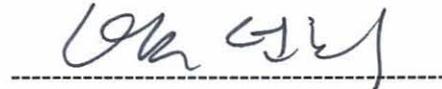
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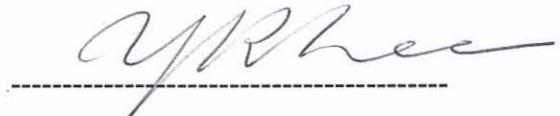
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European Integration Legitimacy since the Euro-crisis and Lessons for East-Asian Cooperation

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Abstract

This research assesses the feasibility of regional integration in East Asia (China, South Korea and Japan), using the European integration precedent and in the light of the current Euro-crisis. We find that the main difference between Europe and East Asia in terms of integration lies in the capacity of institutionalizing economic commitment. Such decision is often seen as an essentially top-down political move, but we demonstrate that citizens do have an influence on those choices, through a range of direct and indirect constraints on political decisions, based on their legitimacy perception. We conclude that East Asia is unlikely to embark in institutionalized integration before a strong regional identity has emerged, which is

likely to be a very lengthy process. Our study of regional integration legitimacy is therefore a concrete assessment of what criteria citizens base their perceptions upon when exerting these constraints. We address the relevance of the European construction experience for East Asia's specificities, taking into account existing theoretical frameworks and historical phenomena, like the German economic reunification. We then harness this understanding to the current Euro-crisis by showing the limit of EU's gain-led legitimacy, and highlighting the need for strong regional identity prior to integration in both regions.

Keywords: regionalization, regionalism, regime integration, European citizenship, public support, identity

Student Number: 2011-24209

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Abbreviations

ADB: Asian Development Bank

ASEAN: Association of Southeast Asian Nations

ASEAN Plus Three (ASEAN+3, APT): ASEAN Plus China, Korea and Japan

CMI: Chiang Mai Initiative

ECB: European Central Bank

ECJ: European Court of Justice

EFTA: European Free Trade Association

EMS: European Monetary System

EMU: Economic and Monetary Union

EP: European Parliament

ERASMUS: European Action Scheme for the Mobility of University Students

EU: European Union

FTA: Free Trade Agreement

GDP: Gross Domestic Product

GNI: Gross National Income

GNP: Gross National Product

IMF: International Monetary Fund

MoDem: Mouvement Démocrate

OCA: Optimum (Optimal) Currency Area

TCS: Trilateral Cooperation Secretariat

UK: United Kingdom

UN: United Nations

UN ESCAP: United Nations Economic and Social Commission for Asia and the Pacific

US: United States

WW2: World War Two

I. Introduction

1. Rationale and objective

Many economic studies mention regional integration in East Asia as a positive-effect economic solution. The European Union (EU) being the most comprehensive empirical and theoretical example of voluntary regional integration, it is logical to address possible lessons (positive or negative) of European construction and assess possibilities to see similar patterns in East Asia. In addition, geographical and cultural distance between Europe and Asia sometimes generates misconceptions about political phenomena on each side of the Eurasian continent. This research is also an opportunity to increase mutual understanding between European and Asian forms of cooperation.

Europe is currently experiencing a major crisis which is jeopardizing the future of European Union and the memory of its past. An essentially economic crisis has such extensive political consequences that it could appear as a threat to 60 years of reconciliation and common destiny-making. The Economic crisis is putting in doubt the theory of integration, as it mixes up technical and highly salient, redistributive effects, although theories most of the time distinguished highly salient,

redistributive and non-technical policies on the one hand (defence, immigration...), and low-salient positive-sum technical policies (competition, monetary policies...) on the other. More importantly, a number of phenomena accompany the Euro-crisis. We observe that the Economic and Monetary Union (EMU) is now deeply blamed whereas the same system (same countries, same institutional framework, same structural failures) was legitimized by the same assembly (public opinion, leaders, scholars) before the crisis. We also observe a form of opposition over the current rescue plans, between the seemingly divided northern and southern Europe, whereas major public transfers were made possible in different times, for example during the German economic reunification.

This study comes during a time when citizen's participation in the EU decision-making is heavily debated. Symbolically, 2013 is the European Year of Citizens celebrating the legal, political and symbolic power of the concept of EU citizenship (Shaw, 2012). More concretely, facing the turmoil throughout Europe, it is relevant to approach the legitimacy of EU in the eyes of citizens, as well as the power of this perception on actual decision-making. Finally, it will be relevant to take stock of EU's citizens' perception as a way to anticipate possible debates arising over the European elections of 2014. We attempt to take distance from philosophical or normative issues on legitimacy, and focus on the actual understanding of constraining mechanisms from the citizen's point of view.

The main question that we aim to address is: What are the prospects of East Asia's regime integration, based on EU's experience and in the light of the Euro-Crisis? We make the hypothesis that the Euro-Crisis is likely to deter the European logic of integration in East Asia in the short run.

The following sections are organized as follows: section II assesses the relevance of EU's integration for East Asia. We argue that it resides in the shift from regionalization to regionalism. The shift is described as unintended regime integration through credible economic commitments. Section III gives a short overview of EU theory on legitimacy prior to the Euro-crisis, showing the importance of gain and identity, the two being heavily influenced by the regime. Section IV gets into the Euro-crisis, and shows that, through this crisis, legitimacy perception from the citizens constrains decision makers. Also, in the long run, perception of gain is weakly influenced by the regime, and a strong common identity becomes essential to pursuing further integration, as shown in the German reunification example. Section V aims to draw lessons from those findings for East Asia, showing that (1) integration does not necessarily derive from optimum economic efficiency, (2) weak identity prior to integration makes it unstable and partial (3) East Asia can anticipate the threat of unintended outcomes. Section VI gives some concluding remarks.

2. Basic concepts

Prior to our development, taking some time to define basic concepts enables us to clarify the scope of our research. They are put in order of appearance in the study's development.

European Union:

We will call European Union the different countries which gradually joined the process of European construction, from the European Coal and Steel Community to today's European Union. The complexity of the interlinkage between member states, the fact that countries joined later than others and that countries are not all part of the same institutional framework (e.g. Eurozone) makes a clear cut delimitation of what we call European inherently difficult.

East Asia:

In this study, we will use the word East Asia mainly to refer to the three following countries: China, the Republic of Korea and Japan. However, for a matter of convenience, we may include other countries which together form part of standing regional institutions.

East Asia has been in a continual debate about the membership of "the region" (Pempel, 2006). What we call East Asia today had not been perceived from the perspective of Asians but from that of Westerners, and had been referred as "Far East" for a long time. The term "East Asia" was formed throughout the discourse

on the “Asian values” in the 90s and the building of a extension to Japan, Korea and China of the Association of Southeast Asian Nations (ASEAN), called the ASEAN+3 at the end of the 90s (Ahmad, 2012). It was then at the 2011 6th East Asia Summit, Bali that the notion of Asian values was recognised¹. When considering the fact that South Korea, Taiwan, Hong Kong Singapore were referred to as “Newly Industrialized Countries” in the 80s before the term “East Asia” had been solidified, we could see that it took quite a while before “East Asia” was established as a purely geographical notion. Geographically speaking, East Asia comprises both Southeast Asia and Northeast Asia. While the term “Southeast Asia” was instituted steadily through the Association of Southeast Asian Nations (ASEAN) formed after 1967, “Northeast Asia” is seldom used and often refers to different groupings², which leads us to generally use the term East Asia in this study.

Integration and Cooperation:

A variety of definitions have been given for the concept of integration. While Ernst B. Haas describes integration as the process of attaining the final condition of a

¹ Japan Ministry of Foreign Affairs, Declaration of The East Asia Summit on the Principles for Mutually Beneficial Relations, Bali, 19 November 2011, http://www.mofa.go.jp/region/asia-paci/eas/pdfs/declaration_1111_2.pdf (accessed on 20 November 2013)

² The UN ESCAP East and North-East Asia Office considers North-East Asia as composed of China, the Democratic People's Republic of Korea, Japan, Mongolia, the Republic of Korea and the Russian Federation (<http://northeast-sro.unescap.org/about.html>, accessed on 21 December 2013), while the Trilateral Commission Secretariat refers to Northeast Asia as composed of China, the Republic of Korea and Japan only (Shin 2012).

political community among nation-states (Haas, 1961), other scholars like Andrew Moravcsik suggest rather mere policy coordination (Moravcsik, 1993). Some economists would consider economic integration as the mere removal of barriers to international commerce (Baldwin, 2011). Many definitions therefore bear an interpretation of the scope and depth of integration, where integration is leading to and how nation-states lose control throughout this process. The EU construction shows a dynamic between cooperation and integration depending on the historical phase, the policy area and the type of decision-making.

Here, integration and cooperation are both linked to the phenomenon of increased regional interdependence and policy linking in different areas, but integration denotes the existence of a regional entity to which member states transfer their sovereignty.

Legitimacy

Legitimacy can be seen as the sense of normative obligation that helps ensure voluntary compliance with undesired rules or decisions of governing authority (Scharpf, 2009: 5). More practically, legitimacy is a perception based on which the citizens will base his/her desire to foster or hinder integration. In this sense, Martin Lipset (1963) argues that legitimacy involves the capacity of a political system to

engender and maintain the belief that its institutions are capable of resolving the major problems facing society.

A political system's legitimacy is often divided between output legitimacy, judged in terms of the effectiveness of the EU's policy outcomes for the people, and input legitimacy, judged in terms of the EU's responsiveness to citizen concerns as a result of participation by and representativeness of the people (Schmidt, 2010:5)

Euro-crisis:

The euro area (European Union countries which have adopted the euro as their currency³) faces three interlocking crises that together challenge the viability of the currency union. There is a banking crisis – where banks are undercapitalized and have faced liquidity problems. There is a sovereign debt crisis – where a number of countries have faced rising bond yields and challenges funding themselves. Lastly, there is a growth crisis – with both a low overall level of growth in the euro area and an unequal distribution across countries (Shambaugh 2012). The origin of the Euro-crisis is argued to be generated by counter-cyclical measures to compensate the 2008 crisis contamination in European States, more specifically by financing the banks (Volz 2012).

³ Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, Spain

Regionalization and regionalism

Regionalization is a largely bottom-up, corporate or society-driven, and informal linkage between countries, predominantly independent of official governmental actions. While official governmental action is hardly irrelevant to such ties, the key energizers are corporations, financial institutions, and other non-state actors. On the other hand, “regionalism” involves deeper, top-down, governmentally driven and formally institutionalized connections (Pempel, 2006).

Regime:

We understand regime as a set of institutions and procedures- the oft-quoted definition by Krasner: a set of norms, rules, patterns, and principles of behaviour guiding the pursuit of interests, around which actors converge (Krasner 1983). Decision takers (governments, parties, supranational institutions), as part of the regime, regulate it and allocate its resources. They set the institutional framework and are constrained by it at the same time.

Gain :

Gain is defined as the subjective assessment that belonging to the European Union has had positive or negative impact over a certain period of time. In other words, it

is the perception of whether the Union has effectively reached the objectives it set. This perception can be at the individual or collective level (national, European). The key word for this dimension is 'functional performance'. Effectiveness could be perceived as a broad concept, but considering that most of the European construction results from an economically-led integration (as shown in the range of EU competences by Hix and Hoyland, 2011:16), gain will usually be used to refer to economic outcome as perceived by citizens.

Identity

Identity is defined as the understanding by citizens that they belong to the same sphere, the same community, being able to identify a territory and a population. As a consequence, it is the recognition by citizens of a common European-level authority to which they delegate their economic and political rights (transfer of loyalty). The key concept for this dimension is the one of "polity", concerned with the community enjoying a feeling of belonging to the same entity. Polity legitimization comes through the acceptance that, given that members of the system belong to the same community, they approve a common legitimate authority (Bellamy and Castiglione, 2003). Throughout history and the emergence of the nation-state, polity typically preceded regime. Even though power is gained through war, violence, dictatorship or elections, and therefore the regime meant to change,

the existence of a rightful sphere of authority is rarely disputed (Bellamy and Castiglione, 2003:4).

3. Other methodological considerations

This study is not strictly comparative, as it would imply comparable cases and a common theoretical framework. In this case, we try and draw lessons from the only empirical case and with one theoretical framework, the European one, to another context.

This is a qualitative study about perception influences on political decision. It is therefore irrelevant to try and find quantitative variables, which would, even systematically analysed, not bring strong validity. We will therefore consider a number of different dimensions and identify logical mechanism in human behaviour as the as a way to compensate with the imperfect reliability of these measurements (identity assessment, polls...).

Finally, our study is essentially positive. Our assessment of legitimacy focuses on how this perception affects regional integration. It does not intend to be a normative assessment of whether regional arrangement are legitimate in the sense of whether they comply with the democratic and human values and principles that they are trying to promote. It does not aim to judge the soundness of citizens or states decisions. The idea of lesson should not be understood as any form of duty for East Asia to reproduce partly or fully European integration. It is simply a positive

response to the emerging regional studies in East Asia, for which EU integration appears not only as the main empirical precedent but also as the most theorized regional phenomenon. East Asian cooperation has been weakly institutionalized and weakly theorized by scholars. European integration concepts offer a convenient theoretical basis which is useful to apply to East Asia for a better understanding. Therefore, using the EU case and EU concepts as a reference point should not lead to the disregard of the uniqueness of the East Asian particularities, its tradition and practice of international relations, as well as the inherent limitations of using English concepts to cover this matter.

II. EU's relevance for East Asia: economically-led regionalism

East Asia has been often seen as a puzzling phenomenon of limited political cooperation in spite of geographical proximity and significant intra-regional trade. The aftermath of the World War Two (WW2) tragedy has clearly led East Asia to a political, military and diplomatic route which is very different from the European integration, often referred to as regionalization without regionalism (Pempel, 2006). This part aims to analyse which approach of European integration draws the most relevant lessons for East Asia cooperation.

1. EU and East Asia at a glance: regionalism and regionalization

In the 1960s, Western Europe became the first region in the world to establish a customs union, with an internal free trade area and a common external tariff, and also the first genuinely supranational public spending programme: the Common Agricultural Policy. The pace of integration then slowed until the mid-1980s, when then twelve member states agreed to the launch the programme to create the first continental-scale 'single market' by the end of 1992; which involved the removal of

internal barriers to the free movement of goods, services, capital and labour, a single European competition policy, and a single European currency (the euro) (Hix, and Høyland, 2011). On the other hand, some scholars have considered that the case of East Asia is an “anomaly”, as economic integration—defined as the removal of barriers to international commerce—has progressed since the mid-1980s more than any other region, while formal economic cooperation in the region, especially cooperation embedded in regional institutions, is almost non-existent (Baldwin, 2011). In this part, we argue that East Asian countries are, like EU countries, marked by a market-led under-institutionalized “regionalization”, without “regionalism”.

Over the past several decades both trade and financial processes have made East Asia a far more cohesive region. To date, East Asia has achieved its greatest interdependence in production, trade, and investment. (Pempel,2006). The intraregional trade among three countries over the last decade showed the rapid growth and constituted such conditions which can form a de facto economic bloc⁴. The Wall Street Journal (2012) found that trade between the three reached \$690 billion in 2011, up from just \$130 billion in 1999. Also, in 2011, foreign direct investment in China from Japan and South Korea reached around \$80 billion and \$50 billion, respectively. In other words, these three countries are intensely trade-dependent on each other. Together they form a huge economic unit as the three

⁴ Wall Street Journal (2012), Asia Powers Agree on Free-Trade Negotiation, 13th of May, 2012.

accounted for 19.7 % global gross domestic product in 2010 compared with 27.2% for the North American Free Trade Agreement (Wall Street Journal, 2012).

On the investment side, Moon and Rhee (2012) found that greater economic openness and globalization in East Asia has created a regional concentration of trade and FDI activities. There seems to be increasing evidence that financial globalization in East Asia is leading to financial regionalization through the deepened linkages between Asian and global financial markets. The result is a rising degree of convergence of stock market returns between East Asian countries as well as between East Asian and global markets. The speed, scale, and extent of the contagion of the financial crisis further confirm the growing financial market linkages between Asian countries. The financial crisis and contagion revealed how closely financial systems and economic conditions were inter-connected across East Asia. Now East Asian countries are rapidly catching up with the global trend of regionalization, intensifying the economic ties between themselves. Economic interdependence has been deepening, making closer regional cooperation essential. If economic integration means just an absence of any barriers to the free flow of goods, capital and people, countries in East Asia may already have attained quite a significant degree of market-driven integration. (Moon and Rhee, 2012)

However, clearly numerous obstacles confront the formation of deeper and more comprehensive regional linkages, referred to as regionalism (Pempel, 2006). An example of it is the ASEAN+3 (APT), which started with the ASEAN nine member

countries and Korea-China-Japan meeting on a Summit in Hanoi in 1998. The ASEAN+3 summits leading into the institutionalization of cooperation between Northeast Asia and Southeast Asia were arranged. However, it is worth noting that the emergence of APT was fragile and the connection to Korea-China-Japan (+3) did not seem fully reliable. APT was not sufficiently institutionalized as the formal regional entity and also three countries (Park and Bonneau, 2013a).

The most noticeable outcome of ASEAN+3 Finance Ministers Meeting is the Asian currency swap agreement. In order to prevent the recurrence of financial crisis and handle with systematic measures, it launched Chiang Mai Initiative (CMI) in May, 2000, which established a network of bilateral currency swap agreements. However, Chiang Mai Initiative fell short in a number of aspects, which to Kawai (2010) prevented it from significantly assisting Asian countries in times of crisis. Flaws include its limited size (total size and individual borrowing amount may not be enough to cope with sudden stop of capital movement), the International Monetary Fund (IMF) conditionality (a crisis-affected member requesting short-term liquidity support could immediately obtain financial assistance for the first 20 percent of the Bilateral Swap Agreements amount, and that the remaining 80 percent would be provided only with the IMF agreement), its stigma effect (approaching the IMF was seen as a sign by markets that problems are worse than thought: This effect may also be applied to the CMI), and its non-permanent nature

(may not be guaranteed under a crisis. during the present financial crisis, the CMI) (Kawai, 2010).

Another initiative worth mentioning is the Trilateral Cooperation Secretariat, composed exclusively of China, Korea and Japan, and designed to systematize the political co-operation efforts among the countries. Established in 2011, the TCS has raised a lot of interest and hopes, even though it has so far remained positioned in 'non-political' projects and technical support (Shin, 2012:10) and has, as a young organisation, yet to prove its capacity to become a powerful platform of trilateral discussion and potentially contemplate a supranational role.

2. East Asian cooperation as a replication of EU integration?

Given this comparison at first glance, it would be tempting to consider that East Asia is simply "lagging behind" in terms of institutionalized cooperation, and suggest ways to somewhat reproduce the alleged success of European regionalism. However, as the Asian Development Bank (ADB) points out, a number of specific features of East Asia impede a direct comparison of the regions, starting with demographic, economic and political disparities (ADB, 2010:163). In addition, given the different cultural backgrounds and history, it would be a mistake to compare the success of the EU integration process with the less impressive state of Asian economic and political integration. EU-style integration does not necessarily

set the standards by which Asian integration can be measured (Berkvosky, 2005).

Let us mention three key elements of context in both regions.

One element to note is the difference between the European and East Asian conceptual foundations and traditions of international relations: the East Asian tributary system, which embraced East Asian countries until the late 19th century Japanese and Western imperial expansionism. The East Asian tributary system embraced ritual, diplomatic and trade formalities, centralized on the Chinese Empire, which functioned on an abstract level to differentiate and mediate between the civilized Self and the “barbarous” Other (Ren, 2012:12). This set of rituals and processes, as well as formal relations, set up a form of internal harmony, which did not embrace the Western view of international relations, the latter implying the possibility to establish political and trade relationship without consulting with third countries through the signature of Treaties (*ibid*) or the Westphalian view of international relations based on the legal equality of states (Vaughan, 2011:6).

Second element worth pointing out is the different impact of World War Two on the two regions. Europe was founded on the principle of post-WW2 reconciliation, where former foes Germany and France formed the central pillars of such an organization (Beeson, 2005). On the other hand, East Asian cooperation is hampered by numerous conflicts related to historical issues as well as territorial disputes. This is due to the historical relationships stemming from the end of 19th century until 1945, known as Japanese imperial period. Post-War unresolved

territorial disputes, over the islands known as *Dokdo* in Korean and *Takeshima* in Japanese on the one hand, and *Senkaku* in Japanese and *Diaoyutai* in Chinese on the other, have been persistent sources of tensions. Such an issue has concrete policy implications, as demonstrated by the drastic reduction of the swap arrangement between Korea and Japan amidst tension over *Dokdo/Takeshima* (Financial Times, 2013). Issues related to the compulsory mobilization of “comfort women” (women forcefully taken to Japan as sex slaves during WW2) are another issue souring the relationship between Japan and its Chinese and Korean partners, as the earlier refuse to openly recognize their responsibility and agree for compensation (International Herald Tribune, 2012). One other problem has to do with the Yasakuni Shrine in Japan. Visits to the Shrine provoke protests from Korea and China. For many Asian countries who suffered under Japanese imperialism, the shrine is perceived as a symbol for Japanese militarism and ultra-nationalism⁵. The Trilateral Commission Secretariat itself identified the necessity to address these issues in order to achieve deeper co-operation between China, Korea and Japan, as stated by Shin Bonk-kil, then Secretary General of the TCS: ‘(...) what is most important to trilateral cooperation is squarely facing the unfortunate history shared by the three Northeast Asian countries, and seeking true conciliation. At the very least, they must acknowledge one another’s history, and move toward a path of

⁵ New York Times (2013). ‘Japanese Premier Visits Contentious War Shrine’. http://www.nytimes.com/2013/12/26/world/asia/japanese-premier-visits-contentious-war-shrine.html?_r=0 last accessed on 31 December 2013.

harmony. Many issues, including historical accuracy and territorial disputes, are standing in the way of trilateral cooperation' (Shin, 2012:10).

Finally, the Cold War has brought very different legacies in the two regions, particularly on the role of the United States (US). While it is important to acknowledge the role the Europeans themselves played in the process of post-war economic reconstruction and the subsequent course of deeper political integration, it is clear that US actions were crucial and stand in stark, particularly in the immediate aftermath of the war and the Marshall Plan. American power has also been important in East Asia, too, but East Asian regionalism has moved ahead despite, rather than because of, American efforts (Beeson, 2005). Unlike Europe, the US was rather sceptical about East Asia's autonomous regionalism. As the US took an attitude of opposition about East Asian Economic Caucus suggested in 1990, which is the initial plan of East Asian regional cooperation exclusively composed of Asians, the US also firmly indicated its stance of opposition on the establishment of Asian Monetary Fund after the Asian economic crisis. (Park and Bonneau, 2013a). The geopolitics of East Asia, in particular its security arrangement, is much closer to a Cold War paradigm than the post-Cold War Europe. In stark contrast to Western Europe facing the Soviet Union and its allies for the first forty-five years after World War II, East Asia faces no commonly perceived external threat (Pempel, 2006). Nowadays, the old framework of

triangular alliances North Korea, China and Russia versus South Korea, Japan and the US still persists.

A way to combine both the high level of regionalization and the low level of regionalism in East Asia has been the concept of “open integration” or “soft integration” (Berkovsky, 2006:6). “Open integration” Asian-style embraces concepts of loose and pragmatic integration, excluding legally-binding decisions that constrain action in key policy areas. In this context, the literature also speaks of “open regionalism” in Asia, indicating that initiatives in economic integration are not necessarily defined around a specific region (Pempel, 2006:6). The concept of “open regionalism” also advocates integration processes not supported by formal, rule-bound institutions (Pempel, 2006:15).

3. EU a la carte: monetary integration as an isolated instrument for East Asia?

Another idea, which is fairly widespread in the literature, is to suggest selecting a number of policy instruments to replicate for the EU, upon the different needs of East Asian countries. Notably, the run up for the EU monetary integration gave impetus to similar policies in East Asia, particularly with the late 1990s Asian crisis. Up until the Euro-crisis, the overall success of European monetary and exchange rate policy coordination, which culminated in the introduction of the euro as a

single currency in 1999, had prompted the East Asian authorities to consider regional financial cooperation as a viable tool of regional self-help mechanisms for financial stability. The successful launch of the euro hard currency in 2002 inspired hope that a similar initiative could be started in Asia (Moon and Rhee, 2011). The Asian crisis fuelled this feeling, when countries felt a need to create regional self-help mechanisms for effective prevention, management, and resolution of financial crises particularly given the revealed shortcomings of the existing global financial architecture and the limited Asian voice in, and for, global financial management (Kawai, 2008). More particularly, monetary integration in EU was perceived as a way to overcome the Optimum (or Optimal) Currency Area (OCA) criteria, which aim to assess when the cost of loss of monetary policy is overcome by the gain of fixed exchange rate. In other words, it is the theoretical stage beyond which monetary integration is beneficial to countries in a given region. Some of these criteria are economic and financial interdependence, symmetry of shocks and factors mobility. The 1990s theorists, looking at the EU example, suggested that OCA conditions would be likely to improve with economic expansion in the region. According to this endogeneity assumption, countries would not need to meet many of the conditions before integration, but the integration itself will turn the countries into optimal currency areas (Rhee, 2003).

The first argument which draws pessimism on the instrument selection is the interconnectedness. Any instrument of the EU is linked to the overall framework of

European construction. In Europe, the requisite links and institutions have grown up only as a result of a unique process of political and economic integration that has unfolded over many decades, whereas East Asia's overall institutional framework is weaker. On the possibility for East Asia to set up a monetary union, Eichengreen and Bayoumi (1996) argue that East Asian countries lack the political links and traditions needed to support a concerted exchange rate policy; historical experience suggests that more than a few years will be needed to develop them. As Berkovsky points out, integration did not happen overnight – but as a gradual process over sixty years. (Berkovsky, 2005). Some scholars also attempted to draw a parallel between the Asian crisis and events in Europe which fostered monetary cooperation. The exchange rate considerations of the 1990s let some, like Eichengreen and Bayoumi, (1996) believe that East Asia was in footsteps of 1970s post-Bretton Woods Europe, when exchange rate volatility led the way, until it became clear for the internal market that harmonization would have a lower cost than flexibility. This was then the birth of the ancestor of EU's Economic and Monetary Union, the so-called European Monetary System, in 1979. This comparison shows the length of the process, how it is linked to a context and how it is linked to other processes, in this case almost 20 years of market-making prior to the early work on monetary harmonization.

Another, more obvious argument against selecting instruments from EU is the recent disinterest for monetary integration in East Asia. On the one hand, there were

diminishing interests in this matter mainly because of the relatively slow progress of regional monetary integration in East Asia. Since the launch of the Chiang Mai Initiative in 2000, there has been practically no major progress on East Asian monetary arrangements (Moon and Rhee, 2011). In addition, the recent Euro-crisis led potential idea of replicating EU's monetary integration to lose a lot of its credibility (Henning, 2011).

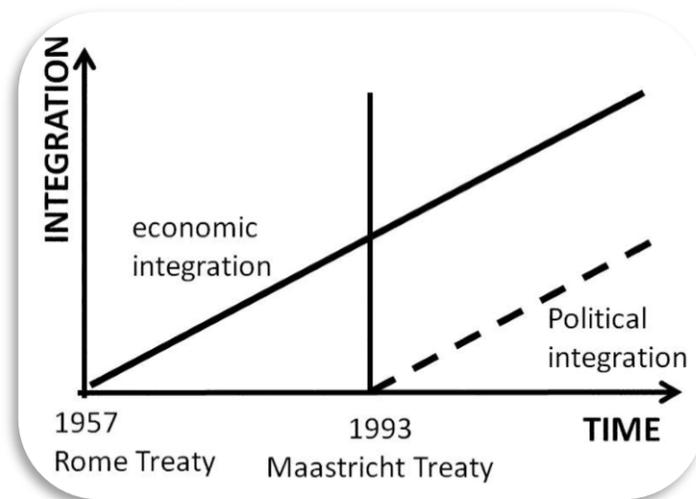
4. EU as a logic: unintended regime integration through credible economic commitments

We see therefore that we cannot either transpose EU's experience in East Asia, neither use its instruments separately, as neither way can embrace the specificities of each region and context. To obtain a more adequate understanding of EU integration in order to draw lessons for East Asia, we need to understand the underlying logic of EU's integration, which can be taken off its particular context: an unintended regime integration through credible economic commitments.

A common perception of EU integration is of an economic integration followed by a political integration with an apparent full control by states in the speed and policy areas: the concept of gradualism (Cheong, S. C., 2004). In this view, European integration is seen as an exclusively economic integration before the 1993 Maastricht Treaty, followed by a consensus on political integration from Maastricht.

This gives the impression that countries can simply satisfy themselves with economic integration without being constrained to a political integration. Figure I.1. illustrates this spread idea of clear division between economic and political integration.

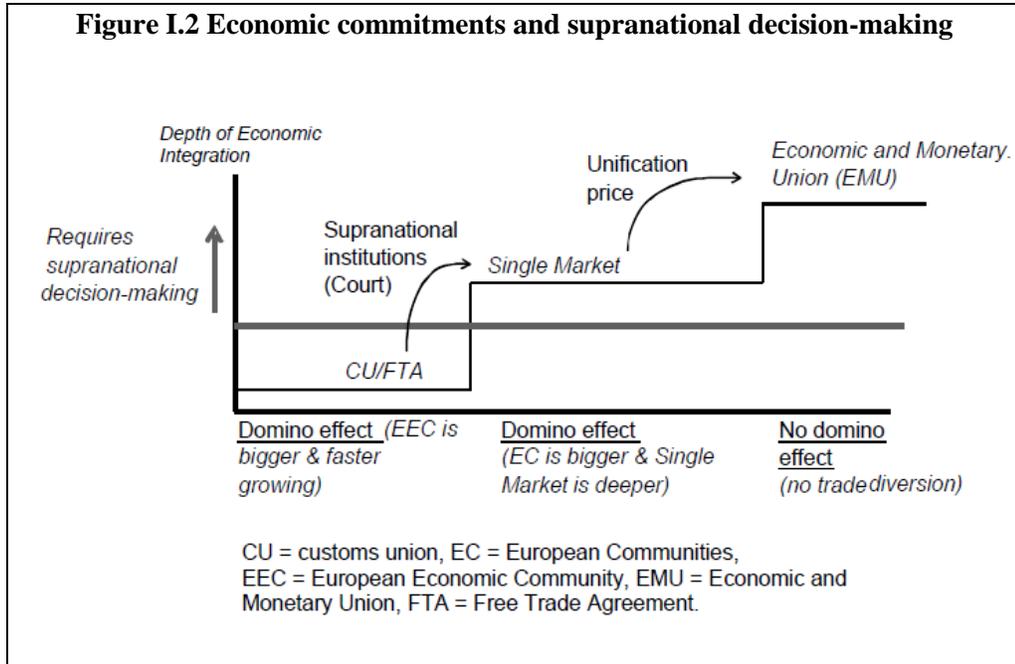
Figure I.1. Commonly spread understanding of EU integration (simplified)



On the contrary, we argue that economic unification cannot be separated from political integration, as the two are interlinked beyond the full control of states. EU is primarily an economic agreement to build a common market, which had to address a coordination and collective action problem, as the temptation is big for a signatory to a common market to benefit from the market opening of other

countries without the cost of opening his own (Hix, S. and Høyland, 2011). From the genesis of European integration, national governments decided that any commitment to a common market should be made credible through institutions. Supra-national institutions had therefore the role of controlling the enforcement of economic opening to avoid free riding. Institutions like the European Commission or the European Court of Justice were therefore designed as mere credible, cost-saving and neutral agents to implement the free will of signatories.

However, we observe empirically that these supranational agents started to gain a will and a power on their own (broker and agenda-setting power of the Commission, co-decision power of the European Parliament, supremacy and direct effect of EU law over national law). To be sure, as Henning points out, the authority of the European supranational bodies expanded only as conceded by the heads of state and government meeting in the European Council (Henning, 2011). However, though Member States are able to fight against a loss of sovereignty through the Council, Treaty revision or ultimately withdrawal, they are constrained to a permissive attitude because they gain from supranational leadership. Figure I.1. highlights the need for supranational integration in order to implement economic commitments.



Source: Baldwin (2011)

This view highlights first the rationality and self-interest of member states in voluntarily joining the union. Even though the speech by European founding fathers was focused on a peace community, they also understood the necessity to progress through concrete steps, rather than long term designs, because rational deals were the only way to appeal gain-seeking States. Robert Schuman, considered one of the main founding fathers of the European Community, declared in 1950: "Europe will not be made all at once, or according to a single plan. It will be built through

concrete achievements which first create a de facto solidarity.”⁶ The enlargement to the United Kingdom (UK) in 1973 is a clear example of a country joining the European Community not for a long-term commitment to the European destiny, but because it rationally determined that it could gain more by joining it than by staying outside, as shown with Churchill’s 1946 speech on a ‘United States of Europe’ that the UK would support but not integrate⁷, the founding of the European Free Trade Association (EFTA) as a competitor of the European Economic Community, and its overall opt out attitude. Since the beginning of the Euro crisis in 2010, Britain has remained away from any further loss of sovereignty, but still expressed its will to remain part of EU for its single market benefits. This shows that there is no consensus among EU countries about the ideals of peace and political union, but rather a strategic advantage of being part of the economic community.

Second, in spite of the fact that major scholars such as Moravcsik (1993) argue that economic and political integration were fully intended and controlled by the Member-states, we tend to highlight the unintended and constraining nature of such integration. As Hix and Høyland (2011:5) point out, “when six European states decided in the early 1950s to place their coal and steel industries under collective supranational control, few would have expected that this would have led within half

⁶ The Schuman Declaration – 9 May 1950, http://europa.eu/about-eu/basic-information/symbols/europe-day/schuman-declaration/index_en.htm

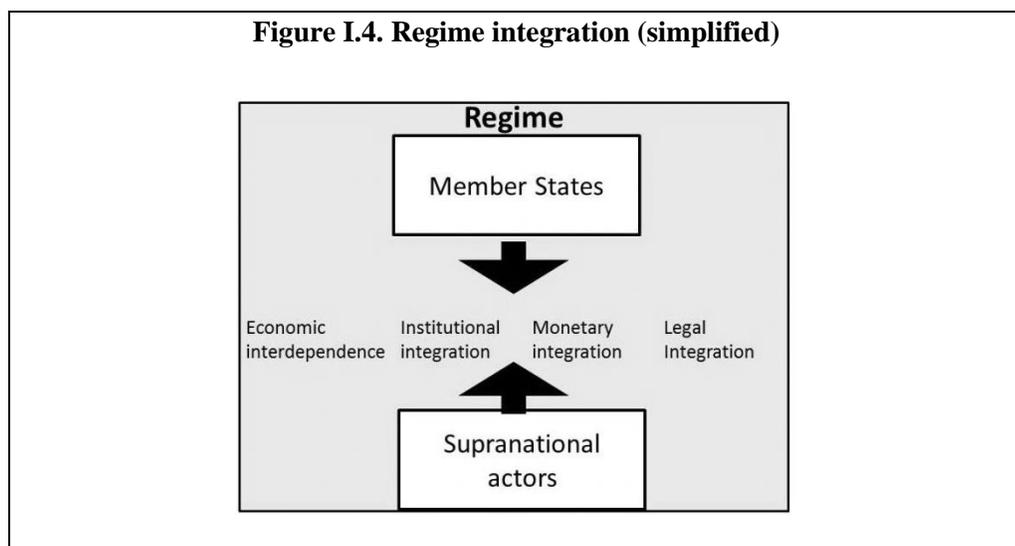
⁷ The Churchill Society, Mr Winston Churchill speaking in Zurich, 19th September 1946. <http://www.churchill-society-london.org.uk/astonish.html>.

a century to a new continental-scale political system”. Let us take the example of the European Court of Justice (ECJ) and the 1979 Cassis de Dijon case. The ECJ set up the critically essential principle of Mutual Recognition, which fostered integration by banning any national obstacle to the free movement of goods. This ruling was accepted on the basis that it was a guarantee of the efficiency of the common market and because the ECJ was careful to choose a non-essential case that would damage the non-essential German liquor industry⁸ (Hix and Høyland, 2011: 102). The Cassis de Dijon case set up a new system of market making based on mutual recognition, instead of rule harmonization, accepted by the Member States as the most credible and efficient model. Such informally gained supranational power is accepted and later codified by Member States in the Treaties, and thus some key policy changes were emanating from the ECJ judicial norms with key entrepreneurship by the Commission (Bulmer, 1998). The fact that Member States find themselves in the need to comply with rules they made themselves and not leave the union is therefore a form of path dependency, where commitment becomes the only way to pursue national self-interest. In other words, ‘hard integration’ was not designed hard, but is the product of long ‘soft integration’ which set up institutional means to enforce their agreements. Therefore, voluntary union does not mean unconstrained union. Political integration is not necessarily

⁸ The Cassis de Dijon ruling by the European Court of Justice, February 23th 1979, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:61978J0120:FR:HTML>

designed as great integration with unification design, and small integration can be a point of no-return, because credible economic integration constrains for a political integration. As Baldwin successfully summarizes, “Europe’s founders exploited windows of opportunity—situations where the alignment of national interests permitted establishment of long-lasting institutions that in turn fostered discussion and eventual adoption of deeper economic integration” (Baldwin, 2011:61).

The result, as we summarize in figure I.4., is the gradual integration of supranational bodies and member states into an EU “regime”.



In this part, we showed that the relevance of EU’s integration for East Asian cooperation lies in the logic of unintended regime integration for the pursue of credible economic commitments, which is an empirical case of shift from

regionalization to regionalism. This regime integration therefore merges two levels of decision-taking in a common political system. As any political system made of democratic entities, it would be assumed that it benefits from both input and output legitimacy. What we can therefore wonder is: (1) Has regime integration been legitimized by citizens? (2) If yes, along which dimensions? (3) If not, what are the powers of citizen to block? (4) Is Euro-crisis response by citizens a demonstration of this power?

III. Theoretical overview: legitimacy in European construction

The previous part showed the logic of regime integration in EU as a relevant precedent for East Asia. In order to assess the feasibility of this process in East Asia, it necessary to analyse what has been the power of EU citizens to intervene and the basis on which it does. In other words, how the perception that integration is or is not legitimate is generated and what is its power. This should first include a brief overview of the coverage of legitimacy by the main EU theories. Although this paper's objective is not to exhaustively incorporate the thousands of articles related to EU integration, nor to solve theory conflicts that have surrounded European integration for 60 years, we can highlight a progression in the idea of legitimacy in European integration.

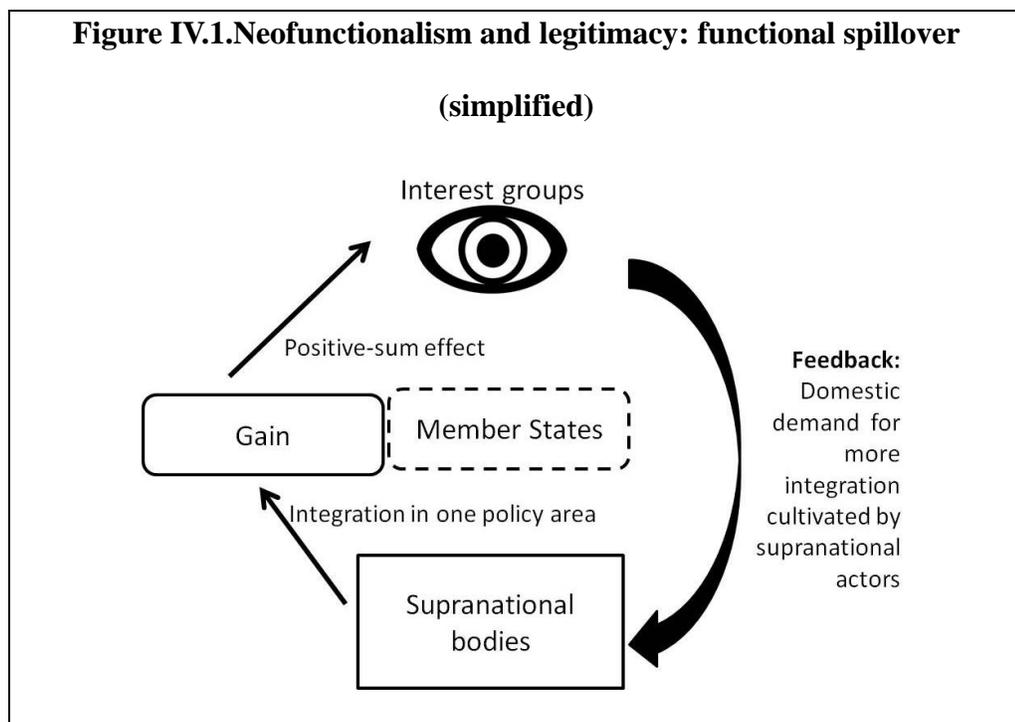
1. Neofunctionalism: legitimacy as a spillover

From the 1950s, Ernst B. Haas' forged neofunctionalism as a reaction to federalists, who saw the necessity of pursuing public debate, elections, and other techniques for building popular democratic legitimacy. Haas, however, predicted a pluralist and rationalist construction, with little consideration for legitimacy (Haas, 1958).

Indeed, neo-functionalism considers that frustration from economic interest groups about unexpected performances within a certain policy sector results, with the help of the creative talents of political elites, especially the administrators of supranational institutions, into the integration of this policy area. Neofunctionalists argue that, through a constructive dialogue between interest groups and supranational elites, the regulation and allocation of resources has pareto-improving (purely positive sum) effects on the economic performance. Then, as integration in one policy sector is hampered by non-integration in adjacent areas, efforts to overcome these problems will lead to further integration: this is called the 'spillover' effect. Neo-functionalism describes an endogenous and rational process, as the incentive towards integration comes from inner frustration and not from outside constraints, and is based on economic interest and not on moral or social vision. This 'spillover' effect is considered automatic, in the sense that it does not require a pro-integration attitude on the part of national governments (Moravcsik, 2005:2).

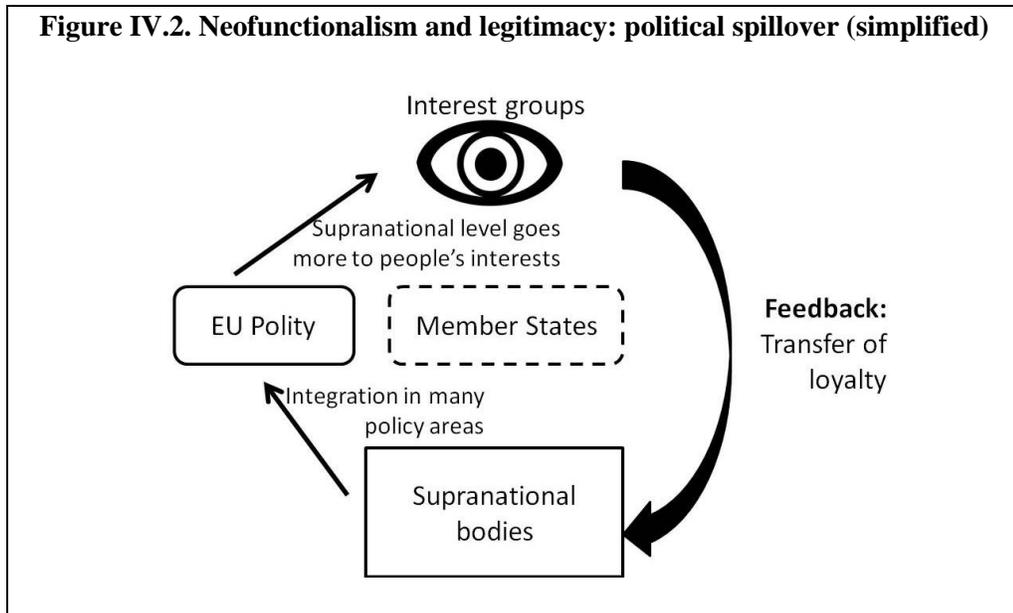
Neofunctionalism lost a lot of its credibility in the 1970s coping with what was called 'spillback', i.e. stagnation in both the scope and the depth of regional delegation (Moravcsik, 2005). In addition, as it is a purely dynamic theory, it finds difficulties explaining static decision-making. However, it remains a powerful theory to explain the early period of EU construction, also called the market making, when pareto-improving market opening could give the illusion of automaticity.

Here, two important phenomena are important to our study. The first is called “cultivated spillover” (Schmitter, 1969:2). It refers to the idea that supranational elites cultivate the demand from national interest groups by connecting it to similar demand in order to put pressure on national governments so they agree for more integration. The benefit from integration, also called pareto-improvement or positive-sum outcome goes to the interest groups. Figure IV.1 depicts in a simplified way this spillover.



The second important consequence of regime's spillover effect is called the process of 'political spillover', or as Schmitter (1969:165) calls it the 'politicisation hypothesis', which is the transfer of loyalty of all actors to the supranational level as they feel more concerned by the delegated policy. Interest groups realize that technocratic elites work for their benefit, and they will become a legitimate level of power. Political spillover assumes that an elite-led integration will mean an eventual transfer of identity towards the regional entity. Schmitter assumes that in the EU case, unlike nation-state construction, the regime was first set up, whose efficiency was meant to legitimize the polity (Schmitter, 1969:4). We see therefore that, by assimilating citizens to a sum of interest groups cultivated by elites, neofunctionalism tends to show legitimacy as an output legitimacy where efficiency necessarily brings gain (pareto-improvement and little redistribution), where the regime has an extremely influential position. Neo-functionalism is thus one-sided, meaning it focuses only on interest groups and pays little attention to other players and neglects the importance of national citizens contribution in yet democratic states like EU countries (Corbey, 1995). Neofunctionalism did not cover input legitimacy as an issue. It derives automatically from functional success of supranational and interest groups dialogue.

Figure IV.2. Neofunctionalism and legitimacy: political spillover (simplified)



2. Intergovernmentalism: legitimacy as a state monopole

The core assumption of the intergovernmentalist framework is that EU politics is dominated by the member state governments, in general, and the governments of the ‘big’ member states, in particular (especially Germany, France, and Britain). The governments of the member states have clear ‘preferences’ about what they want to achieve at the European level in each of the main policy areas of the EU (Hoffmann, 1966).

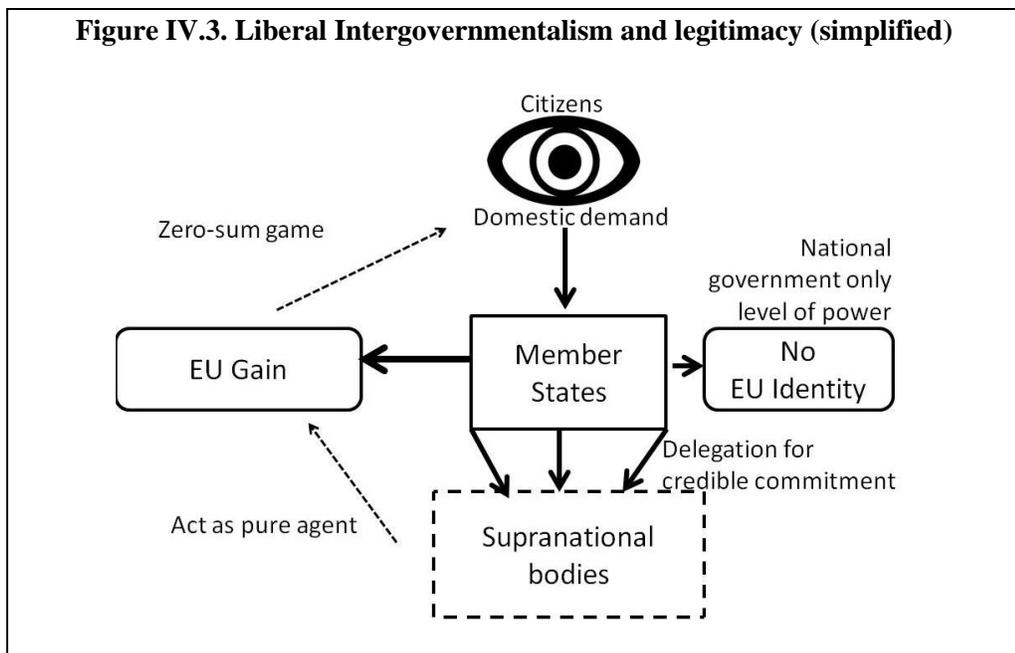
A key variant of this framework was developed by Andrew Moravcsik (1993) under the name “liberal intergovernmentalism”, as a way to explain the resumption of EU construction in end of 1980’s and 90s without falling back in neofunctionalism. This resumption is allegedly due to international bargains between Member States

and not to spillovers from one policy area to another. Moravscik forges the term liberal intergovernmentalism because it combines both concepts. First, liberalism assumes that economic interdependence and domestic pressure influences national interests. Then, intergovernmental bargain brings national interest to a common forum, including asymmetric power distribution. Liberal Intergovernmentalism also insists on the rational nature of Member States' governments: they have perfect information and are in perfect control of EU institutions (Moravscik, 1993). In that sense, this theory strongly opposes neofunctionalism. For Moravscik, the use of EU is as a cost-saving bargaining forum for the Member States. Delegation to supranational institutions is also a cost saving mechanism that brings more credible commitments by Member States.

The main problem of Liberal Intergovernmentalism is that it predicts well grand bargains between Member States (e.g. treaty negotiations) but fails to analyse the agenda-setting power of supranational institutions like the Commission or the European Court of Justice. As neofunctionalism found validity during early market creation, it seems that Moravscik theory is constrained to some aspects of European Union making. To that extent, Liberal Intergovernmentalism has been successful in explaining EU constructions in some areas and periods of time, and therefore has a genuine prediction power.

Liberal Intergovernmentalism argues that European legitimacy derives solely from the Member States legitimacy. The European Union itself has marginal power on its

own, and acts as a cost saver and guarantee of credibility for the implementation of intergovernmental bargains. Delegation implies no loss of sovereignty and no policy drift (unintended consequences from delegation). In addition, it disregarded pareto improvement (positive sum game) in European construction, and insists on redistributive negotiations (zero-sum games), where member states defend their constituents' interests and values.



3. Post-Maastricht theory: Euro-citizenship and input legitimacy

We see that main theories saw the legitimacy of the EU deriving from the regime influence, supranational functional efficiency for Neofunctionalists or Member States for Intergovernmentalists. In this part, we argue that the emergence of the European citizenship has questioned the relevance of citizens' participation.

What did Maastricht change for legitimacy? Through Maastricht, EU rulers agreed that citizens' identification with the EU could not be guaranteed by offering economic rights alone. In 1974, the Paris Summit first discussed the idea of adding political and civil rights to the economic rights. During the preparation of the Single European Act in 1984, the Adonnino Report argued that a 'People's Europe' – via cultural, educational and identity policies – should be pursued in parallel to the completion of the single market. Then in 1990 at the Rome European Council that launched the Intergovernmental Conference (IGC) that negotiated the Maastricht Treaty, the governments agreed that the EU treaty should establish 'EU citizenship' (Hix and Høyland, 2011).

The post-Maastricht debate saw the end of the so-called "permissive consensus", where market-making gain anaesthetized the political debate, and the emergence of a "constraining dissensus" (Hooghe and Marks, 2008). The broadening of the scope of the union to other pillars, the emergence of the euro-currency, the constitutionalization efforts and the integration of new countries made citizens

gradually aware of their role, willing to increase this role which complexified the notion of support and legitimacy. Hooghe and Marks (2008), while agreeing with the economic interest group as the trigger for the start of integration, argue that such integration necessarily leads to redistribution, and therefore conflicts. The resolution of these conflicts takes place through the creation of a European identity. Regime therefore has positive effect on the emergence of such identity.

Studies about input legitimacy and citizens' participation were mainly carried out over direct participation as allowed by the EU Treaties: EU referenda (particularly over the constitutional debate and the 2005 French and Dutch rejection) and European Parliament election (directly elected since 1979). While referenda interest mainly derived from the crisis feeling and the symbolic shock of rejection from EU founding members, EP elections were studied in a more systematic way, because of the possibility to obtain pan-European regular-based data. Following the first EP election of 1979, scholars started to analyse them as 'second-order national contests' rather than major European contests (Follesdal, A. and Hix, S. 2006:536). Indeed, political parties tend to focus on key national government elections, or 'first-order contests', and to treat all other elections, in particular EP elections as 'second-order contests', the aim of which is assessing their popularity (*ibid*). EP election are considered by the voter as a unimportant, low stake election to abandon strategic voting and send a message to their government or vote for their real preference, the substance of the voting having no importance (Van der Eijk and Franklin, 1996).

This aspect of EU citizenship, although effective in procedural terms, seems to be ineffective in practice, and we see that beyond treaties, the practice of citizen's right of voting is far from embracing EU citizenship.

Thus, as the concept of input legitimacy arrived as a balance to the already explored output legitimacy, the debate over a possible democratic deficit appeared. This debate assesses citizens' ability to choose their leaders and the policy they implement, to monitor them, and to change them when they judge it suitable. It has been alleged that the European Union is suffering from a democratic deficit, mentioning the non-elected nature of the European Commission, the weakness of the European Parliament, the lack of debate and the feeling that EU acts in a distant, opaque way, and against citizens' interest (Follesdal and Hix, 2006).

The rising debate over EU's legitimacy focused over the last few years preceding the Euro-crisis on the distinction between isolation legitimacy on the one hand and participation legitimacy on the other. Giandomenico Majone (1999) argued that EU is a regulatory state and that its policies are meant to be pareto-improving, to correct market failures without redistributive effect between Member States. Therefore, to him, EU policies should be led by technicians, who improve the efficiency of the Union without the negative influence of majoritarian politics (like the direct election of the Commission or an increased scrutiny over the monetary system). The legitimacy of the EU central decision-making should derive from its day-to-day efficiency (output legitimacy). On the other hand, since the politicisation

of the Union from the 1990s, the EU has been covering social, fiscal, judicial, defence and other high-salient problems, which are much more redistributive than market making and which have immediate impact on each Member-State's society (Follesdal, A. and Hix, S. 2006). Therefore, such policy areas would deserve mass' involvement, contest and opposition.

By looking at the pre-crisis theories, we therefore realise that: (1) Gain and identity emerge as dimensions of legitimacy; (2) Theory mainly highlights that regime's influence on these two dimensions reinforces legitimacy; (3) Little regard is given to outside influence on gain and identity perception; (4) Little regard is given to legitimacy perception influence on the regime.

At this point, some criticism of the existing literature can be formulated on three different aspects. First, regime is perceived as having positive effect on either gain or identity perception, and therefore on legitimacy perception. If the regime does not bring sufficient gain (1990s politicisation and end of permissive consensus), then it brings up identity by allowing EU-wide contestation and debate (EU demos). Second, by linking input legitimacy to a democratic deficit debate, the post-Maastricht (and pre-Euro-crisis) debate tended to restrict the understanding of legitimacy. It focused on normative considerations, as to know whether the EU is a government 'of, by, and for people', and on procedural means to exert democratic rights at the EU level. Finally, and most importantly to our study, the technical/low-salient and political/salient paradigm cannot effectively embrace the Euro-crisis,

which has demonstrated both a high technical and salient nature for the citizens.
Theory cannot effectively inform whether isolation or participation on monetary policy is legitimate.

IV. Crisis in action

The Euro-crisis, by harnessing both highly technical phenomena and strong political reaction, challenges the legitimacy paradigm of the pre-crisis theory, which attempted to theorize the basis and the range of intervention of citizens' opinion. It appears relevant to address what the crisis has changed, revealed or highlighted on legitimacy perception's effect, and what legitimacy perception derives from. Legitimacy perception's effect will be addressed by examining the various constraining roles which the citizen can have to express discontent on EU integration. Then, we will see the limitation of gain perception in allowing for a crisis-resilient Union. Finally, building on the German reunification example, we will show the importance of a strong identity for enabling redistributive policies.

1. Citizen's influence during the crisis: constraining perception

At the European level, we saw in the previous part that most of the recent literature extensively studies European Parliament elections, with a less systematic regard to other means of pressure. It was most of the time concluded that such means of pressure on EU decision-taking was weakly utilized in practice. It was shown, through the 'second-order national contest' approach that party choice has little to do with citizen's views on Europe (Van der Eijk and Franklin, 1996). This has led

to the understanding that direct means of influence of citizens' legitimacy perception on EU are moderately weak.

Taking distance from the procedural and normative vision of legitimacy in most of the existing theory, the Euro-crisis can be seen as an opportunity to assess the concrete influence of legitimacy perception on EU integration. After a new social structure is established, if the new system is unable to sustain the expectations of major groups for a long enough period to develop legitimacy upon the new basis, a new crisis may develop (Lipset, 1963). Building on this powerful and predictive statement, Majone (2012) found that the basic reason why today public debate and hostile public reactions have replaced the permissive consensus is the fact that effective delivery has replaced efficient process as the criterion of policy evaluation on the EU.

At the national level, a concrete characterization of this so called "hostile reaction" is that Euroscepticism, or negative perception by citizens of EU actors, institutions and policies, translates directly into votes for non-governing parties. Werts and al. (2013) took stock of the rise of radical right-wing parties, which tend to use the rhetoric of anti-EU sentiment. By comparing radical right-wing voting in national elections in 18 European countries and data from the European Social Survey programme, they found that Euroscepticism indeed contributes to the explanation of voting for the radical right, beyond the huge effects of perceived ethnic threat and political distrust (Werts and al., 2013).

Translation of the negative perception of EU's legitimacy into votes at the national level has two consequences on the EU regime. The first consequence is that, by yielding to the popular vote, eurosceptic parties accede to national governments and implement some of their eurosceptic platform. Taggart and Szczerbiak (2013), found that major parties, or in some conditions smaller parties can exert substantial changes in a eurosceptic direction of government policies notably in the UK with the Conservatives, Hungary with the Fidesz and the Netherlands with the Wilder's Freedom Party. This clearly-established influence should still be nuanced by the fact that such parties are tempered in their Euroscepticism through government participation, and that the majoritarian voting systems, widespread at the national level, make it harder for non-majoritarian parties to directly intervene in governments.

The second consequence, indirect but in our sense more powerful, is the anticipated re-positioning of politicians. To understand this idea, let us clarify the assumption we make on EU decision-taking. We will use the oft-quoted 'Economic Theory of Democracy' by Downs (1957), which suggests that, in liberal democracies, elected politicians primarily seek re-election. They are constrained to take political actions that go best in favour of their electorate perceptions. The short electoral mandate (4-5 years) of elected politicians shortens their horizons, so that they tend to privilege short-term advantage compared to long-term benefit (Hix and Høyland, 2011). This does not imply that we consider political decision as irrational. On the contrary,

they are a fully rational with regard to the objective of election or re-election. Thus, when facing the risk of losing political support, politicians may reposition their own political behaviour and tend to disregard ideology or long-term economic benefit.

Since the Euro-crisis, the Pew Research Center (2013) polled citizens from eight EU countries. Positive views of the European Union are at or near their low point in most EU nations, even among the young, the hope for the EU's future. According to this study, as shown in table IV.1., the favourability of the EU has fallen from a median of 60% in 2012 to 45% in 2013, and only in Germany does at least half the public back giving more power to Brussels to deal with the current economic crisis.

Table IV.1. Decline in support for the European project

	<i>Economic integration strengthened economy</i>			<i>Favorable of EU</i>		
	2012	2013	Change	2012	2013	Change
	%	%		%	%	
<i>Germany</i>	59	54	-5	68	60	-8
Britain	30	26	-4	45	43	-2
France	36	22	-14	60	41	-19
Italy	22	11	-11	59	58	-1
Spain	46	37	-9	60	46	-14
Greece	18	11	-7	37	33	-4
Poland	48	41	-7	69	68	-1
Czech Rep.	31	29	-2	34	38	+4
MEDIAN	34	28	-6	60	45	-15

PEW RESEARCH CENTER Q9f & Q31.

Source: Pew Research Center (2013), p.5.

The Eurobarometer, a systematic polling of EU citizens run by the EU Commission, reaches similar conclusions.

Therefore, elected politicians are most likely to adopt, at least to some extent, a similar trend as the public opinion's. In the event that citizens become increasingly Eurosceptic, politicians would have a strong incentive to follow this trend in their policy-making. A visible example of this effect could be the referendum proposal by the UK on EU membership. However, consequences are more convincing among parties which are not traditionally Eurosceptic. This is the case for example in the traditionally pro-European French party Mouvement Démocrate (MoDem)⁹ and the French Socialist Party¹⁰, which based their campaign on the resistance against the European market, the latter continuing its campaign attacks against the European Commission even after taking office. David Miliband, head of the British Labour, agreed himself on the observation that his party is 'repositioning' itself on Europe in the light of the Euro-crisis¹¹. Like any political stance, these strategic eurosceptic moves are both effective and rhetorical. Nevertheless, they are demonstrating the effect of citizen's pressure based on their EU consideration, and

⁹ François Bayrou (2012). "Pour redresser le pays, il faut se remettre à produire en France", French economic newspaper La Tribune, 29 November 2011. <http://www.latribune.fr/opinions/tribunes/20111129trib000667610/pour-redresser-le-pays-il-faut-se-remettre-a-produire-en-france.html>

¹⁰ Arnaud Montebourg : "La Commission européenne, c'est un peu la cavalerie américaine qui arrive trop tard quand tout le monde s'est fait scalper". French newspaper Atlantico, 29 September 2013. <http://www.atlantico.fr/decryptage/arnaud-montebourg-commission-europeenne-c-est-peu-cavalerie-americaque-qui-arrive-trop-tard-quand-tout-monde-est-fait-scalper-855272.html>

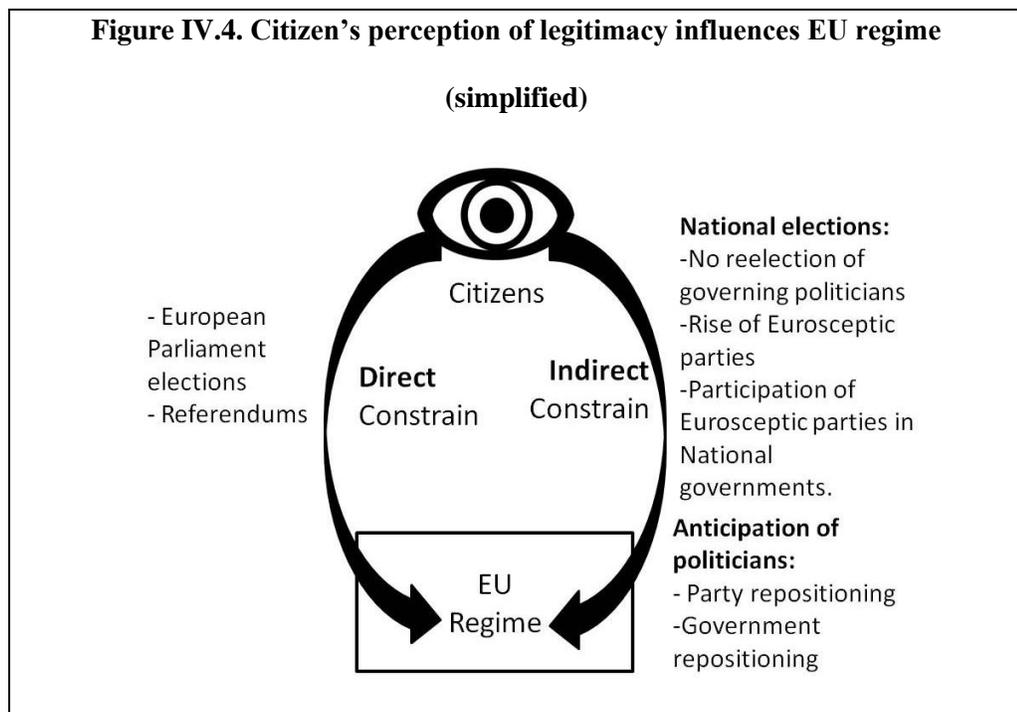
¹¹ Labour 'repositioning' itself on Europe - David Miliband. BBC News, 1 November 2012. <http://www.bbc.co.uk/news/uk-politics-20175751>

that elected politicians will be likely to keep at least part of their platform once elected or re-elected.

Moravcsik (2002) also goes in favour of a stronger focus of national means of expressing European preferences for citizens. He convincingly argued that the EU is democratically legitimate. Indeed, he argues following his Liberal Intergovernmentalist view that national government run the EU and that they are the most directly accountable politicians in Europe – following a realist reading (Moravcsik, 2002: 612). Second, the European Parliament is gaining power, and is directly elected (*ibid*). Finally, there are strong institutional constraints that guarantee transparency and scrutiny in decision-making procedures (Moravcsik, 2002: 608,613). Disagreeing with the predominance of the EP channel for citizen's input on EU policies, he adds that a more important channel lies in the democratically elected governments of the Member States, who have key role in Treaty making and in everyday legislative process (through the Council of Ministers). These representatives can be re-instructed or recalled at will (Moravcsik, 2002:612).

We therefore come up with a combination of powers that citizen's can use to constrain EU integration, based on their perception that EU actors, institutions and policies are legitimate: first, through direct means (EP elections and referenda), and second, more strongly, through indirect pressure on national governments. We tend to conclude that, in the light of the Euro-crisis, citizen's power over EU is in line

with Moravscik (2002) expectations. By holding national governments accountable for EU policies, citizens prevent EU from becoming a despotic isolated government. The crisis has therefore demonstrated a capacity of citizens to use a number of means to influence decision takers at the National or European level. Therefore, citizen's perceptions of legitimacy are expressed in a way which constrains the EU regime, as illustrated in a simplified way in Figure IV.4.

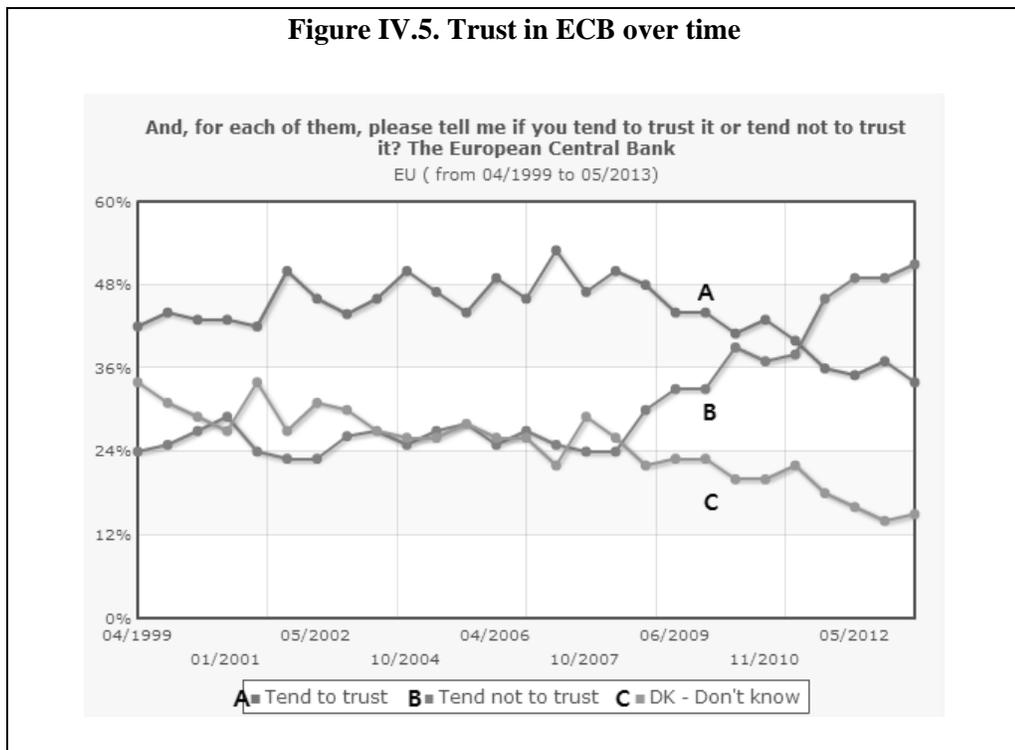


2. Failure concealment: regime and gain perception impeding fiscal union

A number of economists agree that, in order to create crisis resilience, the EU needs to go through a process of fiscal integration, where its redistributive effect can be increased. The Regime itself cannot guarantee the optimum allocation of resource necessary to good economic performance without significant transfers from one area to another. Butner anticipated during the creation of the EMU that fiscal equalization schemes would be necessary as a means to stabilize regions against asymmetric shocks (Büttner, 1999). Krugman (2012) suggests that creating a single currency in Europe brought significant costs, which in turn meant that Europe's lack of mitigating factors in the form of high labor mobility and/or fiscal integration became a very significant issue, leading to the Euro-crisis. De Grauwe (2013) considers that it is necessary as an exit option to the crisis to spread the cost of Spanish banks re-capitalization among all Eurozone taxpayers. The IMF also reinforces this view as the size of shocks through the global crisis and their capacity to freeze up markets suggest a role for a zone-wide insurance mechanism in the EU: "Fiscal integration can be that mechanism, providing an ex ante framework for enforced fiscal discipline and temporary transfers—and hence for more certainty that shocks will be contained" (IMF, 2013, p.4)

However, as we saw in the earlier part, sound economic prescriptions can be hindered by citizens' negative perception. The political decision to transfer more

power into an EU-level economic governance cannot be implemented by politicians if citizens' have negative perception on this level's legitimacy. According to the Eurobarometer, this is precisely the case. Figure IV.5. below displays a shift among citizen's trust in the European Central Bank (ECB) in 2009, when negative opinion increased suddenly, overpassed positive opinion in 2010 and still increased after that. Citizens' perception of ECB's capacity to bring gain was strongly modified and would therefore have constraining power over fiscal integration.



Source: Eurobarometer interactive search system¹².

¹² Eurobarometer interactive search system, http://ec.europa.eu/public_opinion/cf/index_en.cfm, accessed on 11 November 2013.

What does this shift in the perception of the ECB come from? It does not derive from a change of ECB's country membership, management, structure or policy, as these features remained identical over that period of time¹³. Therefore, trust in ECB was built on other elements, presumably the general economic environment, influenced by the US-crisis contamination. In other words, EU regime gain perception is not significantly based on the regime itself.

Outside factors, in this case the good economic environment, were able to hide possible failures within the EU institutions from citizens' perception, but also from elites'. Majone (2012) admits that the main reason why the gap between evaluations based on process criteria and actual results – such as poor economic and productivity growth – was largely unnoticed for so long is that most EU policies were too remote from the daily problems of the people to seriously concern public opinion. The launch of the common currency was taken as more or less conclusive evidence of success. Shortly after the introduction of the common currency de Grauwe asserted: “The success of the launch of the euro is not only technical and economic, it is also and foremost political. The euro is now the most visible and practical symbol of the progress towards a political union in Europe” (de Grauwe, 2004:1). Even in the wake of the Euro-crisis, Enderlein and Verdun (2009:3) stated “We can easily conclude that none of the many negative scenarios on the future of EMU predicted what really happened”, denying alarming voices about EU's

¹³ European Commission: <http://www.eurozone.europa.eu/>

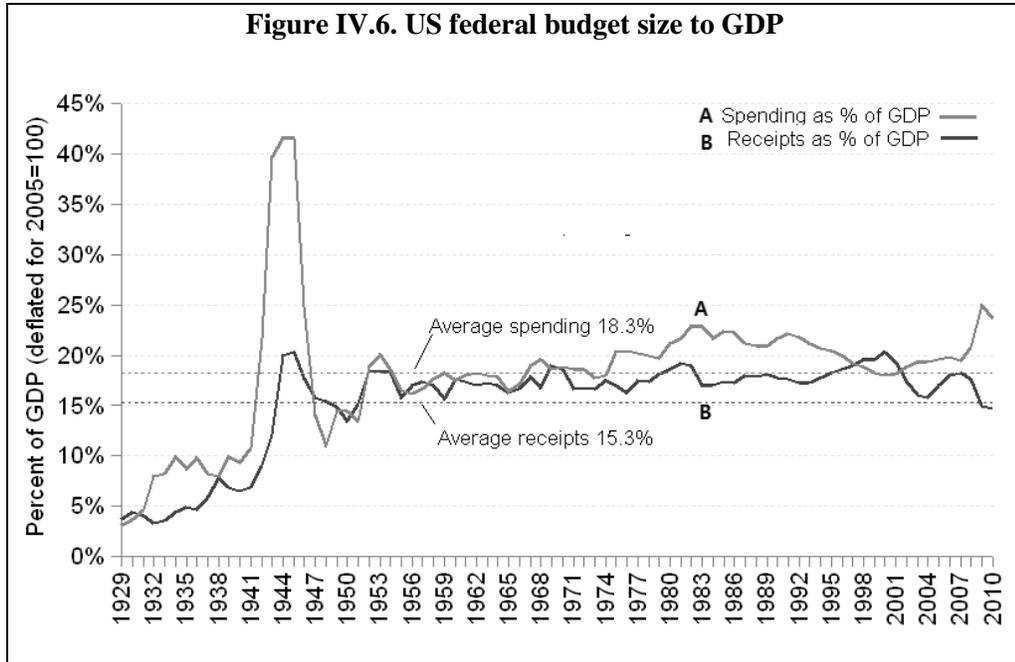
vulnerability. Overall, good economic performance can effectively validate the regime efficiency, but can also distract the attention of public opinion, analysts and leaders from the regime failures, until unpredicted events reveal the inability of the regime to react and therefore reveal the failure. Therefore, positive economic outcome legitimizes the regime. This is what we call the “failure concealment” of the economic environment.

The weak influence of the EU regime on the gain perception, revealed by the Euro-crisis, is linked to the crisis of EU as a regulatory state. The real power of the regime to influence the perception of gain lies in its capacity both to regulate and to allocate resources. The optimum economic regulations, economic tools and allocation of resources have positive effects on the performance of the system. Optimum economic regulations should guarantee fair competition and the absence of trade barriers. Economic tools are reliable economic and monetary institutions which can resist to exogenous cycles. The allocation of resources should be vertically optimal: distribution of fiscal power between national and European levels. The allocation of resources should also be horizontally optimum: distribution among member states, regions (e.g. structural funds) or policy areas (e.g. CAP).

As Majone pointed out in 1994, the European Union has a marginal redistributive power and budgetary power. Meanwhile, regulatory power of EU is shown by the number of regulations and directives passed, and its increasing speed. Since budget

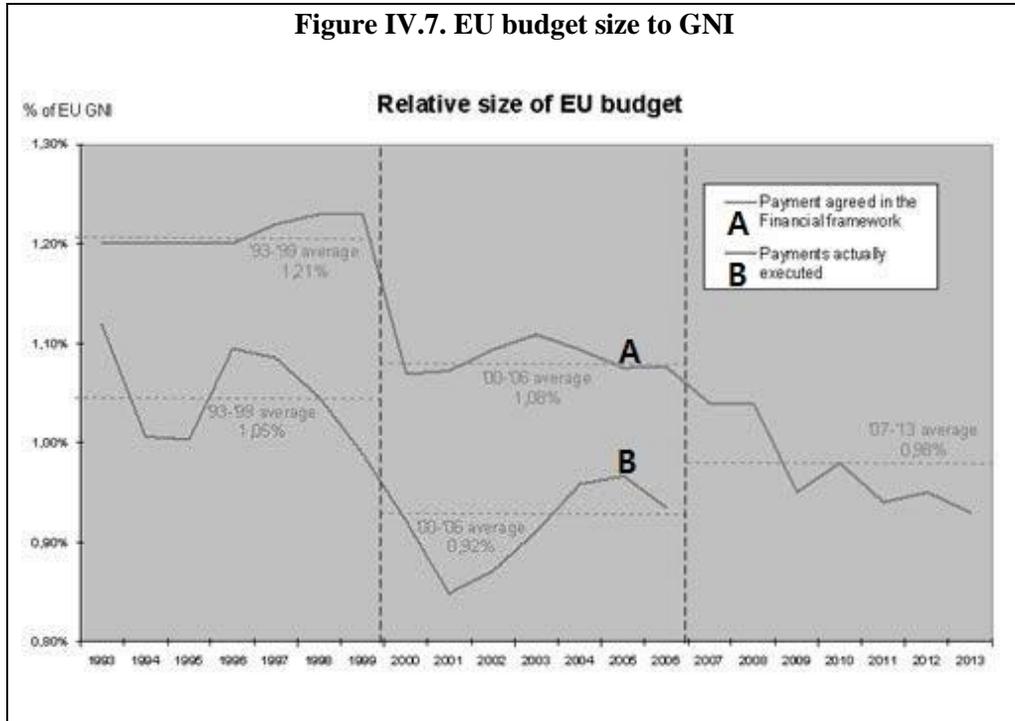
power is low, the only way for the Commission to increase its power is to increase its regulatory scope. It can, because national governments need an agent for credible commitment and technical specialization (Majone, 1994). However, with the end of market-making and the achievement of the Single Market in the early 1990s, the pareto-improving nature was reduced. The redistributive nature of EU replaced the positive-sum one, but without any increase of its redistributive capacity (Hix and Høyland, 2011). Figures IV.6-7 below show the relative size of budget in the EU, compared to the US. Where the US federal budget is around 20% of its Gross Domestic Product (GDP), therefore with significant redistributive power, the size of the EU's budget is around 1% of the total Gross National Income (GNI), and did not increase since the 1990s. GNI is the same as Growth National Product (GNP)¹⁴, which differs insignificantly from GDP (Soubbotina, T. P. 2000:99).

¹⁴ UN Stats, Glossary, Glossary - Definition of Term, Gross National Income: <http://unstats.un.org/unsd/snaama/glossresults.asp?gID=8> (accessed on 20 November 2013)



Source: Bureau of Economic Analysis, US Treasury.

Figure IV.7. EU budget size to GNI



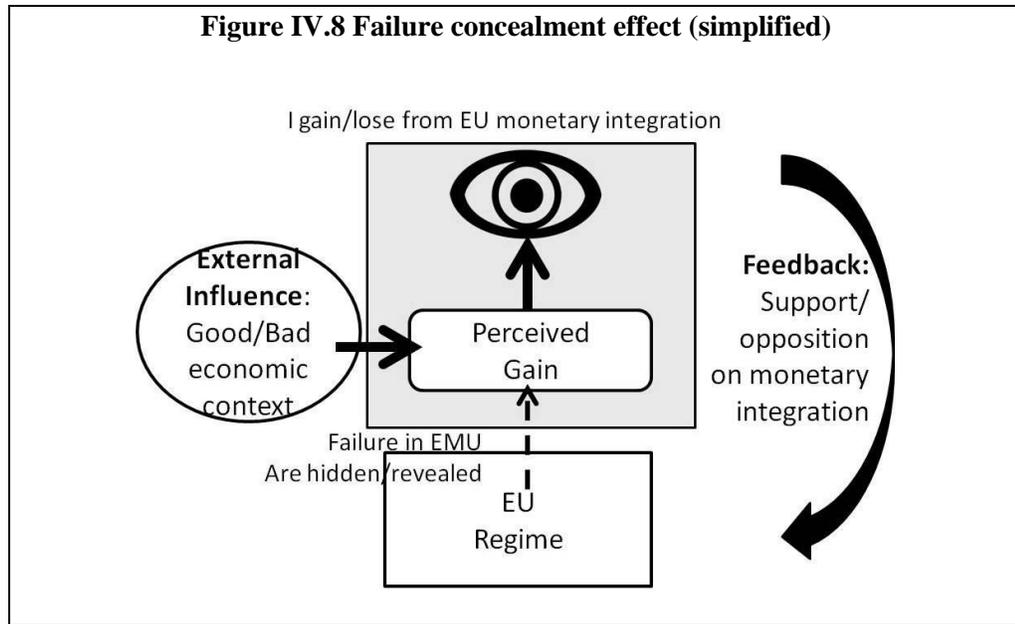
Source: European Commission¹⁵

We can say, therefore, that the overall influence of the EU regime on altering gain perception was generally reduced. In addition, since the ‘cake’ had to be shared instead of having the ‘cake’ increasing, the politicization of the EU was strong (see part III) including on monetary policy. Looking Figure IV.5. above, the decrease in the “Don’t know” on ECB trust suggest that people get increasingly aware and opinionated on EU’s monetary policy, and presumably willing to exert their

¹⁵ European Commission. A Budget to Deliver Policy Objectives, http://ec.europa.eu/budget/reform2008/issues/article_5957_en.htm, accessed on 11 November 2013.

political rights on this issue. The theory of technical/low-salient isolation, stated by Majone seems therefore to be losing ground in the light of the Euro-crisis. Majone himself seemingly changes his position on isolation. When he argued (Majone, 1999) before the Euro-crisis that isolation from majoritarian politics should be guaranteed for regulatory bodies of the EU, including the ECB, he eventually admitted that “the government should have the option of overriding the central bank’s decision” under certain conditions (Majone, 2012: 15).

The relationship between regime and gain perception therefore appears to be based on a vicious circle (or catch 22). First, many economists agree that the Euro-Crisis response would need to go through increased fiscal integration. However, negative perception of gain perception is an impediment to fiscal integration. The phenomenon of “failure concealment”, illustrated in a simplified way in figure IV.8., shows that citizens’ gain perception is weakly influenced by the regime. Final point, the weak influence of the regime over gain perception is due to its lack of fiscal power. Thus, we see that the Euro-crisis effect on citizens’ gain perception is both the consequence and cause of EU’s inability to establish a fiscal union. In order for the EU to find sufficient support, it is necessary to find a legitimacy dimension to mitigate the negative gain perception effect.



3. The unachieved transfer acceptability: Regime and identity perception

As we saw in IV.2., many economists argue that sound monetary integration involves a fiscal union, which cannot simply be fuelled by gain-led legitimacy perception. In this part, we explore the power of identity in enabling economic integration, particularly in fiscal areas, starting with the lessons from German economic reunification.

The German reunification example offers an excellent example of the necessity for strong identity to overcome gain obstacle to fiscal integration. As Bofinger

anticipated in 1991, the monetary and economic unification of the East and West German economy is a task without precedent in peacetime economic history. As we mentioned in II.3., the Optimum Currency Area theory meant to assess the suitability of monetary integration on a number of macroeconomic compatibility criteria, which were not matched in the case of German monetary reunification. In the turn of the 1990s, East and West Germany were strongly divergent in income and productivity levels and radically different economic structures—the German Democratic Republic’s (GDR) centrally planned economy and the Federal Republic of Germany’s (FRG) social market economy (Bofinger, 1991). Table IV.2. below illustrates the divergence of the time.

Table IV.2. Basic data for East and West Germany (1988)

	Unit	East Germany	West Germany
Area	thousands of sq. miles	41,768	96,094
Population	thousands	16,675	61,715
Employment	thousands	8,594	27,306
Agriculture ¹	% of total	11	5
Manufacturing ¹	% of total	47	40
Services ¹	% of total	25	36
Trade and transport ¹	% of total	18	19
GNP	Mark/D-Mark billion (1989)	280-350	2,260
GNP per capita	Mark/D-Mark (1989)	17,000-21,000	36,600
Gross monthly salary	Mark/D-Mark	1,250	3,192
Net monthly salary	Mark/D-Mark	1,050	2,153
Monthly social security retirement benefits	Mark/D-Mark	450	1,597
Labor productivity as a percent of West German labor productivity		49	100

¹Data are for 1987.

SOURCES: Official statistics of the GDR compiled by the Deutsche Bundesbank and Deutsches Institut fuer Wirtschaftsforschung.

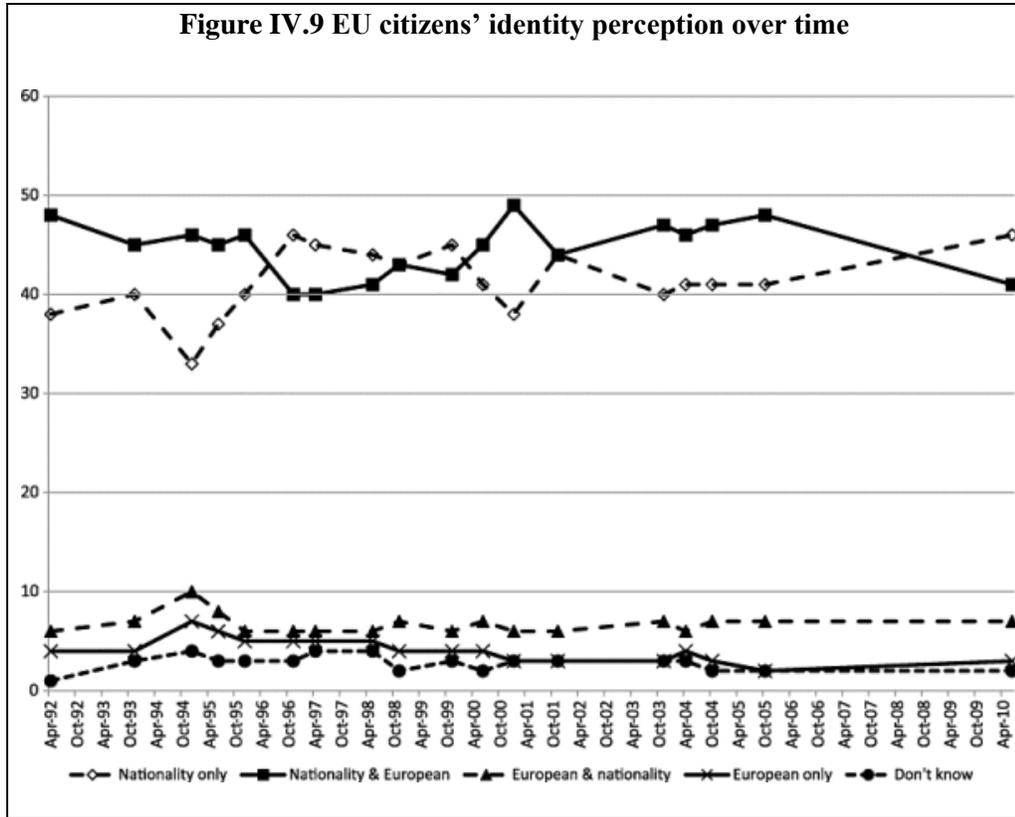
Source: Bofinger (1991)

On the other hand, it has been demonstrated that fiscal transfers are essential to the monetary reunification, notably, as Büttner (1999) showed, in reducing the income difference between East and West Germany and stabilizing the new German entity. By comparing the period 1970-1994 to 1995-2006, Hepp and von Hagen (2009) found that the effectiveness of the German fiscal system increased over the reunification process, both in terms of regional state income redistribution and state insurance mechanism. In order to explain the capacity of West Germans to bear the cost of public transfers and overcome the lack of OCA, de Grauwe (1997) points out the strong German identity as a fuel for political will: “The centralization of the fiscal system, which is now a fact, allows the large asymmetric shocks to which East Germany was subjected to be compensated by transfers from the Western part of the country. Thus, German monetary unification illustrates the importance of the political will to form a union. Prior to 1990, East and West Germany were economically so different that a monetary union seemed inconceivable. However, the strong political will to unify the country created the economic conditions (including a unified fiscal system) to make a currency union possible in Germany.” (De Grauwe, 1997). As Büttner assessed in 1999, the German reunification experience is a lesson to the then burgeoning EMU on the importance of fiscal equalization as a means to stabilize regions against asymmetric shocks, but it also shows that fiscal policies need strong identity to bear public transfers.

The German reunification example shows therefore that strong regional identity is essential to the idea of “transfer acceptability”. The concept of transfer acceptability refers to a form of economic “demos”. Bogdanor (2007) describes the concept of demos when stating that legitimacy depends ultimately on the individual citizen feeling that he or she is part of the polity under which he or she lives. It is most powerfully, if often unconsciously, expressed by a voter whose favoured party has lost a General Election, but who takes it for granted that the government which has been elected is a legitimate one. The voter has, as it were, internalised the legitimacy of the political system, and perhaps indeed takes it for granted (Bogdanor, 2007). As long as the European identity is weak – i.e. if citizen’s identity is quasi-exclusively national– the regime cannot be legitimate. Through the Ordinary Legislative procedure and Qualified Majority Voting, a small country, like Greece, can have its views disregarded at all stages of regulation making, which can make the system perceived as illegitimate. If voting for the European Parliament election is a secondary national election (low turnout, run on national platforms) there is no legitimate mandate for the emergence of a Commission with the approval of the EP. A European identity brings the understanding that the majority of the whole community can decide for the minority. As a European identity would recognize political authority of the European sphere through the demos, it also recognizes the economic authority, or fiscal authority, i.e. the understanding of the necessary redistribution for the maintenance of the overall economic outcome. In

addition, a strong identity can mitigate the effect of utilitarian identity, as community feeling make people accept functional negative effects. In the absence of such identity, the fiscal power of the Union remains low.

The run up for the Euro-crisis demonstrates the lack of this identity at the European level, which cannot mitigate the gain perception in citizen's legitimacy assessment. Not only does European countries lack the grounding in a common history, culture, discourse and symbolism on which most individual polities can draw (Moravcsik, 2002), but this identity has not increased over time. For example, Pew Research Center (2013) found that the negative perception of the EU is strong even among the youth, considered as a hope for future inflexion. Figure IV.9. below shows the evolution in EU citizen's identity perception, between EU and national levels, over time.

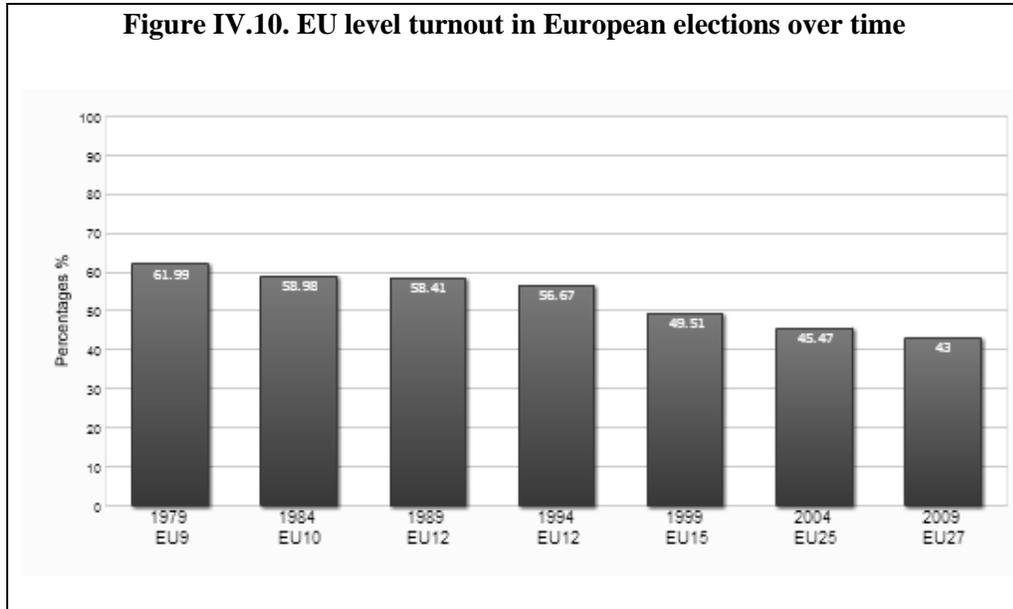


Source: Eurobarometer interactive search system¹⁶

As a possible interpretation, we can say that the EU regime has not been able to create effective tools to cultivate a European citizenship since Maastricht, which could have allowed for an emerging European identity. European construction came with no clear design of the Union's eventual stage. Rhetoric about federalism never gained unanimity among Member-States leaders, and scholars fail to clearly predict the destiny of EU: unitary state, federation, dismantlement, multi-level governance? Attempts to build a constitutionalized EU fostered heavy debate in the early 2000s

¹⁶ . http://ec.europa.eu/public_opinion/cf/index_en.cfm

and the European constitution was eventually rejected in 2005 by French and Dutch referendums. Overall, with an unclear understanding of the limits of Europe, the multiplication of opt-outs and Unions within the Union (Eurozone, Shenghen area...), the EU lacks a real sphere to create the necessary polity. Likewise, the regime has shown its weak influence in creating a European demos, for which “transfer acceptability” is the economic side. Since the first EP election of 1979, with the growing understanding of it as a 'second-order national contests' (Van der Eijk and Franklin, 1996) and a declining turnout over time (see figure IV.10. below), we witness the inability of the EU regime to create a European electorate which can recognize the legitimacy of economic decisions at the European level. Thus, decrease in turnout is not in our sense a proof of democratic deficit, but of a lack of identity perception.

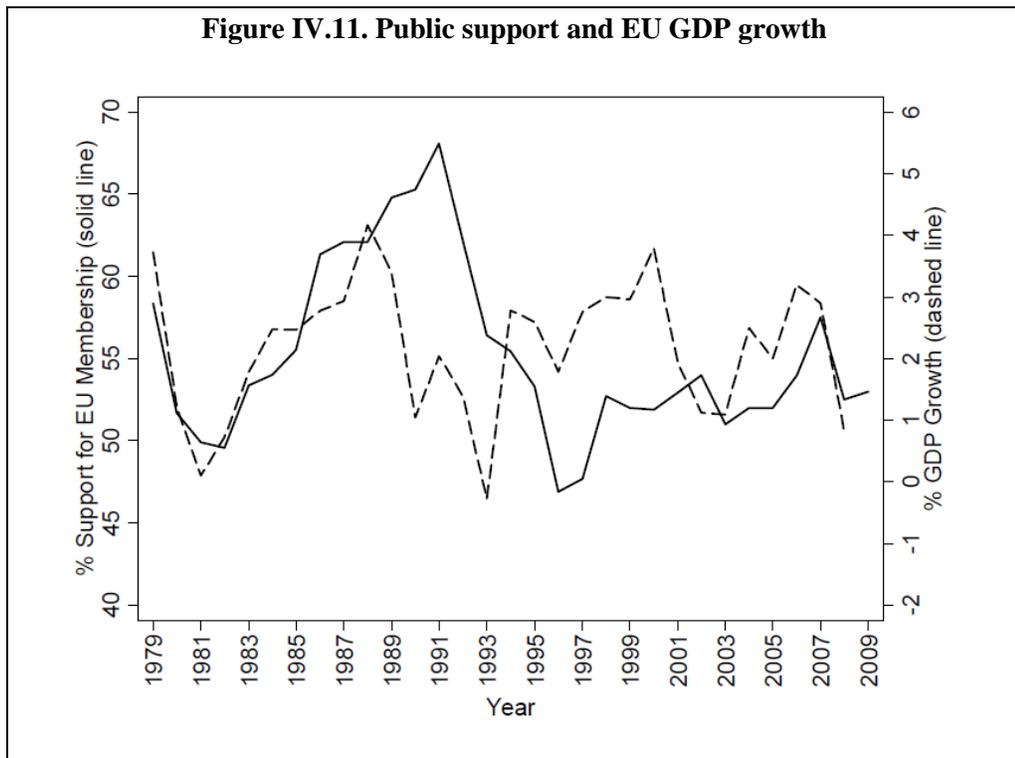


Source: European Parliament¹⁷

More importantly, the regime has failed to detach European legitimacy perception from gain perception. In EU's practice, European citizenship appears to comprise a core of economic entitlements primarily designed to facilitate market integration. Union citizenship is seen by scholars as the mirror image of pre-Maastricht market citizenship, reflecting economic interests of private individuals at the expense of other important dimensions of citizenship. In addition, it appeared to be relevant to a favoured group of EU nationals, that is, to minority of EU citizens who possess the necessary material resources required for intra-EU mobility (Kostakopoulou, 2007). Collective identities remain firmly embedded within national environments

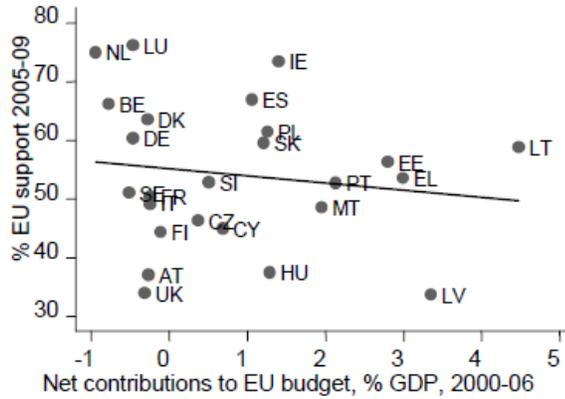
¹⁷ European Parliament, Turnout at the European elections (1979-2009) [http://www.europarl.europa.eu/aboutparliament/en/000cdcd9d4/Turnout-\(1979-2009\).html;jsessionid=B5E876950BF735ADD44C68E13191B0DE.node1](http://www.europarl.europa.eu/aboutparliament/en/000cdcd9d4/Turnout-(1979-2009).html;jsessionid=B5E876950BF735ADD44C68E13191B0DE.node1), accessed on 11 November 2013.

(Kostakopoulou, 2007) and support remains overwhelmingly utilitarian. It was shown in particular that the sense of belonging to EU depends on utilitarian factors, or is linked to them. Garry and Tilley (2009) found that having a strong national identity leads to a lot less support for the EU in member states that are net contributors into the EU budget. Net contribution raises exclusive identity, so identity is not powerful enough to mitigate economic factors. Figures IV.11-13. highlight the correlation between public support and respectively EU GDP growth, citizen's country's contribution to the EU budget and citizen's country's net trade balance within the EU.



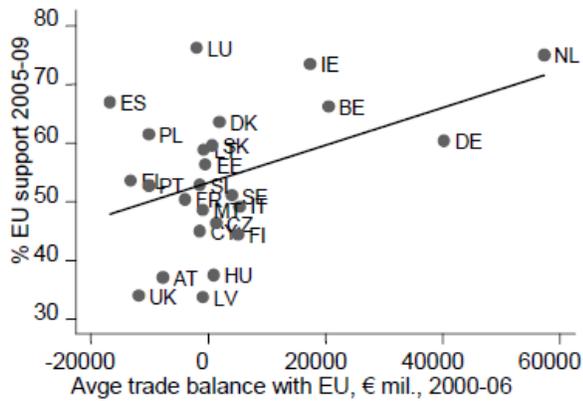
Source: Eurobarometer, Eurostat (Hix and Høyland, 2011)

Figure IV.13. Public support and Net contribution to EU budget



Source: Eurobarometer, Eurostat (Hix and Høyland, 2011)

Figure IV.13. Public support and country's trade balance with EU

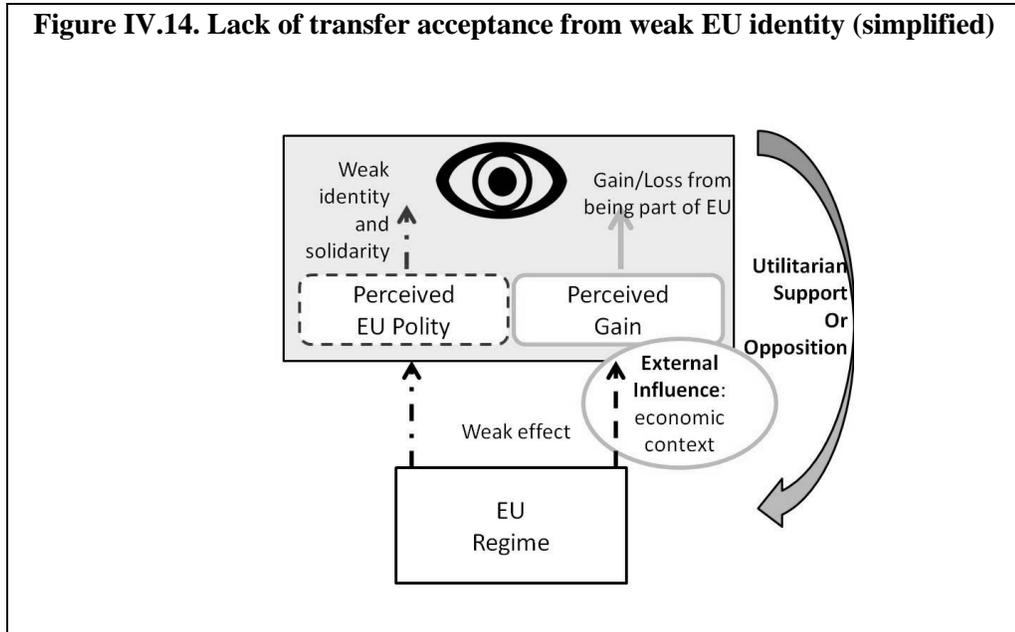


Source: Eurobarometer, Eurostat (Hix and Høyland, 2011)

The consequence of such low identity in EU during the Euro-crisis is the perception of an illegitimate “transfer union” from Northern Europe to Southern Europe (Majone, 2012). As the Asian Development Bank rightly points out, worries over a possible “transfer union”, where deficit countries would have to be financed permanently through direct or indirect transfers and subsidies, made surplus countries also reluctant to endorse proposals such as those for eurobonds or a partial guarantee of all euro area sovereign bonds by the ECB (Volz 2012). Even though bailout plans can be economically justified, they need the support of each Member State’s electorate.

We see therefore that EU identity is not strong enough to mitigate the negative perception gain, and cannot serve as a legitimacy resource which could fuel further integration. The regime has failed to construct a strong identity leverage, which is both revealed and reinforced by the Euro-crisis. EU legitimacy perception remains primarily conditioned by the gain perception. This explains rejection of public transfers in crisis time. A strong identity is therefore a pre-condition to sound integration. Integration without a strong identity remains partial, unbalanced and subject to the volatility of general economic conditions, as illustrated in the figure below.

Figure IV.14. Lack of transfer acceptance from weak EU identity (simplified)



In this part, we have shown that the Euro-crisis reveals or highlights essential features of legitimacy perception in the EU regional arrangement. First, we realize that citizens have power to constrain the EU regime's decision beyond the direct streams arranged in the Treaties. Second, we realize that basing Euro-crisis recovery options purely on gain-led legitimacy is trapped by its own logic. Third, avoiding this trap requires a high level of identity, which is not endogenously generated.

V. Lessons and prospects for East Asia: an Optimum Identity Area?

East Asia has been a puzzling phenomenon of spontaneous and bottom-driven economic links, without strong top-down institutional links. In other words, East Asia is an example of regionalization without regionalism (Pempel, 2003). As we saw, the capacity of the EU to turn regionalization into regionalism lies in the logic of regime integration, led by the necessity for credible economic commitment. We have highlighted, using a legitimacy approach, that the Euro-crisis revealed a number of limitations in this logic of regime integration. Therefore, the Euro-crisis draws some lessons which can help East Asia in assessing what mechanisms foster or hinder integration.

1. Lesson 1: Integration cannot derive from optimum economic efficiency

A number of economists pointed out the need for East Asia to institutionalize the spontaneous cooperation that already exists on trade, services, and investment (Baldwin, 2011), in other words to shift from regionalization to regionalism. The

feasibility of the regime integration logic in East Asia cannot only derive from economic assessment of the suitability of the region for a particular policy instrument.

EU construction, as we saw, gives a number of examples where economic decisions were constrained by citizens and did not derive from experts' economic prescription. The German monetary reunification, although not part of the EU process per se, was ground-breaking in showing that a non-optimum area can integrate when there is strong political will. The decision to integrate EU's currency without economic governance was also going against most of the economic thinking of the time. Finally, the difficulty to move toward a fiscal union or fiscal solidarity now is to be put in contrast with the quasi-unanimous opinion from economist that such policy is necessary as a crisis exit option. Particularly, we have shown that, as Eichengreen and Bayoumi suggested, political solidarity can overcome deviations from the ideal of the optimum currency area (Eichengreen and Bayoumi, 1996). The same way that strong political will can outweigh a lack of economic suitability, a lack of political will can outweigh strong economic suitability.

As Downs (1957) anticipated, politicians' decisions are constrained by their own constituents, who do not necessarily respond to rational macroeconomic considerations, but rather their own perception. We indicated a number of powers, both direct and indirect, that citizens have in Europe to pressure decision takers based on these perceptions. Therefore, the power of legitimacy needs to be taken

into account also in East Asia. Assessing the feasibility of regime integration in East Asia will imply assessing its legitimacy in the eyes of East Asians.

One could argue that China is not a liberal democracy according to European standards. Therefore, as Chinese decision takers are not constrained by direct electoral mandates, they would allegedly not be subject to citizen's pressure on how to integrate or not. First of all, we can respond that China alone cannot impose regime integration on its own (at least not EU's logic of voluntary integration) and that other countries, like South Korea and Japan, which are generally considered as liberal democracies, will need to find their own political support to pursue such integration. The second argument is that in spite of the fact that China is not constrained by immediate electoral pressure, Chinese decision-takers are constrained by their own constituents. Lardy (1995) showed for example that the Chinese economic transition of the 1980s was a way for the Chinese Communist Party members to stabilize their power, by implementing reforms that would go in favour of their own interest groups, each member defending different views based on the ones of their constituencies. In other words, the fact that Chinese leaders are not directly elected does not mean that they are not accountable, and even though political cycles are perhaps not as short as in the UK or France, threat to be removed from office or a the threat of a general revolution does influence political decisions.

Concretely, taking into account the power of legitimacy perception in East Asia would imply a stronger focus on feasibility of regional economic policies, rather than its mere desirability. Notably ADB (2010:92) insists that institutionalization in East Asia is crucial in order to consolidate and stabilize the existing market-led integration, and it has become well established that East Asian governments should take steps to create a zone of monetary and financial stability better insulated from these extraneous influences (Rhee, 2003), and the next question is how to find the right legitimacy ground to make these policies implementable. A similar remark could be applied when Henning (2011) states the solution for economic problems are macroeconomic and exchange rate coordination, strong surveillance, intensive dialogue over the tightening of monetary policies. Kawai (2008), on the other hand, is more institution-oriented, by suggesting the establishment of a joint forum for East Asian finance ministers and central bank governors to intensify policy dialogue, a more powerful Chiang Mai framework and the establishment of surveillance bodies. This raises the necessity to see if East Asia can find sufficient identity or gain-led perception to delegate important functions to common regional institutions (Henning, 2011).

2. Lesson 2: Weak identity prior to integration makes it unstable and partial

Can East Asia count on its identity as legitimacy fuel for integration? We have come to the conclusion that, through the process of regime integration, identity is weakly influenced. Therefore, the principle of endogeneity in identity-making is proven inadequate through regime integration. The lack of OCA endogeneity is in our sense a result of the lack of identity, which hinders the necessary economic solidarity that will give to citizens the feeling that further transfers of economic sovereignty, fiscal union and public transfers are legitimate. The idea, suggested by Berkofsky (2005) that an Asian identity can emerge through economic integration seems to find little empirical support in EU's experience. On the other hand, we proved that without strong identity, some of the decisions which are essential to the resilience of recovery of the region cannot find enough political support, as for fiscal integration. Therefore, strong regional identity is necessary prior to a stable integration: we could therefore talk of an Optimum Identity Area.

Attempting to measure East Asia's level of identity is a difficult task, but we come with the general idea that such level is at most as low as the European one. As Friedberg (1993) argues, in historical perspective, even though the Western world perceives the East Asian value as conglomerate "Confucian", China, Korea and Japan feel at best remotely linked, about as much as European societies bear some

form of Greek inheritance. Also, although China has Confucianism in the bottom of its culture, China's characteristics of Confucius culture went down as China went through Communist system. Even though the identification on the basis of the geographical proximity exists, it is hard to find their shared identity. Furthermore, these three countries' willingness to cooperate is unsatisfactory. China's perception of East Asia is rather asymmetric. China rarely puts Japan and Korea on a horizontal perspective and instead sees itself in a hierarchical interrelationship with them. China perceives East Asia as a device or a means, not as an autonomous entity or a purpose, in order to protest against the US, Japan and the West (Koh, 2009). As in other cases in East Asia, mutual perceptions revolve rather on the dissensus of historical and territorial disputes, particularly those related to Japanese expansionism until 1945. It is argued that economic regionalization in East Asia has not brought significant changes of perceptions among states. Changing identity has not taken place yet. National ideas and values go against cooperation and national pride is often manipulated by governments to misdirect attention from economic and social tension in China. (Park and Bonneau, 2013b).

An example of East Asia's distinctiveness as an obstacle to identity making is the South Korean concept of nation. Like European States themselves, the EU follows a tradition of a more 'civic identity', which involves constructing a European identity around freely chosen values, rather than common characteristics that people either possess or lack from birth (Lord, 2005). Democracy, human rights, rule of law and

a commitment to peace through integration are often mentioned as examples. Among arguments that have made European countries' identity based on values is that it is open to not just to those who happen to have the required ethnicity, history or culture (Scharpf, 2009). Such civic identity is much more difficult to define when it comes to Korean identity. South Korea emphasizes the Korean ethnicity as the true element binding their people together, and does not recognize particular links with other Asian ethnicities. We could therefore see the sense of nationality in Korea a communitarian identity, in the sense of emphasizing various characteristics — real or imagined — that are intrinsic to being part of a community: ethnic background; cultural heritage; a common past and so on. As with many concepts of nationhood, it would be a form of identity by birth and origin (Lord, 2005).

Finally, East Asia seems to have an even more blurred idea of its own sphere than Europe. To be sure, we have ourselves pointed out the unclear idea of EU's limits and ultimate goal, as well as the difference opt-outs that create a number of unions within the Union. Nevertheless, we can distinguish some form of concentricity in Europe, with the Franco-German duet at the centre. On the other side, the membership lists for East Asia's various institutions rarely overlap. In his description of "open regionalism", Pempel (2006) observes that ASEAN's membership involves ten Southeast governments and that the Asia-Pacific Economic Cooperation (APEC) has twenty-one Asia-Pacific "economies". The fact that East Asian Summit which was established in 2005 included not only India,

Australia, and New Zealand, but also the US and Russia¹⁸, implies that East Asian Regional cooperation does not have the idea of Pan-Asian nations. This lack of regional strategy, that Solís and Katada (2007) also call “Cross-regionalism” appears quite clearly in its Free Trade Agreement Strategy: “Whereas European and North American countries pursued extra-regional partnerships after consolidating their regional blocs, East Asian countries embarked on cross-regionalism much sooner, when they just began to launch their Free Trade Agreement (FTA) initiatives.” (Solís and Katada, 2007). Korea-China-Japan trilateral FTA projects, which in spite of huge trade volumes and interconnections and the completed the preliminary joint research, has relatively little hope of rapid progress, demonstrates the difficulties to institutionalize and regionalize economic agreements, as President of the ADB Kuroda said, East Asia is “regionally integrated yet globally connected” (Moon and Rhee 2012).

Identity therefore seems weak as a factor of cooperation in East Asia and anticipating a lack of readiness for redistributive policies in East Asia, as economic integration is perceived as beneficial when it yields economic functional advantage for all parties involved rather than community creative (Berkofsky 2005). Regional cooperation in East Asia sticks to a de facto functional distribution of labor between global, regional and subregional organizations (ADB, 2010:174). For example, using the Asian crisis in 1997-1998 as a ground for integration (Kawai, 2010) is

¹⁸ ASEAN, 2005 East Asia Summit, <http://www.asean.org/asean/external-relations/east-asia-summit-eas> (accessed on 20 November 2013).

also highlighting external impulse as a factor of perception change. Also, the Chiang Mai initiative shows that East Asian regionalism results can be generated in the field where the economic outcome is tangibly credited.

3. Lesson 3: Anticipation of unintended outcomes

Identity in East Asia does not therefore seem strong enough to avoid the integration difficulties of the EU. Therefore, can East Asia reproduce the logic of regime integration the same way as Europe did, i.e. credible profit-seeking without strong identity level? At first view, nothing would strongly differentiate the necessity that led to this regime integration in Europe from the current necessity in East Asia. The need for collective action, brought by the gain dimension of legitimacy, could be taken as strong enough. If functional factors led to regime integration in EU in the 20th century, why wouldn't East Asia also find itself engaged in unintended regime integration?

Indeed, as Henning (2011) points out, East Asia faces a problem of collective action in balance of payments adjustment and currency appreciation. The collective action problem arises from the fear that appreciation will place countries at a commercial disadvantage relative to their neighbours, with whom trade is largely competitive rather than complementary. This impedes spontaneous policy coordination in that

sense, and raises the need for a logic which can guarantee credible commitments. Yet, although the regime integration logic has proven successful in solving this collective action problem in Europe, it has also brought a path dependency toward gradual sovereignty transfers. As we saw in part II.4., initially market making agreement brought constraining path dependency, through the establishment of supranational agent.

We argue that the reason why East Asia will not reproduce the unintended regime integration, beyond the historical and cultural specificities, is the difference in the “unexpected” nature of regime integration. We showed that, in the case of the European construction, integration went beyond the original intentions of its founders, and that the gradual increase in supranational actors’ power was a policy drift. The big difference between Europe and East Asia lies precisely in the awareness of this lesson. What Europe could allegedly not anticipate, East Asia can: effective implementation of supranational tools for credible commitment is likely to turn into substantive transfer of sovereignty. As gain-led integration leads to incomplete regime integration, which can have hazardous consequences, East Asia is likely to refuse path-dependency by avoiding formal, multilateral and binding agreements.

One could counter-argue, using the elements we mentioned above, that short-mandate political leaders may engage in regime integration if there is immediate gain opportunity or crisis, regardless of economic soundness. This time, the

particular role of China as a non-liberal-democratic country will be key to this anticipation, as it will more easily resist short-term temptation of following gain incentives through immediate electoral pressure. Self interested politicians can anticipate path dependency and future accountability constraints of once ‘unintended consequences’.

4. Prospects

We see therefore that, on the one hand, regional economic policies are mainly guided by perceptions. On the other hand, we realize that a strong regional identity is necessary prior to pursuing long-term and resilient integration. Also, we realize that binding economic commitments among countries create an integrated supranational regime, and that similar moves in East Asia are likely to reproduce the same crisis vulnerability as in the EU. Therefore, we argue that East Asia is unlikely to set the basis for economic commitments before it has reached the minimum level of identity which can allow for long-term stable integration, what we would suggest to call an “Optimum Identity Area”.

The sum of these lessons is therefore quite mixed prospects. East Asia is unlikely to follow EU-style regime integration. It will stick to reversible and intergovernmental links. East Asia is likely to take the shift from regionalization to regionalism in

Europe as a negative precedent and stick to the concept of open regionalism (Pempel, 2006). To be sure, we do not disregard the possibility that East Asian identity emerges prior to regime integration and the construction of an “Optimum Identity Area”, similar to hopes in Europe to see identity emerging through new Euro-generations (post-Maastricht, using euro as their lifelong currency, socio-cultural interaction through Erasmus and other mobility programmes...). Notably, East Asian countries are now in the process of systematizing the so-called CAMPUS Asia Project, a credit transfer and exchange program among Korean, Chinese, and Japanese universities inspired by the ERASMUS¹⁹ programme in the EU and explicitly embedded in the overall strategy of long-term improvement of the co-operation among East Asian countries (Shin, 2012). However, we believe that identity building is likely to be a very lengthy process.

¹⁹ European Action Scheme for the Mobility of University Students

VI. Conclusion

This research essentially concludes that, in the light of the Euro-crisis, and by analyzing the mechanism of legitimacy, the EU gives a negative precedent for East Asia to evolve from “regionalization” to ‘regionalism’ in a similar fashion.

First, we showed that shifting from “regionalization” to “regionalism” requires the political will for binding and institutionalized commitments. Second, we looked at the EU theory and found that this political will for integration has been increasingly linked to the idea of legitimacy in the case of EU construction. Third, we showed that, through the Euro-crisis, regional identity emerges as the essential precondition which enables long term integration. Non-identity based support is subject to fluctuation and can eventually impair integration through the constraining action of citizens. Facing the seemingly low regional identity in East Asia, and the fact that unintended integration in the early time of EU construction can now be anticipated, East Asia is likely to avoid the political decisions which will establish a pattern of regime integration, in spite of economic desirability.

Our study cannot by itself predict the future of East Asia’s cooperation patterns. As the example of EU also showed, many events are beyond anticipation when it comes to regional cooperation. A number of crises and historical events may be able to contradict the traditional decision-taking mechanisms.

Our study did not intend to put Europe and East Asia on an equal footing. We highlighted the irrelevance of a direct comparison between the two regions due to a number of specificities and contextual differences. However, we attempted to isolate the European logic of integration from its European context by analyzing the mechanism of constraints.

Although our study put identity as the key element to attain in order to pursue integration, it does not imply that identity alone can overcome any functional precondition. On the German reunification case, Niederhafner (2013:263), using data from Wolff (2006:2), finds that eastern Germany experienced mass emigration to western Germany, leading to strong labour flows and participating in the *de facto* economic merger. The example of the Korean peninsula reunification challenges would be a good example of strong identity without enough pre-conditions to engage in long-term and credible integration²⁰.

Finally, our study did not intend to give recommendations to East Asia on whether or not it should reproduce some patterns of EU's integration. Precisely, we have tried to take distance from normative consideration and attempted to focus more on the feasibility than desirability of regionalism.

Further studies should try to explore the role of each country that we aim to include the East Asian regional sphere, in order to try and assess the relevance of such

²⁰ For a more detailed analysis of South Korea's reunification from a legitimacy approach, Park, S. and Bonneau, C. (2013). South Korea's Regional Cooperation: a Challenge to the European integration Model, *Journal of East and West Studies*, Volume 25, No. 3.

sphere for an Optimum Identity Area. Particularly, the role of China has, in several occurrences, been shown as central. Not only is it, by its mere size, the economic engine of East Asia, it is also the demonstration that East Asian cooperation cannot take place on a balance like the Franco-German relationship. The non-democratic nature of China is also worth exploring, as it breaks some of the pre-assumptions of EU theories in terms of the nature of national governments.

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Abstract (Korean)

국 문 초 록

유로통화위기 이후 유럽 지역 통합의
정당성이 동아시아 지역 협력에 주는 함의

Christophe Jerome Bonneau

국제지역학 전공

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본 논문은 동아시아 (중국, 한국 그리고 일본) 통합의 현실가능성을 현 유로통화위기를 고려한 유럽 통합의 사례를 통해 평가하고자 한다. 지역통합에 있어서 유럽과 동아시아 사이의 간극은 경제적 결속의 제도화 능력에서 나타난다. 경제적 결속에 있어 하향적 정책결정 과정 필수적으로 여겨지나, 본 연구는 통합의 정당성에 관한 시민의 인식이 정책결정 과정에 직·간접적으로 영향을 미치는 것으로 본다. 강한 지역적 정체성이 기반이 되지 않는다면 동아시아의 제도적 통합을

기대하기는 어려울 것이라고 본 연구는 결론짓고 있다. 따라서 지역 통합의 정당성에 관한 본 연구는 시민들의 인식을 결정하는 기준에 대한 구체적인 평가를 제시한다. 유럽 통합과 동아시아 특수성과의 관계는 현존하는 이론적 틀과 독일경제통합과 같은 역사적 현상을 통해 설명한다. 본 연구에서는 이 관계에 대한 이해를 통해 현재 유로화위기 상황에서 보여지는 유럽연합 정당성의 한계와 유럽과 동아시아 지역 모두 통합 이전에 강한 지역 정체성을 형성하는 것이 필요하다는 점을 강조하고 있다.

주요어: 지역화, 지역주의, 정권 통합, 유럽 시민권, 대중의 지지, 정체성

학 번: 2011-24209

Acknowledgements

I would first of all like to thank my Thesis Committee Members, Prof. Yeongseop Rhee (Thesis Advisor), Prof. Stefan Niederhafner (Committee Chair) and Prof. Sunhee Park (Committee Vice-Chair), for their critical guidance and support at all stages of the thesis drafting and for their very helpful expertise on European and Asian affairs.

I would also like to recognize the excellent advice given by H.E. Shigeo Iwatani (Secretary-General, Trilateral Cooperation Secretariat), Mr. Muhui Zhang (Counsellor, Trilateral Cooperation Secretariat), Mr. Vincent-Guillaume Poupeau (Political Counsellor, Delegation of the European Union to the Republic of Korea), and by Prof. Sunghoon Park (Professor, Korea University).

I would like to thank other Professors who were involved in raising my awareness on European and Asian issues throughout my studies. Notably, I would like to mention (in chronological order) Prof. Simon Hix (London School of Economics), Prof. Altin Naz Sunay (London School of Economics), Prof. Cheol-Hee Park (Seoul National University), Prof. Jong-ho Jeong (Seoul National University), Prof. Chang-Beom Cho (Seoul National University) and Prof. Eunjeong Cho (Seoul National University).

My gratitude also goes to the people who facilitated the drafting process. I am particularly grateful to the United Nations Development Programme Seoul Policy Centre's staff, who supported my work on this thesis while being part of their team, particularly Ms. Anne-Isabelle Degryse-Blateau (Director, 2011-2013), Mr. Alvaro Pinto Scholtbach (Director, a.i., 2013), Mr. Artemy Izmetiev (Policy Specialist) and Mr. Matthew Taylor (Communications Specialist).

I would finally like to thank Ms. Jinmin Lee and Mr. Taylor Bradley for their thorough proofreading.

I cannot finish these acknowledgements without expressing my love and gratitude to my parents, for their everlasting support at all stages of my student life.