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To understand Europe you have to be a genius or French.
Madeleine Albright, US Secretary of State, 1998

When we study world politics and economics, and try to understand our place in the global system, most of us think in terms of states, and of ourselves as citizens of one or other of those states. Maps of the world show continents and regions divided by state frontiers, demarcating areas that come under the administration of different governments and separate systems of law. When we travel from one state to another, we usually have to show passports or other documents, and are reminded that we are in transit until we return to the state to which we 'belong'.

We think in terms of states because they have been the primary actors in the global system for more than 200 years, and because the study of international relations has long meant the study of alliances, changing patterns of cooperation and conflict, and fluctuations in the balance of power between and among states. But the state is not the only kind of administrative unit, nor is it even necessarily the best. In fact there are many who argue that the state system is declining, its credibility undermined by its association in the first half of the twentieth century with the nationalist ideas that led to the outbreak of two world wars, and its inability since 1945 to deal with many of the demands of a modern global society.

Those who sought peace after the Second World War placed a new premium on cooperation instead of competition, but plans to build a new global order dominated by western Europe and North America were disrupted by the cold war. For critics of the state system, the cold war once again showed how states seemed unable to guarantee the safety of their citizens except through a balance of terror and violence with other states. The resulting tensions led to renewed support for the idea of peace through international cooperation, which led in turn to a dramatic growth in the number of international organizations after the Second World War, spearheaded by the United Nations and covering a wide field of different functions and policy areas.

The desire for peace also led to exercises in regional integration, the process by which countries remove the barriers to free trade and the free movement of people across national borders, integrate their markets, and build common sets of policies. The European Union is just one of those exercises, but the one that has evolved the furthest and brought the greatest changes for its citizens. Regional integration has also been attempted in North America, Latin America, the Caribbean, south and southeast Asia, and parts of Africa, but so far on a more modest scale. Some argue that the European Union could provide a model that might eventually lead to the breakdown of the state system, and to its replacement by a new community of bigger political and economic units and networks.

The European Union has become a major new actor on the world stage, has changed the lives of more than 450 million Europeans, and has changed the lives of everyone who trades with Europe. Yet it is still a puzzle and a mystery to most people, and we are still some way from agreeing just what it is. It is more than a typical international organization, because it has much greater powers over its members, but it is not yet a state or a superstate. So what is it? In an attempt to provide some answers, this chapter looks at the nature of international cooperation, and assesses competing ideas about how the EU has evolved, and what it has become. It also looks at other experiments in regional integration in order to place the EU in a broader perspective.

The international system

Look at a map of the world and you will find it divided into nearly 200 states. As a unit of administration, the state has dominated the way we think about political relations among humans for generations – some say since the Renaissance, some since the Peace of Westphalia which ended the Thirty Years War in 1648, and others since the beginning of the nineteenth century. A state is a legal and physical entity which has four key qualities:

- It operates within a fixed *territory* marked by borders, and controls the movement of people, money and goods across those borders.
- It has *sovereignty* over that territory and over the people and resources within its borders, and has the sole right to impose laws and taxes within its borders.
- It is legally and politically *independent*, and both creates and operates the system of government under which its residents live.
- It has *legitimacy*, meaning that it is normally recognized both by its people and by other states as having jurisdiction and authority within its territory.

None of these qualities is absolute, because there are practical limits to all four: there may be border disputes that interfere with the definition of a territory; there may be legal, economic or political difficulties that compromise the notion of sovereignty; no state is truly independent because they are all subject to some degree of economic or political pressure from outside; and levels of legitimacy vary according to the extent to which the citizens of a state (and the governments of other states) respect the powers and authority of that state.

Another complicating factor is that states may be divided within themselves into different nations. Where the state is a legal/political entity, a nation is a group of people tied together by history, language and culture. Occasionally, a nation will coincide with a state (for example, Japan is predominantly Japanese, Egypt is predominantly Arab, and so on), but most states are home to multiple different national groups. Thus Spain, for example, is a state, but its population is divided into multiple different nations, including Andalusians, Aragonese, Basques, Cantabrians, Castilians, Catalans, Galicians, Navarese, and Valencians. The result of this kind of multinationalism is that loyalty to the state is often divided, as are the identities of states.

The power of states has declined in recent years, for several reasons:

- The world has become more complex, with many interstate political and economic ties driven by the need to trade, build security alliances, and borrow money.
- People have become more mobile, with complex new patterns of emigration developing, and the rise of mass tourism that has broken down the psychological borders among states.
- The focus of people's allegiance has changed as national minorities within states have become more assertive and demanded greater self-determination, even independence in some cases (as with the Scots in Britain, the Kurds in Turkey/Iraq, and the Quebecois in Canada).
- States have been unable always to meet the demands of their residents for security, justice, prosperity, and human rights.
- The inability of states to provide all the needs of their consumers for goods and services has combined with the rise of multinational corporations in search of new markets and profits to change the nature of production, and to make state boundaries more porous.
- Revolutions in technology, science and communications – and the need to deal with shared problems such as terrorism, transboundary pollution, the management of illegal immigrants, and the spread of disease – have demanded new systems of regulation.

As the ability of states to respond to the needs of their residents has declined, so there has been growing international cooperation on matters of mutual interest. This cooperation has taken many forms, from the narrowly focused to the broadly idealistic, and has resulted in the development of many different methods and systems for promoting cooperation. The most common has been the creation of international organizations (IOs, see Box 1.1), within which different governments, interest groups, corporations, and other institutions cooperate. Such

Box 1.1 International organizations

Most definitions of an international organization (IO) describe a body that promotes voluntary cooperation and coordination between or among its members, but has neither autonomous powers nor the authority to impose its rulings on its members. The emergence of IOs has been a relatively recent phenomenon, underwritten by desires to encourage cooperation as a way of avoiding international conflict. In 1900 the world had just 220 IOs; by 1969 the number had grown to about 2,000, by 1981 it had reached 15,000 and it now stands at more than 50,000 (Union of International Associations home page, 2004).

There are different kinds of IO that have developed for different reasons and with different structures, methods and goals. Most fit broadly into two main categories:

- *Intergovernmental organizations* (IGOs) have national governments as members, and work to promote voluntary cooperation among those governments on matters of shared interest. IGOs have little or no autonomy in decision making, because their members make all the key decisions, and they usually have little or no ability to enforce those decisions. Examples include the United Nations, the Commonwealth, the World Trade Organization, the Organization for Economic Cooperation and Development (OECD), and the North Atlantic Treaty Organization (NATO).
- *International non-governmental organizations* (INGOs) are either bodies that work internationally outside government, or that consist of groups of national non-governmental organizations. They include multinational corporations such as Royal Dutch/Shell, Sony, or General Motors, but most are non-profit-making interest groups that cooperate in order to pursue the collective goals of their members, or to bring pressure on governments for changes in policy. Examples include the International Red Cross (relief activities), Amnesty International (human rights), and Friends of the Earth (environmental issues).

Much more rarely, there will be hybrid IOs that consist of a combination of government members and non-governmental organizations. One example is the Swiss-based World Conservation Union, which deals with issues relating to nature conservation and the protection of the environment.

cooperation usually involves the joining of equals, who each have the same voting power and meet to make decisions together.

Where governments participate in international cooperation, decision making is described as intergovernmental. The IOs are used as fora within which governments can meet, share views, negotiate, and work to reach agreements. Membership in the IOs is voluntary, and they lack the power to raise taxes, usually depending for revenue on contributions from their members. They do not have independent powers, their decisions being the result of the joint will of their members. They do not have the power to enforce their decisions, and normally cannot impose fines on recalcitrant members, or impose sanctions other than those agreed by the membership as a whole. In most cases, the only pressure IOs can impose on members is moral, or the threat of expulsion from the organization.

In some ways, the European Union looks much like a standard IO. It is a voluntary association of states in which many decisions are taken as a result of negotiations among the leaders of the states. Its taxing abilities are limited and its revenues small. It has few compelling powers of enforcement, and its institutions have little independence, their task being mainly to carry out the wishes of the member states. None of its senior officials are directly elected to their positions, most being either appointed or holding *ex officio* positions (for example, members of the Council of Ministers are such by virtue of being ministers in their home governments).

However, on closer examination, it is obvious that the EU is much more than a standard IO. Its institutions have the power to make laws and policies that are binding on the member states, and in policy areas where the member states have ceded authority to the EU, European law overrides national law. Its members are not equal, because many of its decisions are reached using a voting system that is weighted according to the population size of its member states. In some areas, such as trade, the EU has been given the authority to negotiate on behalf of the 25 member states, and other countries work with the EU institutions rather than with the governments of the member states. In several areas, such as agriculture, the environment, and competition, policies are driven more by decision making at the level of the EU than of the member states.

Where cooperation leads to the transfer of this kind of authority, we move away from intergovernmentalism and into the realms of supranationalism. This is a form of cooperation within which a new level of authority is created that is autonomous, above the state, and has powers of coercion that are independent of the state. Rather than being a meeting place for governments, and making decisions on the basis of the competing interests of those governments, a supranational organization rises above individual state interests, and makes decisions on the basis of the interests of the whole.

Debates have long raged about whether the EU is intergovernmental or supranational, or a combination of the two. Some of its institutions – notably the European Council and the Council of Ministers – are more clearly intergovernmental, because they are the meeting places for the representatives of the member states, and decisions are reached as a result of compromises involving different national positions. Some of the other institutions – notably the European Commission and the European Court of Justice – are more clearly supranational, because they avoid discussions of national interests, and focus instead on the general interests of the European Union. The interests of Europe, however, are ultimately defined by the cumulative national interests of the member states of the EU, making it difficult to conclude that the EU is either particularly intergovernmental or supranational in nature.

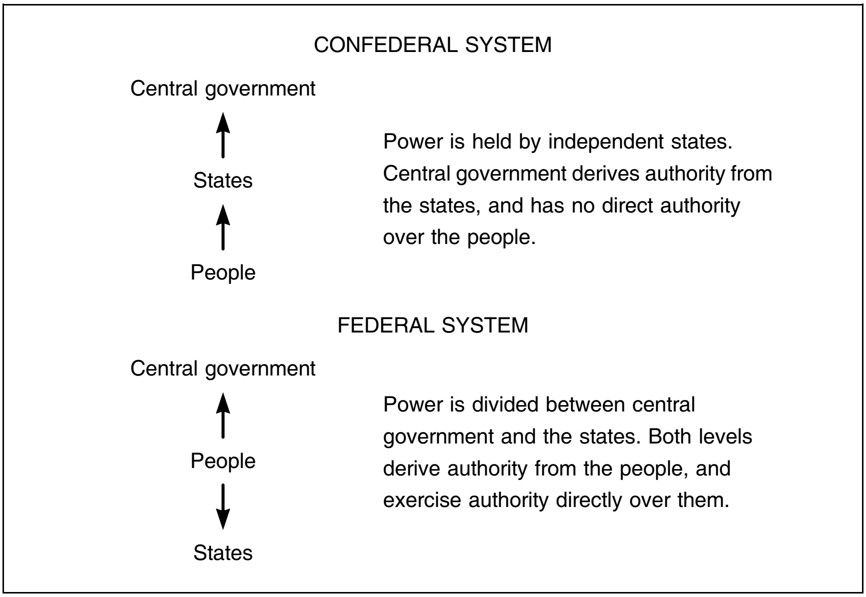
There is no question, however, that the EU institutions as a group constitute an additional level of authority in Europe, making decisions that impact both the governments and the residents of the member states. Thus it is critical that we understand the nature of the relationship among the EU institutions, the governments of the member states, and the residents of those states. The two concepts most commonly raised in the discussions about that relationship are confederalism and federalism.

Confederalism

A confederation is a loose system of administration in which two or more organizational units keep their separate identities but give specified powers to a central authority for reasons of convenience, mutual security, or efficiency. The members are sovereign and independent, and the central authority is relatively weak, existing at the discretion of the members, and doing only what they allow it to do. If states were to form a confederation, then the citizens of those states would continue to relate directly to their own governments, and only indirectly to the higher authority (Figure 1.1).

One example of confederalism in practice was the United States in 1781–88. Following the end of the war of independence, the original 13 states cooperated under a loose agreement known as the Articles of Confederation, or a 'league of friendship'. Central government could declare war, coin money, and conclude treaties, but could not levy taxes or regulate commerce, and founded its system of 'national' defence on a network of state militias. The Articles could not be amended without the approval of all 13 states, and treaties needed the consent of at least nine states. There was no national executive or judiciary, and the powers of the confederation lay in the hands of an elected Congress in which each state had one vote. Congress rarely met though, and had no permanent home, so its powers were exercised by committees with variable membership. The

Figure 1.1 *Confederalism and federalism compared*



assumption was that the states might cooperate enough eventually to form a common system of government, but they did not. It was only in 1787 that work began on developing the federal system of government that we find in the United States today.

Confederalism was also used in Germany in 1815–71, when a 39-member confederation was created under the domination of Austria and Prussia following the Congress of Vienna in 1815. Based on the old Holy Roman Empire, it was more an empire than a new state. Few restrictions were placed on the powers of the member kingdoms, duchies, and cities, whose representatives met sporadically (just 16 times in the history of the confederation) in a diet in Frankfurt. Amendments to the constitution needed near-unanimity, and most other measures required a two-thirds majority. Regular business was conducted by an inner committee in which the 11 largest states had one vote each, and the smallest had six between them. There were no common trade or communications policies, and the development of a common army was frustrated by the refusal of smaller states to cooperate (Carr, 1987, pp. 4–5).

Switzerland, too, was confederal until 1798, and although it now calls itself a federation, it has given up fewer powers to the national government than has been the case with other federations, such as Germany, the United States, or Russia. Its 1874 constitution allocates specific powers to the federal government, the rest being reserved to the 20 cantons and six half-cantons. The Swiss encourage direct democracy by holding national referenda, have a Federal Assembly elected by proportional representation, and are governed by a seven-member Federal Council elected by the Assembly. More purely confederal systems in Europe today can be found in Bosnia and Herzegovina, and in Serbia and Montenegro.

The European Union has several of the features of a confederal system:

- The citizens of the member states do not relate directly to any of the EU institutions except Parliament (which they elect), instead relating to them mainly through their national governments. Despite their powers of making and implementing policy, the key institutions of the EU – the European Commission, the Council of Ministers, the European Council, and the European Court of Justice – derive their authority not from the citizens of the member states, but from the leaders and governments of the member states. They are run either directly by national government leaders (the Council of Ministers and the European Council), or are appointed by those leaders (the Commission and the Court of Justice).
- The member states still have their own separate identities, have their own systems of law, can sign bilateral treaties with other states, can act unilaterally in most areas of foreign policy, and can argue that the EU institutions exist at their discretion. There is no European government in the sense that the EU has obvious leaders – such as a president, a foreign minister, or a cabinet – with sole power to make policy for the EU member states. The most important elected political leaders in the EU are still the heads of government of the individual member states.
- There is no generalized European tax system. The EU raises funds in part through levies and customs duties, which are a form of tax, but the vast majority of taxes – income, corporate, property, sales, capital gains, and so on – are raised by national or local units of government, which also make tax policy.
- There is no European military or defence system. The armies, navies, and air forces of the member states still answer to the governments of the member states, although contingents have come together as the seeds of a European security force (see Chapter 9). In this sense they are the functional equivalent of the militias that existed in the American confederal system.
- The EU may have its own flag and anthem, but most of the citizens of the member states still have a much greater sense of allegiance to their own national flags, anthems, and other symbols, and there has been little progress towards building a sense of a European identity (see Chapter 6).

Interestingly, the concept of confederalism is rarely mentioned in conjunction with the EU. Most analyses of its character – and most political debates about its future – instead move directly to federalism, and revolve around the extent to which the EU is already federal in nature, or may become so. To a large extent this is due to the frequency with which Eurosceptics use anti-federalism as the core of their argument.

Federalism

A federal system is one in which at least two levels of government – national and local – coexist with separate or shared powers, each having independent functions, but neither having supreme authority over the other. Unlike a confederal system, where the higher authority does not exercise power directly over individuals, a federal government exercises power over both its constituent units and its citizens, and there is a direct relationship between citizens and each level of government.

A federal system usually consists of an elected national government with sole power over foreign and security policy, and separately elected local governments with powers over such issues as education and policing. There is a single national currency and a common defence force, a written constitution that spells out the relative powers of the different levels of government, a court that can arbitrate disputes between them, and at least two major sets of law, government, bureaucracy, and taxation. The cumulative interests of the local units tend to define the interests of the national government, which tends to deal with those matters better dealt with at the national rather than the local level.

There are several federations in the world, including Australia, Canada, Germany, India, Mexico, and Nigeria, but the best known and most thoroughly studied is the United States. It has been a federal republic since 1788, when nine of the original 13 states agreed to move from a confederal relationship to a federal union, voluntarily giving up power over such areas as common security, but retaining their own sets of laws and a large measure of control over local government. American states can raise their own taxes, and they have independent powers over such policy areas as education, land use, the police, and roads, but they are not allowed to make treaties with other states or foreign nations, or to have their own currencies, to levy taxes on imports and exports, or to maintain their own armies. Meanwhile, the federal government cannot unilaterally redraw the borders of a state, impose different levels of tax by state, give states different levels of representation in the US Senate (where each state has two representatives), or amend the US constitution without the support of two-thirds of the states. Meanwhile – an important point – the US constitution (in the Tenth Amendment) reserves to the states or the people all the powers not delegated to the national government by the constitution or prohibited by it to the states.

Box 1.2 Government or governance?

When we study politics, we inevitably look at government, or the institutions and officials (elected or appointed) that make up the formal governing structure of a state, and that have the power to make laws and set the formal political agenda. We examine how those institutions come to power, how they relate to one another, and how they relate to the people under their jurisdiction. But while the EU has a group of 'governing' institutions, there is no EU government as such. Instead, it is common to see the term 'governance' used in conjunction with the system of authority in the EU. This describes a system in which laws and policies are made and implemented without the existence of a formally acknowledged set of governing institutions, but instead as a result of interactions involving a complex variety of actors, including member state governments, EU institutions, interest groups, and other sources of influence.

At the heart of any discussion is the controversial question of sovereignty – what it is, who has it, and what impact integration has on the powers enjoyed by the member states. Sovereignty is usually defined as the right to hold and exercise authority. So a state is sovereign over its territory, for example, meaning it has the power to decide what happens within that territory, and to make laws that govern the lives of the people who live there. More specifically, sovereignty is usually said to lie in the hands of the person or institution that exercises control over the territory. In democratic systems, this usually means the national legislature. Theoretically, there are no legal constraints on a sovereign, only moral and practical ones – the sovereign is not answerable to any higher authority, but can only exert its powers to the extent that those under its authority will allow, and to the extent that it can practically implement its decisions.

In a democracy, the sovereign may not answer to any higher authority, but does answer to the people, because it is the will of the people that decides where sovereign power lies. So sovereignty lies with the people, even though sovereign power is usually exercised by the institution that the people elect to represent their interests. This means that the common complaint made by Eurosceptics that integration means a loss of sovereignty is not entirely accurate. Sovereignty has not been lost in the European Union, but rather has been redistributed. Where sovereign power was once monopolized by national governments in the member states, it is now shared by those governments and by the institutions of the European Union.

EU member states can still do almost everything that the states in the US model *cannot* do: they can make treaties, operate their own tax systems, maintain an independent military, and – with 13 of the 25 member states – use their own national currencies. The EU institutions, meanwhile, have few of the powers of the federal government in the US model: they cannot levy taxes, do not operate a common military, do not yet enjoy the undivided loyalty of most Europeans, and do not have sole power to negotiate all agreements on behalf of the member states with the rest of the world. The 'f-word' has proved a controversial element in several of the debates about how to change the structure and reach of the EU, and while the EU is far from being a full-blown federation, it does have some of the features of a federal system:

- It has a complex system of treaties and laws that are uniformly applicable throughout the European Union, to which all the member states and their citizens are subject, and that are interpreted and protected by the European Court of Justice.
- In those policy areas where the member states have agreed to surrender authority to the EU – including intra-European trade, the environment, agriculture, and social policy – EU law supersedes national law.
- It has a directly elected representative legislature in the form of the European Parliament, which has growing powers over the process by which European laws are made. As those powers grow, so the powers of national legislatures are declining.
- Although still small by comparison to most national budgets (just €100 billion, or $120 billion, in 2004), the EU budget gives the EU institutions an element of financial independence.
- The European Commission has the authority to oversee negotiations with third parties on behalf of all the member states, in those areas where it has been given authority by the member states.
- Twelve of the EU member states have their own currency, the euro. With its launch in 2002, they transferred monetary policy from their own national central banks to the European Central Bank in Frankfurt.

One way of looking at the practice of European federalism is to picture the EU as a network in which individual member states are increasingly defined not by themselves but in relation to their EU partners, and in which they prefer to interact with one another rather than third parties because those interactions create incentives for self-interested cooperation (Keohane and Hoffmann, 1991, pp. 13–14). It has been argued that the EU has become 'cooptive', meaning that its participants have more to gain by working within the system than by going it alone (Heisler and Kvavik, 1973). Once they are involved, governments of the member states must take some of the responsibility for actions taken by the EU as a whole, and find it increasingly difficult to blame the European institutions.

Federalism is not an absolute or a static concept, and it has taken on different forms in different situations and at different times according to the relative strength and nature of local political, economic, social, historical, and cultural pressures. For example, the US model of federalism was in place long before that country began its westward expansion, explicitly includes a system in which the powers of the major national government institutions are separated, checked, and balanced, and was adopted more to avoid the dangers of chaos and tyranny than to account for social divisions. Furthermore, it has changed over time as a result of an ongoing debate over the relative powers of national and local government. In India, by contrast, federalism was seen as a solution to the difficulty of governing a state that was already in place, and that had deep ethnic and cultural divisions; the national government has a fused executive and legislature on the British model, and while India is a federal republic like the United States, political reality has ensured that powers have often been much more centralized in the hands of the national government.

The most enthusiastic European integrationists would like to see a federal United States of Europe in which today's national governments would become local governments, with the same kinds of powers as the *Länder* governments have in Germany or state governments in the United States. Before this could happen, there would need to be – at the very least – a directly elected European government, a constitution, a common tax system, a single currency, and a common military, and EU institutions would have to be able to act on behalf of all the member states in foreign relations. But just how far the process of integration would have to go before there was a federal Europe is a debatable point. There is no reason why European federalism would have to look exactly like the US, Indian or even German models – it could be much looser.

The logic of integration

What are the motives behind regional integration, and how do they help explain the European Union? People or states usually cooperate or create alliances for one of four reasons:

- They may be brought together by force.
- They may come together out of the need for security in the face of a common external threat.
- They may share common values and goals, and reach agreement on how to govern themselves as a whole.
- They may decide that they can promote peace and improve their quality of life more quickly and effectively by working together rather than separately.

Interstate relations in Europe were long influenced and driven by the first two motives, but since 1945 there has been a shift to the third and the fourth. But just why and how the process of integration has evolved remains a matter of dispute, with competing theoretical explanations.

The study of international relations after the Second World War was dominated by realist theory, which argues that states are the most important actors on the world stage (because there is no higher power), and that states strive to protect their interests relative to each other. Realists talk about the importance of survival in a hostile global environment, and argue that states use both conflict and cooperation to ensure their security through a balance of power with other states. For them, the EU would be a gathering of sovereign states, which retain authority over their own affairs, give power to new cooperative bodies only when it suits them, and reserve the right to take back that power at any time. In short, realist theory argues that the EU exists only because the member states have decided that it is in their best interests. Realism is a pessimistic way of looking at the world, and was a response to the tensions that arose out of the nuclear age. It did not explain the rising tide of cooperation that followed the Second World War, and also left many unanswered questions about the motives behind international relations. Thus it began to fall out of fashion (although its principles have been revived by neoconservatives in the Bush administration in the United States), and most of the theoretical debates about European integration have since focused on two different sets of explanations: functionalism and neofunctionalism.

Functionalism

While realists talk about competition, conflict, and self-interest, functionalists focus more on cooperation. While realists talk about relations among governments, functionalists argue that the best people to build cooperation are technical experts, not government representatives. They talk of the internal dynamic of cooperation, arguing that if states work together in certain limited areas and create new bodies to oversee that cooperation, they will work together in other areas through an 'invisible hand' of integration. In short, functionalists argue that European integration has its own logic that the EU member states find hard to resist. Although membership involves contracts that could be broken, in reality they have an almost irresistible authority, and – in the case of the EU – integration has now become so much a part of the fabric of European society that if a state left the EU, the costs would outweigh the benefits.

Functionalism is based on the idea of incrementally bridging the gaps between states by building functionally specific organizations. So instead of trying to coordinate big issues such as economic or defence policy, for example, functionalists believed they could 'sneak up on peace' (Lindberg and Scheingold, 1971, p. 6) by promoting integration in relatively non-controversial areas such as the postal service, or a particular sector of industry, or by harmonizing technical issues such as weights and measures.

The thinker most often associated with these ideas was the Romanian-born British social scientist David Mitrany (1888–1975), who defined the functional approach as an attempt to link 'authority to a specific activity, to break away from the traditional link between authority and a definite territory' (Mitrany, 1966, p. 27). He argued that transnational bodies would not only be more efficient providers of welfare than national governments, but that they would help transfer popular loyalty away from the state, and so help reduce the chances of international conflict (Rosamond, 2000, p. 33). Ironically, Mitrany felt that peace could not be achieved by regional unification, because this would simply expand the problems of the state system, and replace interstate tensions with inter-regional tensions. Neither did he support the idea of world government, which he felt would threaten human freedom.

Writing in 1943, Mitrany argued for the creation of separate international bodies with authority over functionally specific fields, such as security, transport, and communication. They should be executive bodies with autonomous tasks and powers, he argued, and do some of the same jobs as national governments, only at a different level. This focus on particular functions would encourage international cooperation more quickly and effectively than grand gestures. The dimensions and structures of these international organizations would not have to be predetermined, but would instead be self-determined (Mitrany, 1966, pp. 27–31, 72).

Once these functional organizations were created, Mitrany argued, they would have to work with each other. For example, rail, road, and air agencies would need to collaborate on technical matters, such as the coordination of timetables, and agreement on how to deal with different volumes of passenger and freight traffic. As different groups of functional agencies worked together, there would be coordinated international planning. This would result not so much in the creation of a new system as in the rationalization of existing systems through a process of natural selection and evolution. States could join or leave, drop out of some functions and stay in others, or try their own political and social experiments. This could eventually lead to 'a rounded political system ... the functional arrangements might indeed be regarded as organic elements of federalism by instalments' (Mitrany, 1966, pp. 73–84).

Although it has been described as 'an approach rather than a tightly knit theory' (Taylor and Groom, 1975, p. 1), functionalism has dominated the theoretical debates since the 1950s about how the EU has evolved. The two men often described as the founders of the European Union, French businessman Jean Monnet and French foreign minister Robert Schuman, were functionalists in the sense that they opted for the integration of a specific area (the coal and steel industry) with the hope that this would encourage integration in other areas. As Schuman put it, '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' (Schuman Declaration, reproduced in Weigall and Stirk, 1992, pp. 58–9).

Box 1.3 Regional integration: costs and benefits

The opinions that Europeans have about regional integration are often based on a patchy grasp of how the EU has affected their lives, and are often coloured by the populist rhetoric of pro- and anti-European media, political parties, and political leaders. In the debate over the merits of integration, it has so far been easier to point accusing fingers at the costs than to outline the benefits. The costs most often quoted include the following:

1. Loss of sovereignty and national independence.
2. Loss of national identity as laws, regulations and standards are harmonized.
3. Reduced powers for national governments.
4. The creation of a new level of impersonal 'big government' in Brussels, leading to a new level of laws and regulations.
5. Increased competition and job losses brought by the removal of market protection.
6. Increased drug trafficking, crime and illegal immigration arising from the removal of border controls.
7. Problems related to controversial issues such as the Common Agricultural Policy.

For pro-Europeans, the benefits of integration include the following:

1. Cooperation makes war and conflict less likely.
2. The single market offers European businesses a larger pool of consumers.
3. Mergers and takeovers are creating world-leading European corporations, helping the EU better compete in the global marketplace.
4. There is greater freedom of cross-border movement within the EU.
5. It pools the economic and social resources of multiple member states.
6. Member states working together enjoy new global power and influence.
7. Poorer member states 'rise' to standards maintained by more progressive states.
8. Funds and investments create new opportunities in the poorer parts of the EU.
9. Democracy and capitalism are promoted in weaker member states.

As noted in Chapter 6, public opinion on integration has moved in cycles, with only about half of all Europeans supporting the idea, and a recent decline in the number of people who think that their country has benefited from membership. But – as also argued in Chapter 6 – very few Europeans know very much about the EU or about how it works.

Neofunctionalism

Studies of the early years of European integration led to the expansion of Mitrany's theories as neofunctionalism. This argues that preconditions are needed before integration can happen, including a switch in public attitudes away from nationalism and towards cooperation, a desire by elites to promote integration for pragmatic rather than altruistic reasons, and the delegation of real power to a new supranational authority (see Rosamond, 2000, Chapter 3). Once these changes take place there will be an expansion of integration caused by spillover: joint action in one area will create new needs, tensions and problems that will increase the pressure to take joint action in another. For example, the integration of agriculture will only really work if related sectors – say transport and agricultural support services – are integrated as well.

The forerunner of today's European Union was the European Coal and Steel Community (ECSC) (see Chapter 3). Founded in 1951, it was created partly for short-term goals such as the encouragement of Franco-German cooperation, but Monnet and Schuman also saw it as the first step in a process that would eventually lead to political integration (Urwin, 1995, pp. 44–6). Few people supported the ECSC idea at the start, but once it had been working for a few years, trade unions and political parties became more enthusiastic because they began to see its benefits, and pressure grew for integration in other sectors. Urwin notes that the ECSC approach was handicapped because it 'was still trying to integrate only one part of complex industrial economies, and could not possibly pursue its aims in isolation from other economic segments' (Urwin, 1995, p. 76). This was partly why – six years after the creation of the ECSC – agreement was reached among its members to achieve broader economic integration within the European Economic Community.

Neofunctionalist ideas dominated studies of European integration in the 1950s and 1960s, but briefly fell out of favour in the 1970s, in part because the process of integrating Europe seemed to have ground to a halt, and in part because the theory of spillover needed further elaboration. The most common criticism of neofunctionalism was that it was too linear, and needed to be expanded or modified to take account of different pressures for integration, such as changes in public and political attitudes, the impact of nationalism on integration, the influence of external events such as changes in economic and military threats from outside, and social and political changes taking place separately from the process of integration (Haas, 1968, pp. xiv–xv).

Joseph Nye (1971, pp. 208–14) gave neofunctionalism a boost when he wrote about taking it out of the European context and looking at non-Western experiences. He concluded that experiments in regional integration involve an integrative potential that depends on several different conditions:

- The economic equality or compatibility of the states involved. This was long the major concern behind allowing poorer eastern European and Mediterranean states to join the EU. At the same time, differences in the size or wealth of the member states may be less important than the presence of a driving force that helps bring them together, such as concerns about attempts by France and Germany to dominate the EU.
- The extent to which the elite groups that control economic policy in the member states think alike and hold the same values.
- The extent of interest group activity. Such groups play a key role in promoting integration if they see it as being in their interests.
- The capacity of the member states to adapt and respond to public demands, which in turn depends on the level of domestic stability and the capacity – or desire – of decision makers to respond.

On all these counts the EU has a relatively high integrative potential, in contrast to another key experiment in regional cooperation: the North American Free Trade Agreement (NAFTA) (see below). The United States may be a strong driving force, but it is much wealthier than Mexico, elite groups in Mexico are more in favour of state intervention in the marketplace than those in the United States and Canada, trade unions in the United States have been highly critical of NAFTA, and public opinion in Mexico is more tightly controlled and manipulated than in the United States and Canada. There is also widespread – but largely misinformed – criticism of NAFTA within the United States.

One of the responses to criticisms of neofunctionalism came in the form of intergovernmentalism, a theory which draws on realism and criticizes neofunctionalism for concentrating too much on the internal dynamics of integration without paying enough attention to the global context. Intergovernmentalism argues that while non-state actors play an important role in integration, the pace and nature of integration are ultimately determined by national governments pursuing national interests; they alone have legal sovereignty, and they alone have the political legitimacy that comes from being elected (Hoffman, 1964). A variation on this theme is liberal intergovernmentalism, a theory which emerged in the 1980s and 1990s, and combined the neofunctionalist view of the importance of domestic politics with the role of the governments of the EU member states in making major political choices. Proponents argue that European integration has moved forward as a result of a combination of factors such as the commercial interests of economic producers, and the relative bargaining power of important governments (for details, see Moravcsik, 1998).

Regional integration around the world

Whatever the pressures and motivations, Europeans since 1950 have built a complex web of economic, political, and social ties among themselves. Their successes and failures have drawn new attention to several other exercises in regional integration in other parts of the world. The motives have been similar or the same – peace through cooperation, security from neighbouring and distant enemies, the creation of greater economic opportunities, shared values, convenience, efficiency, and the self-interest of elites – but the levels of integration potential vary.

The Americas

The removal of barriers to trade has taken on a new significance for the United States, Canada, and Mexico, which are currently building a free trade area that – with a combined GNP of $11.8 trillion and a population of 420 million – is wealthier but smaller than the EU. It traces its roots to a bilateral free trade agreement born on 1 January 1989 between the United States and Canada, which became NAFTA when Mexico was admitted in 1992.

Compared to the EU, the goals of NAFTA were modest: to phase out tariffs on textiles, clothing, cars, trucks, vehicle parts, and telecommunications equipment over ten years; to phase out barriers to agricultural trade over 15 years; to allow banks, securities firms, and insurance companies access to all three markets; to open up the North American advertising market; to allow lorry drivers to cross borders freely; and to loosen rules on the movement of corporate executives and some professionals. National energy and transport industries are still heavily protected under NAFTA, there is nothing approaching the free movement of people, and all three member states can apply their own environmental regulations. No institutions have been created beyond two commissions to arbitrate disagreements over environmental standards and working conditions; special judges can also be empanelled to resolve disagreements on issues such as fishing rights and trade laws.

For some, NAFTA's real significance lay less in the content of the agreement than in the symbolism of its passage, representing (as it did at the time) a shift in US foreign policy and in the structure of a US economy gearing up for unparalleled competition from abroad. Certainly it is a much looser arrangement than the European Union, or even the European Economic Community in its early years. It is strictly intergovernmental, and although it has reduced trade restrictions, it has involved little surrender of authority or sovereignty.

Table 1.1 *Regional integration associations*

Europe	European Union (founded 1951, 25 members)
North America	North American Free Trade Agreement (1994, 3 members)
Latin America	Latin American Free Trade Association (1960–80, 7 members)
	Central American Common Market (1960, 5 members)
	Andean Group (1969, 5 members)
	Latin American Integration Association (1980, 11 members)
	Southern Cone Common Market (Mercosur) (1991, 4 members)
Caribbean	Caribbean Community and Common Market (1973, 14 members)
Pacific Rim	Asia Pacific Economic Cooperation (1989, 21 members)
Asia	Association of Southeast Asian Nations (1967, 10 members)
	South Asian Association for Regional Cooperation (1985, 7 members)
	Commonwealth of Independent States (1991, 12 members)
Middle East	Arab League (1945, 22 members)
	Council of Arab Economic Unity (1957, 13 members)
	Arab Cooperation Council (1989, 4 members)
	Arab Maghreb Union (1989, 5 members)
Africa	Central African Customs and Economic Union (1964, 6 members)
	East African Community (1967–78, revived 1999, 3 members)
	Economic Community of West African States (1975, 16 members)
	Economic Community of Central African States (1983, 10 members)
	Southern African Development Community (1992, 14 members)
	African Union (2001, 53 members)

Whether NAFTA will ever become anything like the EU remains to be seen. Neofunctional logic suggests it might, but many obstacles will need to be removed: Mexico's limited democracy and its centralist/corporatist ideas of government that run counter to traditions in the United States and Canada; large disparities in wealth, education, and per capita production;

concern among Canadians about the cultural dominance of the United States; significant gaps in mutual knowledge and understanding among the citizens of the three countries; and myths, misconceptions, and sheer ignorance about free trade.

While the United States and Canada are relative newcomers to the idea of regional integration, several much older exercises have been under way south of the Rio Grande since the 1960s, with mixed results. A combination of overly ambitious goals, persistent protectionism, authoritarian politics, and bad timing has undermined most of the agreements reached so far, forcing the participating states regularly to change their objectives and methods. The result has been a complex and constantly changing web of bilateral and multilateral free trade agreements.

The first step was taken with the signing in 1960 of the Treaty of Montevideo, creating the Latin American Free Trade Association (LAFTA). Seven countries – Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay – agreed to create a free trade zone by 1972, but the process was quickly derailed by the difficulties inherent in negotiating the abolition of trade barriers, the ambitious timetable, and the authoritarian nature of most of the governments involved. In 1969, Chile and Peru – frustrated by the lack of progress – joined Bolivia, Colombia, and Ecuador in the creation of the Andean Group, a more dynamic attempt at economic integration involving reduced taxes, a common external tariff, and investment in poorer industrializing areas.

Progress on LAFTA was undermined by domestic economic problems in most South American countries, so a new Treaty of Montevideo was signed in 1980, replacing LAFTA with the Latin American Integration Association (ALADI). With 11 members – the seven LAFTA members together with Bolivia, Colombia, Ecuador and Venezuela – ALADI emphasized the importance of regional preferences aimed at increasing exports, reducing imports and developing more favourable balances of trade as a prelude to regional integration. Although the replacement of authoritarian regimes by democratically elected governments augured well, the Latin American debt crisis of the 1980s discouraged those governments from opening up their markets.

The focus began to change in 1985–86 when Argentina and Brazil began to concentrate on the reduction of barriers to bilateral trade. Just as Franco-German cooperation provided the early engine for regional integration in Europe, the Argentina–Brazil nexus had a spillover economic effect on neighbouring states. In 1991 the effect expanded with the signing of the Treaty of Asunción between Argentina, Brazil, Paraguay, and Uruguay, creating the Southern Cone Common Market, or Mercosur. This has aimed at progressive tariff reduction, the adoption of sectoral agreements, a common external tariff, the agreement of free trade areas with neighbouring countries or subregional groups, and the ultimate creation of a common market. Bolivia and Chile are associate members.

A new dimension has been added to free trade in the Americas in recent years with US-led attempts to work towards a free trade zone covering the entire western hemisphere. The idea was raised in 1990 by President George H.W. Bush, who spoke of the possibility of a free trade area of the Americas (FTAA), stretching from Alaska to Cape Horn. It was taken up enthusiastically by President Bill Clinton, who played host to the leaders of 34 states at a 'summit of the Americas' in Miami in December 1994, the first meeting among leaders of American states for 27 years. They agreed a target date of 2005, with 'concrete progress' to have been made by 2000, and trade ministers have since held meetings to decide the agenda for negotiations. A second summit of the Americas was held in Santiago, Chile, in April 1998 formally to launch the negotiations. A third was held in Quebec City, Canada, in April 2001. However, while trade within regional subgroupings such as NAFTA, Mercosur, and the Central American Common Market has grown substantially in recent years, the FTAA has obstacles of a larger order to overcome.

Meanwhile, broader economic integration has been taking place around the Pacific Rim under the aegis of Asia Pacific Economic Cooperation (APEC). This is not so much an institution as a forum for the discussion of economic issues affecting 21 Asian, Pacific and American states, including Canada, China, Japan, Russia, and the United States. Although it has been promoted most actively since 1989 by the United States and Australia, China and Japan are now widely seen as the leading contenders for leadership of APEC. The medium-term goal is the creation of a free trade zone among these countries by 2020. Progress so far has been slow, and China appears to see Japan less as a partner than as a rival for leadership in the region. At the same time, the Japanese role is welcomed by many of its neighbours as offering a counterbalance to the economic weight of the United States.

Asia

The most important initiatives for Asian regional integration have come out of the Association of Southeast Asian Nations (ASEAN), established in August 1967 to replace an earlier organization founded in 1961. Headquartered in Jakarta, Indonesia, ASEAN has ten members: the founding states were Indonesia, Malaysia, the Philippines, Singapore, and Thailand, which were joined in 1984 by Brunei, in 1995 by Vietnam, and in 1997 by Burma, Cambodia, and Laos. From an initial interest in security issues (protecting the region from big-power rivalry and providing a forum for the resolution of intraregional problems), ASEAN has moved steadily towards economic cooperation and trade, its members agreeing in 1992 to create an ASEAN Free Trade Area by 2007.

ASEAN has a much looser institutional system than the EU. The major decision-making body is the Meeting of the ASEAN Heads of Government, or the ASEAN Summit (equivalent to the European Council). The first such summit took place in 1976, but no plans were made to meet regularly until the fourth summit in 1992, when it was decided that the heads of government would meet formally every three years and informally at least once in between. While summits lay down the general direction of ASEAN activities, foreign ministers meet annually (inviting along other ministers as and when necessary) to develop overall policies, and economics ministers meet annually to work on the development of free trade. In recent years, other ministers have also met more regularly to discuss energy, agriculture, tourism, and transport issues. When necessary, joint ministerial meetings take place to promote cross-sectoral coordination. A standing committee headed by a secretary-general takes care of business between ministerial meetings, providing a modest bureaucracy for ASEAN (ASEAN home page, 2004).

Further west, the most obvious candidate to head a regional economic grouping is India, with a population of just over one billion. India has been reluctant to become involved in regional economic arrangements, however, thanks mainly to strained relations with most of its neighbours, especially Pakistan, with which it has had three wars since 1947. India's giant presence has also caused an unequal distribution of power in south Asia, and successive Indian governments have preferred to deal bilaterally with other countries in the region. For their part, India's smaller neighbours fear that India would inevitably dominate a regional association, and use it to institutionalize its hegemony (Hardgrave and Kochanek, 2000, p. 431).

Despite these concerns, greater regional cooperation began slowly to emerge in the early 1980s, leading to the creation in 1985 of the South Asian Association for Regional Cooperation (SAARC) with seven members: Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka. Together they are home to more than 1.4 billion people, or more than one-fifth of the world's population. Meeting in 1983, the foreign ministers of the seven countries agreed to promote 'collective self-reliance' in nine areas, including agriculture, transport, and telecommunications, and since 1985 the leaders have met at annual summits rotating among the different countries, with the host country assuming the chairmanship for that year.

The commerce ministers met for the first time in 1996, a move that was seen as recognition of the need to address what then Indian prime minister Narasimha Rao called 'neoprotectionism' among SAARC members, notably India and Pakistan. The seven countries had earlier agreed to set up a South Asian Preferential Trading Arrangement (SAPTA) with a view to encouraging the removal of tariff and non-tariff barriers and working towards the creation of a free trade area (SAFTA) by 2005. At the moment SAARC has no institutional arrangements, its goals are modest in comparison with those of the European Union, or even NAFTA, and the long-standing mutual distrust between India and Pakistan remains a considerable handicap.

The Middle East

The Middle East has had less success with experiments in regional integration than any other part of the world, which is ironic given the Islamic belief in a worldwide community of Muslims transcending race, language, and national identity. Greater cooperation among the states of the Middle East makes sense at many levels: several countries depend too much on a single commodity (oil); the profits of the oil producers could be used to invest in non-producers and help promote manufacturing in the region; cooperation would allow better control of the already considerable flow of workers to the oil-rich states, and intraregional trade could help the Middle Eastern states to reduce their dependence on oil exports to the West and to develop regional transportation networks. It might also underpin attempts to bring stability and democracy to one of the most volatile regions of the world.

There have been several attempts at regional cooperation. The first began in 1945 with the creation of the Arab League to promote political, economic, social, and military cooperation. The League is headquartered in Cairo, and currently has 22 members. A second step was taken in 1957 with the creation of the Council of Arab Economic Unity, whose goal is to promote economic integration. Headquartered in Amman, Jordan, it has 13 members. In 1965 the Arab Common Market was set up to promote economic cooperation and integration, but so far it has attracted only four members (Egypt, Iraq, Jordan, and Yemen). Finally, the Arab Monetary Fund was established in 1977 to promote economic and monetary integration. Headquartered in the United Arab Emirates, it has 19 members.

Why has the success of these organizations been so limited? Part of the problem stems from internal dissension, notably differences of opinion on how to deal with Israel: Egypt was expelled from the Arab League for ten years when it signed the 1979 peace treaty with Israel. Further divisions were caused by disagreement over how to respond to Iraq's invasion of Kuwait in 1990, and persist in the wake of the troubles following the 2003 US-led invasion of Iraq. Cooperation has been further undermined by differences among states over the interpretation of Islam, the fact that less than 10 per cent of trade in the Middle East and North Africa is intraregional, the dominance of oil in national economies, protectionist national economic policies, and severe cross-border restrictions on the movement of people. It will take a significant shift in attitudes and policies for the Middle East to create the right conditions for greater economic cooperation.

Africa

Africa to date has lacked high integrative potential, because of a combination of poverty, political instability, civil war, border disputes, and the often different political and economic agendas of African governments. This has not discouraged several groups of countries from building regional cooperative organizations. One early experiment was the East African Community, under which Kenya, Tanzania, and Uganda built elements of a single market and a customs union, operated a single currency, and developed a common transport system. The Community broke up in acrimony in 1977, in part because of the unbalanced benefits accruing to Kenya, but it was relaunched in 1999.

A more substantial experiment – but one that has its own problems – is the 16-member Economic Community of West African States (ECOWAS). Headquartered in Abuja, Nigeria, it was founded in 1975 and now has a total population of nearly 253 million people. ECOWAS set out to achieve first a customs union and then a full common market along the lines of the European Union. By harmonizing their policies on agriculture, industry, transport, and communications, and paving the way for the free movement of people and labour, its members felt they could change the balance of power between themselves and the richer Western countries. To promote cooperation, a development fund was created through which the wealthier ECOWAS members could channel investment funds to the poorer members.

Organizationally, ECOWAS revolves around meetings of the heads of government, which took place annually until 1997, when it was decided to hold them twice a year. A council of ministers, consisting of two representatives from each of the member states, meets twice a year to oversee the running of ECOWAS, which is left to a small secretariat and five commissions dealing with issues such as trade, customs, industry and transport. A tribunal meets to interpret provisions laid down in the founding treaty of ECOWAS and to settle disputes between member states.

ECOWAS faces many problems, including the persistent political instability of several of its members (notably Burkina Faso, Liberia, and Sierra Leone), the dominating presence of Nigeria (which accounts for about half of the population of ECOWAS and about half of its GDP), the unwillingness of smaller states to open their markets to Nigeria (suspecting the latter of working towards regional domination), and the often conflicting economic and trade policies of its members. It has nonetheless made progress in some areas, such as regional peacekeeping (including its contribution to monitoring a cease-fire in war-torn Liberia in 1990–93).

In July 2001, Africa launched the most ambitious attempt yet to build regional cooperation when the 37-year-old Organization of African Unity (OAU) was replaced by the African Union. Inspired by the European Union, the African Union is planning to set up an African central bank, a parliament, an executive commission, and a court. All 53 members of the OAU were potentially also members of the African Union, but since conflicts were under way in 21 of those countries, the integrative potential of the Union was questionable.

Conclusions

The European Union is the most highly evolved example of regional integration in the world, but – as this chapter reflects – it is far from being the only example. Clusters of states on every continent (or, at least, the elites of those states) have found that cooperation on a variety of issues is in their interests, so much so that several have decided to take that cooperation to another level. In other words, rather than simply working together on matters of mutual interest, they have transferred powers to decision-making systems that function above the level of the state. Some of these systems are informal, consisting of regular meetings among ministers or national leaders and agreement to reach decisions jointly rather than individually. Others are more formal and have moved beyond the intergovernmental level to involve the creation of supranational organizations and bodies of common law.

As a result, regional integration is a concept with which we are all becoming more familiar. This is especially true in Europe, because the laws and decisions that govern the lives of Europeans are being made less at the local or national level, and increasingly as a result of negotiations and compromises among the EU member states. Developments at the EU level are becoming as important for Europeans to understand as those in their national capitals. Not long ago an 'informed citizen' was someone who knew how their national system of government worked, how their national economy functioned and how their national society was structured. To be 'informed' now demands a broader horizon, and familiarity with a new set of institutions, processes, and political, economic, and social forces. It also demands an understanding of the character of the EU, and the extent to which it is a confederal or a federal association.

Yet Europeans are still some way from understanding how and why regional integration has happened, or even deciding whether or not it is a good idea. Europe has travelled a long road since 1945, and has survived political and economic crises to become an economic superpower that has enjoyed the longest period of general peace in its history. But to what extent can this be credited to the European Union? What would Europe look like today without the EU? Would it be richer or poorer, more or less peaceful? Is there anything that the rest of the world can learn from the European experience, and is there anything that Europeans can learn from the steps being taken towards regional integration in the Americas, Asia, or Africa?

Opinions on the value of regional integration – and its long-term prospects – will remain divided as long as they are confused and obscured by questions and doubts about the conditions that encourage integration, the logic of the steps taken towards integration, and the end product. Comparing the European case with other examples of regional integration around the world can give us more insight into its advantages and disadvantages, but we are still some way from agreement on what drives the process, and from understanding what we have created. Most confusingly, the goals of regional integration are only vaguely defined. How will Europe know when it has gone far enough? What exactly is the end goal? The next two chapters will attempt to answer these questions by looking at the evolution, structure, and effects of the European Union.

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