**CARIS/SEI Conference 2007**

**"What have we learned from European Economic Integration?"**

The EU in its development over the last 50 years from customs union to common market and now including monetary union has been a natural experiment in economic integration. This has had important implications for the development of social science theory and analysis as well as for the understanding of practical policy making.

Balassa’s empirical work on the impact of the original customs union among the EEC-6 revealed the importance of intra industry trade and changed the economic analytical paradigm from the traditional inter-industry comparative advantage (in combination with the theory of the second best as applied to preferential liberalisation and as developed by Viner and Meade) which was simply not capable of predicting actual trade patterns for manufactures which were the engine of European integration and growth in the 1960s. Balassa’s work, taking account of the objectives of the Treaty of Rome, also gave us the now conventional hierarchy of economic integration from free trade area to customs union, to common market, to economic union.

For political scientists and lawyers consideration of the impetus to regulatory harmonisation and the underlying project of political integration led by economic integration gave rise to a (contested) differentiation between negative integration (the removal of border barriers) and positive integration (harmonisation of regulation and laws). Interpretation of the treaty by the Court of justice and above all the *Cassis de Dijon* case also developed the potential for integration by introducing the principal of mutual recognition which in turn gave an incentive for the reinvigoration of the integration of the internal market held up by inability to agree on common standards and regulations and eventually to the Single European Act.

For economists the analysis of the impact of completing the single market – the Cecchini Report – published in 1987 also brought a further improvement in the analytical basis for understanding economic integration and one which once more came closer to the empirical realities of economic integration in particular the partial equilibrium, imperfect competition, differentiated products, increasing-returns-to scale models associated with Smith and Venables proved a fertile approach to estimating the potential impact of the single market for goods. The Cecchini Report also began the process of trying to estimate the effects of administrative and regulatory obstacles to trade notably customs procedures but also the cost of regulation assessed from case studies and surveys.

The single market and its impact on the new approach to technical Barriers to trade, Sanitary and phytosanitary measures, services, intellectual property and investment into the global trade rules in the Uruguay round brought the distinction between shallow (removing frontier barriers) and deep integration (liberalisation of regulatory barriers to trade) into use.

The Integration of the transition economies of central Europe in the European economy culminating in the 5th enlargement of the EU from May 2004 onwards stimulated further work on trade and economic welfare of European integration. Much of this work drew on general equilibrium modelling in the footsteps of the pioneering work by Francois et al (1995) but work by Baldwin (1992) and Mayhew (1995) took a wider view of the processes at work and considered the political economy of EU enlargement and what this might imply for sequencing of adjustment to EU norms particularly on the environment and labour markets.

The study of these effects was a key aspect of the task set for Sussex European Institute when it was set up in 1992. It took as its remit integration in the wider post- Communist Europe. The newly emerging democratic market economies had to recreate the institutional, legal and regulatory frameworks necessary for functioning of a modern market economy. For Central Europe that became de facto the European Union model beginning with the deep integration aspects of the Europe Agreements just coming into effect as SEI was beginning its work. Work by Rollo and Smith (1992) and Smith et al (1996) was influential on both research agendas and on policy. The deep integration agenda raised governance questions investigated by a succession of scholars under the supervision of Helen Wallace and explored in successive editions of Wallace and Wallace..

More recently SEI in cooperation with CARIS () and stimulated by the new impetus for the EU and the US to pursue preferential trade agreements with elements of deep integration particularly with developing countries has returned to the issue of shallow and deep integration and their economic impacts. This includes work on analytical and diagnostic frameworks to help negotiators (particularly but not only in developing countries ) to assess the implications of any proposed agreement with a view to maximising benefits and minimising costs (Evans et al 1995). This work has thrown up again the difficulty of making general statements about the impact of regulatory or deep integration to match the long established trade creation/trade diversion framework that allows us to be reasonably confident about the impact of shallow integration generated by any given agreement. It is not sufficient to treat regulation simply as a cost of doing business. It also generates outputs and in some cases externalities – often that is the precise intention. The difficulty of measuring these regulatory outputs and their potential impact on trade, productivity and investment along with the rather uncertain theoretical basis and lack of clear empirical certainties of the connections between trade and growth leaves the costs and benefits of deep integration still as an open research field. This is the focus of a developing research agenda in SEI, CARIS and IDS.

 Fifty Years after the Treaty of Rome, 20 years after the Cecchini Report and 15 years after the founding of SEI and in the light of ongoing work at SEI and CARIS it seemed an appropriate moment to reflect on the experience of the European Union and the academic research that it stimulated and what it means for future research. It was also a point at which to mark the departure of Alasdair Smith from Sussex . He is a major figure in the literature on economic integration and for 26 years has been a driving force in research at Sussex on economic integration.

 The intention was to have a brainstorming style of conference; presentations not papers to encourage debate and indeed fruitful disagreement. The field was not purely the EU though given its role as the major exemplar of inter-state deep integration it was a key subject of consideration both in itself and its influence in the world. The presentations were not simply economics. Helen Wallace and Francis McGowan reflected on the political economy from a political science perspective. **Michael Gasiorek** and **Tony Venables** reflected on developing country issues in preferential integration and **David Vines** asked whether the current wave of regional Integration in East Asia owed anything to the EU example; **Peter Holmes** and **Alasdair Smith** considered the lessons from EU integration for the rest of the world and modelling respectively. Jaroslav Pietras ,and Alan Mayhew discussed the impact of the European integration process on policies and outcomes in the countries central Europe, Fabienne Ilzkovitz and Adriaan Dierx examined the challenges for further deep integration within the EU while **Peter Dodd** ( standing in for Vicky Pryce ) and **Jim Rollo** looked at the challenges for policy makers from developments in empirical techniques and theory; **Alan Winters** examined migration as perhaps the deepest form of deep integration. There were Lacunae; above all the conference did not look at monetary integration except in passing in the presentations by Vines and Rollo either in itself or through the controversies over its possible impact on trade and growth. Helen Wallace (founding Director of SEI) and John Palmer (SEI practitioner Fellow) discussed the longer term implications of economic and political integration in the EU over the last 50 years while **Francis McGowan** spoke to the political economy of EU integration of the regulation of network utilities.

The follow up to the conference will be pursued in research planning in SEI and CARIS and future funding proposals