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Abstract

This policy paper explores how diverse modes of differentiation occur in regions beyond Europe. From the perspective of comparative regionalism, the paper examines how the practice of differentiation facilitates flexibility and accommodates diversity in regional cooperation processes in Asia, Africa and Latin America. Examining the Association of Southeast Asian Nations (ASEAN), the Economic Community of West African States (ECOWAS) and the Southern Common Market (*Mercado Común del Sur*, MERCOSUR), the paper analyses how differentiation is applied and how it ties in with primarily trade integration. Specifically, the paper assesses whether differentiation leads to centrifugal or centripetal dynamics, and it examines the impact of differentiation on internal as well as external cooperation. After comparing the three cases, the paper draws policy recommendations for the EU.

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Executive summary

Drawing lessons from practices in the Association of Southeast Asian Nations (ASEAN), the Economic Community of West African States (ECOWAS) and the Southern Common Market (*Mercado Común del Sur*, MERCOSUR), this policy paper argues that differentiation, including multi-speed, concentric circles, multiple sub-organisations and *à la carte*, is a “normal”, even essential element of regional cooperation processes:

- it is a key instrument to tackle heterogeneity and development disparities;
- it promotes flexibility, and preserves state sovereignty;
- it accommodates the preferences for sovereignty, intergovernmentalism and non-interference;
- it enables progress and avoids the paralysis generated by the emphasis on consensus decision-making, for example by facilitating pathfinder groups;
- it can function as a defensive component on the part of weaker states.

While facilitating cooperation, differentiation can also result in centrifugal dynamics and sustain or lead to fragmentation:

- it can create “elite” groups;
- It can exacerbate existing cleavages, and ultimately only makes a modest contribution to closing the development gap;
- internal differences can lead to the creation of “nested” sub-organisations;
- more powerful states can use it to impose their agenda;
- it can increase competition for resources among external actors, and the involvement of the latter can result in intra-organisational rifts. At the interregional level it can lead to a bilateral and fragmented approach to Economic Partnership Agreements (EPAs), rather than to region-to-region trade deals.

Three recommendations can be considered:

1. First, differentiation in other regions offers lessons in flexibility, providing models of how flexible frameworks can be created while respecting national economic needs.
2. The EU can offer its own expertise to other regions in order to apply differentiation in fields beyond the economy, including security or political cooperation, in cases where non-homogeneous and flexible cooperation can contribute to deepening regional integration.
3. Third, in light of one of the core drivers of differentiation in the three cases analysed, namely the different levels in development, the EU should continue to seek to contribute to the closing of the development gap in other regions, in order to facilitate opportunities for region-to-region interaction.

Introduction

This policy paper takes a comparative approach in order to explore how diverse modes of differentiation occur in regions beyond Europe. From the perspective of comparative regionalism, the paper examines how the practice of differentiation facilitates flexibility and accommodates diversity in regional cooperation processes in Asia, Africa and Latin America. Examining the Association of Southeast Asian Nations (ASEAN), the Economic Community of West African States (ECOWAS) and the Southern Common Market (*Mercado Común del Sur*, MERCOSUR), the paper analyses how differentiation is applied in these regional organisations and how it ties in with primarily trade integration.

As argued by Su (2007: 56) and Warleigh-Lack (2015: 876), differentiation includes three main types: multi-speed, in which member states pursue the same collective objectives but at different times; concentric circles, also referred to as variable geometry, consisting of various tiers of member states organised around a “hard nucleus”, and deriving from member states’ long-term inability to implement a policy; and *à la carte* differentiation, which offers member states the choice not to participate, regardless of capacity, resulting in policy regimes with different memberships. It is clear that applying categories such as these, developed in the EU, to other organisations is a challenge, not in the least because the three cases analysed here are intergovernmental, rather than supranational, organisations. This paper therefore focuses on political rather than institutional or legal practices, and on pragmatic approaches to managing heterogeneity. “Differentiated integration” in these cases thus applies primarily to regional intergovernmental cooperation.

Three regional organisations from the Global South were chosen as cases for comparison. ASEAN, ECOWAS and MERCOSUR seek to establish free trade areas, and each represents the most complex and advanced system of integration and coordination in its respective region,¹ allowing for a limited comparison with the EU. In addition, they all centre on trade integration, which facilitates comparison between them. How does differentiation occur in these regional organisations? Is it true that differentiation should be seen as a “neutral and to-be-anticipated” feature of regional integration, as well as “an enduring, and possibly permanent” one (Warleigh-Lack 2015: 872)? Does it accommodate wide discrepancies in economic development or diversity of national interests (Su 2007, Leuffen 2013, Aimsiranun 2020)? Does it lead to fragmentation, or does it facilitate flexibility? Finally, what role does differentiation play in relations with the external world? After briefly surveying the three organisations, this policy paper addresses these questions by providing an overview of practices of differentiated cooperation, drawing comparative conclusions, and offering policy recommendations for the EU.

1 The cases of MERCOSUR and ASEAN are clear in this regard. The selection of ECOWAS rather than the African Union is based on the fact that the latter’s Continental Free Trade Area project is far from being a reality, and it is ECOWAS that has made the most progress along this path on the African continent.

1. ASEAN, ECOWAS and MERCOSUR: The background

Needless to say, the three regional organisations in the Global South are very different from each other and from the EU in terms of membership, history, size, GDP, trade, debt and stages of integration (cf. Table 1).

Table 1 | ASEAN, ECOWAS, MERCOSUR and the EU at a glance

	ASEAN	ECOWAS	MERCOSUR	EU
<i>Member states</i>	Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam	Benin, Burkina Faso, Cabo Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo	Argentina, Brazil, Paraguay, Uruguay Suspended: Venezuela In ratification: Bolivia	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Rep., Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden
<i>Year of creation</i>	1967	1975	1991	1957
<i>Population (million people)</i>	649.6	376.8	304.8	514.7
<i>Combined GDP (million US dollars)</i>	2,955	615	2,627.5	18,417.4
<i>GDP per capita (US dollars)</i>	4,549	1,632	8,622	35,781
<i>Total merchandise trade 2018 (billion US dollars)</i>	2,882.9	206.2	638.8	12,959.6
<i>Total trade in commercial services, 2018 (billion US dollars)</i>	773.5	69.1	153.8	4,678.1
<i>Debt (% of GDP)</i>	45.92	36.59	84.68	80.75
<i>Level of integration</i>	Regional organisation; political, economic, social communities	Regional political and economic union; partly customs and currency union	Imperfect FTA and a future customs union; social and economic policies	Political and economic union; single market and customs union

Sources: WTO (2019); Countryeconomy website: *Country Groupings*, <https://countryeconomy.com/countries/groups>.

ASEAN is occasionally called the world's second most successful regional organisation after the EU, with a combined GDP of approximately 3 trillion US dollars in 2018. Indonesia, Malaysia, the Philippines, Singapore and Thailand created ASEAN in 1967, in the first place as a display of solidarity against communist expansion in Vietnam and internal communist insurgencies. Brunei joined the association in 1984. After the end of the Cold War, Vietnam, Myanmar, Laos and Cambodia became members in the 1990s, and ASEAN's focus shifted towards economic development. Almost fifty years after its creation, at the very end of 2015, ASEAN officially launched the ASEAN Community, consisting of an Economic, a Political-Security and a Socio-Cultural Community. Currently the ASEAN Economic Community is the most advanced, underscoring the fact that trade and economy are at the heart of the organisation. A prime goal of the ASEAN Economic Community is to complete a single market and production base including free movement of goods, services, investment and capital.

ECOWAS has 15 members and represents the most complex and developed regional organisation on the African continent. ECOWAS was founded by the Treaty of Lagos in 1975 with the aim to create a single, large trading bloc. The treaty was, therefore, originally plugged as an economic initiative, but emerging political events led to its revision and therewith the expansion of scope and powers in 1993, also including peace and security. Since then, the organisation has developed institutions to promote key principles of political governance and human rights, as well as a legal basis for conflict-related measures (Aggad and Miyandazi 2017). Today, with a GDP of 615 million US dollars, more than half of which is contributed by Nigeria, integrated economic activities cover industry, transport, telecommunications, energy, agriculture, natural resources, commerce, monetary and financial issues, and social as well as cultural matters. ECOWAS comprises ramified institutions and specialised agencies covering all the aforementioned areas.

MERCOSUR was created in 1991 seeking export-led growth. It promoted a liberalisation process to make economies more flexible and better inserted in the interconnected world economy. This model, inspired by the "Washington Consensus", prioritised trade openness, deregulation and privatisation of the Latin American and the Caribbean economies (Bouzas 2009). Regional integration was understood as a tool to improve international competitiveness and increase bargaining power in international negotiations (Sanahuja 2010). The creation of MERCOSUR was the result of a bilateral initiative led by Brazil and Argentina, and joined by Uruguay and Paraguay. At the beginning of the 21st century, Mercosur extended integration to fields beyond trade. New institutions were created to incorporate cooperation mechanisms on issues such as security, agriculture, health or human rights (Ayuso and Caballero 2018). The process of economic integration has not developed into a genuine customs union. At present, MERCOSUR remains an imperfect Free Trade Area (FTA) with significant asymmetries among its members.

2. Differentiation in ASEAN

Flexibility is part and parcel of the ASEAN integration process. ASEAN is highly heterogeneous and displays an astounding diversity in terms of geography, ethnicities, languages, religions, and historical and political trajectories. In terms of economic development, ASEAN has been a two-tier association ever since Cambodia, Laos, Myanmar and Vietnam (CLMV) joined the ASEAN-6 in the 1990s. Whereas the CLMV countries mainly aim to foster development, the ASEAN-6 are more concerned with international competitiveness (Portela 2017: 356).

2.1 Forms of differentiation

ASEAN has aimed to address the development gap, as well as different levels of preparedness and comfort in opening up markets, by implementing differentiation, first and foremost through a multi-speed mechanism. Indeed, this has been an institutionalised feature of ASEAN since the 1992 Framework Agreement on Enhancing ASEAN Economic Cooperation, which stipulates that “All Member States shall participate in intra ASEAN economic arrangements. However, in the implementation of these economic arrangements, two or more Member States may proceed first if other Member States are not ready to implement these arrangements” (ASEAN 1992). Driven by Malaysia, the formula was named the “10 minus X principle” in 2002 in the context of service sector liberalisation, and subsequently branded the “ASEAN Minus X formula” (ASEAN Secretariat 2007b). The principle became enshrined in the ASEAN Charter (ASEAN Secretariat 2007a: 23): “In the implementation of economic commitments, a formula for flexible participation, including the ASEAN Minus X formula, may be applied where there is a consensus to do so”. In other words, a member state can choose to opt out of an economic scheme in which it is not ready yet to participate, even though it has cooperated in negotiating and approving the scheme.

Examples of implementation contributing to progress in trade integration abound. The CLMV received differential treatment in the process to reduce intra-regional tariffs through the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area.² Multi-speed was a key element in the “Protocol to Amend the ASEAN Framework Agreement on Services” in 2003, as well as in the implementation of the ASEAN Single Aviation Market, endorsed in 2011.

Formulas such as ASEAN Minus X accommodate the “ASEAN Way”, i.e., a strong emphasis on national sovereignty and non-intervention in the affairs of member countries. ASEAN today remains a loose and weakly institutionalised alliance, relying on intergovernmentalism and consensus, necessitating flexibility and pragmatism (Gaens and Ruohomäki 2018). Differentiation is, therefore, a normal element of ASEAN integration, accommodating ASEAN’s diversity as well as its focus on intergovernmentalism. It encourages inclusion, as it allows for progress in regional

² Vietnam had until 2006 to bring down the tariffs on designated products to no more than 5 per cent duties, Laos and Myanmar until 2008 and Cambodia until 2010.

cooperation by bringing the lesser-developed countries on board.

However, as argued by Portela (2017: 355), ASEAN member states have often resorted to the negotiation of bilateral agreements, rather than applying the ASEAN Minus X formula. This practice is enshrined in the “Two Plus X” formula, allowing for two or more ASEAN members to work out economic agreements without including others, constituting a *de facto à la carte* method. The Singapore-Thailand Enhanced Economic Relationship framework, established in 2003, is an example. As both countries felt frustrated with the lack of progress in the ASEAN Free Trade Area, they concluded a bilateral agreement aiming to pioneer integration through a “pathfinding” approach. Whereas “ASEAN Minus X” is based on consensus and accommodates weaker members in the integration process, “Two Plus X” allows for stronger pairs or subsets to surge ahead of others (Dent 2008: 106-107). Differentiation can, therefore, also undermine the community-building process by creating an “elite” tier and furthermore exacerbate development asymmetries already in place (Dent 2008: 108). As shown by Cuyvers (2019), differentiation has indeed done little to reduce the development gap. Furthermore, opt-out formulas can incapacitate an organisation. The ASEAN Agreement on Transboundary Haze Pollution was agreed upon based on the ASEAN Minus X formula, and only a minimum of ratifications was necessary. However, Indonesia, the key country in the generation of haze, opted out and failed to ratify the agreement, rendering it ultimately irrelevant (Portela 2017: 356-357).

2.2 The (inter)regional level

Concentric circles as a form of differentiation are key to ASEAN's regional and interregional relations. The bloc has managed to play a leading role in the economic and security-related architecture of the Asia-Pacific region. Regional institutions such as ASEAN+3, ASEAN+6, the East Asia Summit and the ASEAN Regional Forum are all regional institutions in which ASEAN has been able to place itself in the driver's seat, as aptly expressed in the concept of ASEAN centrality. ASEAN's emphasis on sovereignty and non-intervention have enabled it to take the lead in regional multilateral initiatives, important especially in the light of the existing distrust between the major powers in the region.

On the other hand, flexible engagement can result in divergent agendas and different levels of engagement, which can affect relations with external actors and lead to possible centrifugal dynamics. The ASEAN Master Plan on Connectivity 2025, for example, takes into account differentiated responsibilities and competencies of ASEAN member states. The lack of supranational institutions leads to increased competition between ASEAN member states as well as between external powers such as China, Japan, India and the US over external resources from bilateral as well as multilateral development partners (Müller 2018: 6). This results in mismatches in objectives and a lack of complementarity between projects at the regional and national levels (Müller 2018: 13).

Lastly, it is clear that differentiation can have a negative impact at the interregional level. Talks on an EU–ASEAN bi-regional trade pact started in 2007 but were

discontinued in 2009, partly due to the wide heterogeneity of ASEAN countries. Since then negotiations have continued on the bilateral basis, resulting in FTAs with Singapore (2012) and Vietnam (2015), and ongoing negotiations with other countries including Indonesia. The implementation of FTAs in ASEAN takes place on a national basis, again due to the lack of a regional institution with a strong mandate.

3. Differentiation in ECOWAS

ECOWAS is made up of different, coexisting organisations, even if this mechanism was initially not planned. According to several indicators, Nigeria represents the most relevant country in the region and plays a strong influential role in all regional processes. ECOWAS also represents a key component of the African Union (AU) and is fundamental to the implementation of several of the AU's multisectoral policies in West Africa.

3.1 Forms of differentiation

The coexistence of different organisations can be seen as a form of differentiation in ECOWAS. In the economic, financial and monetary areas, ECOWAS includes two sub-regional blocs that influence other sectors, such as freedom of movement and peace processes. The first bloc is the West African Economic and Monetary Union (UEMOA is the commonly used French acronym) composed of eight states,³ mainly French-speaking as a second language. The second group is the West African Monetary Zone (WAMZ) composed of six countries,⁴ mainly English-speaking as a second language. UEMOA was established in 1994 and intended to counterbalance the dominance of English-speaking economies in ECOWAS, whereas WAMZ was created in 2000. The two blocks have different currencies: UEMOA has adopted the CFA franc, which is pegged to the euro, while the WAMZ area has different national currencies. It should be noted that Cabo Verde is affiliated only to ECOWAS and not to one of these two sub-blocs.

These internal divisions are particularly interesting for differentiation because some areas are fully at the ECOWAS level such as freedom of movement, materially represented by the ECOWAS passport, or peace and security, while monetary and financial sectors are sub-organised. This particular mechanism of differentiated cooperation facilitates flexibility and accommodates a certain degree of diversity with a view to further future integration. It can be considered a singular form of variable geometry, supporting coexistence as well as contributing to the final goal of a common ECOWAS currency.

The practice seems influenceable by external factors, however, as shown in the case of the current creation of the ECO currency. Due to criticism of the CFA as a relic

3 Benin, Burkina Faso, Guinea-Bissau, Ivory Coast, Mali, Niger, Senegal and Togo.

4 The Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone.

from colonial times, UEMOA agreed with France in December 2019 to switch its CFA franc to the ECO and cut some of the financial links with Paris that have underpinned the region's common currency since its creation in 1945.⁵ The deal foresees that the ECO will remain pegged to the euro but the African countries in the bloc are no longer obliged to keep 50 per cent of their reserves in the French Treasury, and there will no longer be a French representative on the currency union's board (Aboa 2019). The creation of a local currency has been discussed in West Africa – amidst the tension between stability and monetary ownership – for decades (Bakoup and Ndoye 2016). However, the announcement of the ECO arrived rather quickly, taking the WAMZ countries by surprise. They condemned UEMOA's decision as “unilateral”, without a proper discussion in the ECOWAS framework. In fact, the “anglophone” countries, and Nigeria in particular, wanted to adopt the new currency on a slower timetable and as a new currency for the whole region, as agreed in principle within the ECOWAS bloc in June 2019. In February 2020, the Nigerian president asked to postpone the ECO because “the convergence criteria (between states) have not been met by the majority of countries” (M'Bida 2020).

This debate on the new West African currency represents a clear litmus test for differentiation within ECOWAS to avoid centrifugal effects. Paris acted as a spoiler trying to anticipate ECOWAS convergence on a new currency in order to appear as a reformer and to maintain financial control in the region (Ibrahim 2019, Manboah-Rockson 2020). In this framework, it is possible to observe that differentiation can represent flexibility to accommodate diversity, but external factors can shake this equilibrium. Some analysts consider it a key factor that will lead to failure (Cleverly 2020). Regional organisations and central banks have been working to overcome these obstacles, but the problem seems more political than technical (ECOWAS 2019).⁶

3.2 The (inter)regional level

This differentiated internal organisation does not affect the role that ECOWAS plays at the regional level as a key component of the AU in West Africa. In order to rationalise the African regional economic communities (RECs) “spaghetti bowl” (Byiers 2019), relations between the AU and the sub-regions of the continent are regulated on the basis of eight recognised RECs, which must be the cornerstones of the process of continental integration towards an African Economic Community. The new West African currency is part of a path of continental integration seeking to create an African Continental Free Trade Area (AfCFTA). The commercial liberalisation project is based on five instruments that were adopted at the extraordinary Niamey summit in July 2019. This summit marked the opening of the operational phase of the AfCFTA with ratification already taking place in 28 African countries, while another 27 have signed the agreements without ratifying them. Only Eritrea does not participate in

5 Notably, the CFA is used in 14 African countries, divided between the West African CFA franc region and the Central African CFA franc region. The changes described in this section concern only the West African countries.

6 The West African Monetary Agency and the West African Monetary Institute could be involved in facilitating the process.

this process.

The RECs are formally recognised as building blocks for the AfCFTA. ECOWAS will continue to apply its regional trade regimes for intra-regional trade as envisaged by the agreement for RECs that have already achieved deeper integration. Furthermore, the ECOWAS common external tariff provided the basis for ECOWAS member states' tariff negotiations under the AfCFTA. In addition, the ECOWAS Commission supported its member states and was pivotal in coordinating their positions during the negotiations (Bisong 2020).

At the interregional level, ECOWAS's strongest relations are probably with the EU. The two regional organisations cooperate on political and security matters, conflict prevention, development cooperation, regional integration and trade. ECOWAS and the EU meet once a year at the ministerial level and twice a year at the senior officials level, discussing common areas of interest including peace and security. This interregional cooperation is not directly connected to EU–AU relations. Certainly the AU works with its eight recognised RECs, and part of the cooperation, as well as support provided by the EU to the AU, is implemented by ECOWAS and other regional organisations. However, the EU also has direct relations with ECOWAS. For example, the EU and the West African region have negotiated and agreed a controversial Economic Partnership Agreement (EPA). EU–ECOWAS cooperation in the economic field has gained momentum in recent years, whereas earlier the EU was aiming for EPAs with individual African countries. Yet, this fragmented approach was widely criticised by African countries and civil society organisations because it was creating divisions within areas with trade agreements in place, such as ECOWAS. As a consequence, it resulted in very few EPAs.

In sum, this glance at differentiation in West Africa shows that it is a consolidated mechanism, more in terms of integration between complementary – and sometimes overlapping – organisations. This mechanism certainly tackles heterogeneity and preserves state sovereignty. Yet, external powers can act as spoilers, as illustrated by the role of France in the ECO currency case.

4. Differentiation in MERCOSUR

The disparities in size, potential and level of development between the member countries of MERCOSUR are determining factors in the evolution of the process. Differentiation in MERCOSUR is linked to the debate on the treatment of asymmetries, but its development has been very limited, and a clear pattern of differentiated cooperation applied in a systematic way cannot be discerned. However, a set of measures for a pragmatic adaptation to problems arising in the negotiations seem to be present. They are mainly designed to address the demands of countries that fear to be affected negatively by certain politics or norms. On the other hand, we find bilateral dynamics between Brazil and Argentina that aim to have a tracking effect in other members and that generate fragmentation, hindering relations with third states.

4.1 Forms of differentiation

The Asuncion Treaty establishing MERCOSUR included a differentiated treatment only very partially. Given that MERCOSUR was established as a Free Trade Area and a future customs union project, the few instruments for differentiated integration contemplated in the constitutive treaty focused on tariff issues. But as the organisation expanded its area of action, new flexibility instruments and variable geometry cooperation schemes were introduced.

The initial Trade Liberalization Program established multi-speed liberalisation and granted longer terms for tariff dismantling as well as a greater number of products that included exceptions for Uruguay and Paraguay. In fact, this was a compensation as the adopted Common External Tariff took the more protectionist Brazil tariffs as reference (Bouzas and Da Motta Veiga 2008). Initially it was conceived as a temporary mechanism until the playing field was levelled, but it persisted as a permanent feature due the asymmetric dynamics of the integration process. For example, recent progress in different intra-zone non-tariff instruments was only possible after the introduction of more flexible schemes in the application of the commitments assumed (Rozemberg et al. 2019). This is the case for the agreement regarding public purchases, which came about following commitments between Argentina, Brazil and Uruguay, while Paraguay postponed the concessions.

In the case of mechanisms for the equitable use of trade liberalisation, other measures can be characterised as *à la carte* differentiation. In 2003 it was agreed to apply 50 per cent in the rules of origin for Paraguay (to claim origin) instead of 60 per cent as for the other members. Paraguay and Uruguay were also authorised to import agricultural inputs from third states free of tariffs. In 2003, new exceptions to the Common External Tariff were granted to Paraguay and Uruguay, and a special treatment was agreed for Paraguay in negotiations with third states. Nevertheless, Brazil and Argentina have also often used exceptions and safeguard measures, especially during periods of economic and financial crisis. Furthermore, goods non-originated in MERCOSUR that enter in the territory of one state member and are to be exported to another without compliance with the rules of origin, are subject to double taxation. This increases the costs of trade within the bloc and undermines the development of regional value chains.

To respond to one of the main demands of the smaller countries to establish solidarity mechanisms in order to address development disparities, the Structural Convergence Fund was created in 2005. The Fund aims to finance development projects to reduce asymmetries between MERCOSUR member countries and increase the competitiveness of the economies as an instrument to promote integration and social cohesion. It was established that its financing corresponds to 70 per cent for Brazil, 27 for Argentina, 2 for Uruguay and 1 for Paraguay. On the other hand, the beneficiary ratio was established as 48 per cent for Paraguay, 32 for Uruguay, 10 for Argentina and 10 for Brazil. This is an example of a differentiated redistributive instrument. But we also find the practice in decision-making on regulatory norms. The

new regulations for the adoption of common technical regulations allow a member to proceed unilaterally in the absence of consensus. This differentiated treatment can be seen as a compensation measure that attempts to satisfy the countries that have benefited least from the integration process. It is, therefore, a measure seeking to consolidate the bloc.

Also the formula of concentric circles can be detected in the economic field. For example, Brazil and Argentina established a bilateral system of local currency payments in 2008. In 2014, a similar agreement was signed between Brazil and Uruguay and a year later between Argentina and Uruguay. Another example is the agreement on double taxation for trade in services signed between Argentina and Brazil that entered into force in 2019, followed by an agreement between Uruguay and Brazil adopted in the same year. This can be considered as part of the pull factor of Brazil–Argentina bilateralism, which the minor partners end up joining.

Lastly, MERCOSUR places a strong emphasis on intergovernmentalism, and rejects any kind of sovereignty transfer to the organisation. All important decisions are based on consensus among the member states, and differentiation helps to accommodate this. However, it is also seen as a rebalancing mechanism for smaller countries to defend their interests against regional powers (Ayuso and Caballero 2018).

4.2 The (inter)regional level

Beyond MERCOSUR there is a logic of concentric circles between different organisations and Latin American countries under the umbrella of the Latin American Integration Association. This allows MERCOSUR member states to have agreements with other neighbouring countries, including Bolivia with whom there is an accession treaty that has not yet been ratified. This is part of the Latin American spaghetti bowl that, although it offers a legal framework for exchanges, is intricate and fragmented. Another example is the attempt to converge MERCOSUR and the Pacific Alliance (integrated by Chile, Colombia, Mexico and Peru), seeking a liberalisation process at various speeds. This, however, has been questioned due to political changes in Argentina and Mexico.

At the interregional level, the EU has always assisted MERCOSUR as part of its support strategy for regional integration schemes elsewhere in the world, and by 1992 had signed an agreement to supply the newly formed South American bloc with technical assistance. Europe tried to distance itself from a purely commercial approach and promoted a regulatory role incorporating three dimensions: political, through multilevel dialogues; economic, including trade and investment; and development cooperation, incorporating social policies at multiple levels. Thus, the EU–MERCOSUR relationship is structured in three concentric circles: political dialogue at the interregional level through the Community of Latin American and Caribbean States; at the sub-regional level through the recently renewed EU–MERCOSUR agreement; and at the bilateral level with each MERCOSUR member, including, not least importantly, the EU–Brazil Strategic Partnership. This format reveals the asymmetry that exists between the regions in terms of material competences and institutional capacities, but also

attests to the asymmetries within MERCOSUR.

In June 2019 MERCOSUR and the EU achieved a basic understanding after 20 years of negotiations. To prevent interregional asymmetries, the agreement establishes a multi-speed and differentiated liberalisation with exemptions concentrating on sensitive products. However, to take advantage of the agreement, MERCOSUR is required to overcome obstacles that have limited the performance of intra-zone trade. The agreement with the EU offers MERCOSUR the opportunity to improve the performance of the internal market to become a real customs union or at least a true FTA.

To prevent the agreement from being blocked by one single country, the MERCOSUR summit of July 2019 decided that the agreement will enter into force provisionally on a bilateral basis before respective ratifications in each country. This shift towards bilateral relations represents a potential threat. If MERCOSUR does not improve its internal trade performance, the agreement with the EU will tend to deepen asymmetries that have traditionally favoured the larger economies.

5. Comparative analysis and policy recommendations

A first important observation is that usefully comparing three regional organisations from Asia, Africa and Latin America, and conducting a comparison with the EU, is highly challenging and, by definition, limited in view of the vast internal as well as external discrepancies. Nevertheless, a number of observations can be made.

First, it is clear that differentiation is a key element in tackling heterogeneity, i.e., the higher the heterogeneity between members, the higher the likelihood of differentiation (cf. Leuffen 2013: 21). All three organisations show a wide internal diversity in terms of size, economic development, GDP per capita and Human Development Index (cf. Table 2), and the same can be said about the EU. Differentiation has been seen as a key element in addressing the development gap, one particular component of diversity, since, at least in theory, it has the potential to increase solidarity and have a redistributive effect. Furthermore, in intergovernmental organisations largely based on consensus decision-making, once agreed upon, it facilitates economic integration processes, even if progress is quite unequal among member states. Leader–follower dynamics can serve as a pull factor, boosting cooperation. Forms of variable geometry, including the creation of different coexisting organisations, facilitate flexibility and accommodate diversity with a view to further future integration. Differentiated cooperation can thus feed centripetal dynamics.

Table 2 | Indicators of diversity in ASEAN, ECOWAS, MERCOSUR and the EU

	ASEAN	ECOWAS	MERCOSUR	EU
<i>Intra-regional trade (per cent of total)</i>	24	10	13	64
<i>Population highest vs. lowest</i>	264,162,000 vs. 442,000	195,874,740 vs. 543,767	209,469,333 vs. 3,449,299	83,166,711 vs. 514,564
<i>GDP per capita highest vs. lowest</i>	65,977 vs. 1,279	3,639 vs. 414	17,294 vs. 3,410	113,569 vs. 9,771
<i>Human Development Index (global rank, lowest vs. highest)</i>	9 vs. 146	142 vs. 189	48 vs. 98	4 vs. 52

Sources: UNDP website: *2019 Human Development Index Ranking*, <http://hdr.undp.org/en/node/3121>; Countryeconomy website: *Country Groupings*, cit.

Second, and similar to the EU, differentiation has provided for flexibility towards member states that do not feel ready for or comfortable with deeper integration. Larger and economically stronger countries have often driven the integration process forward, while granting the lesser-developed ones differentiated treatment, in particular through the multi-speed mechanism. Differentiation can therefore function as a defensive component on the part of the weaker states, as it shields them from being negatively affected by certain policies or norms.

Third, as shown by Leuffen et al. (2012: 1), differentiation across policies (vertical differentiation) as well as varied territorial extension (horizontal differentiation) have only increased with the EU's widening as well as deepening integration process. In the three regions from the Global South as well, differentiation is a normal element in integration. In ASEAN the practice was present from the outset, to the point that practice even preceded principle, or as argued by Portela (2017: 356), "flexibility provisions codify existing practice, in sharp contrast to the European case". In ECOWAS the coexistence of different organisations was initially not planned, but resulted from political pressures. In MERCOSUR differentiation was initially conceived as a temporary measure but turned into a permanent feature.

Fourth, unlike the EU, the other three organisations refute strong supranational institutions as a result of an emphasis on the nation state, colonial history or the interference these states suffered as developing countries. Instead, all three organisations place a high emphasis on consensus decision-making. Differentiation is, therefore, used as a tool to avoid potential paralysis following the need for consensus, and to allow for progress in integration. In fact, differentiation has facilitated "coalitions of the willing", issue-based leadership or pathfinder groups: members are allowed to proceed unilaterally, bilaterally or in smaller groups in the absence of consensus. This shows that practices congruous to "multi-speed Europe" or "variable geometry Europe" are highly common in regions beyond the EU. Concentric circles, for example, play a key role in economic liberalisation policies, as well as at the interregional level.

Fifth, it is clear that differentiation can also have a centrifugal effect and lead to fragmentation. It can create an elite tier, undermine the community feeling and favour

stronger countries that can use exemptions and safeguard measures to further their national interest and impose their agenda. In all three regions, differentiation has allowed for progress in trade liberalisation, but in practice does little to reduce the development gap, sustaining fragmentation. *À la carte* and opt-out formulas, in particular, allow subsets to surge ahead, but at the same time can exacerbate development asymmetries already in place and render agreements irrelevant. Fragmentation can also occur in terms of external relations. It can increase competition for resources among external actors, and the involvement of the latter can result in intra-organisational cleavages. Furthermore, differentiation can result in bilateral, rather than region-to-region FTA negotiations with other actors such as the EU. In particular in view of the low level of intra-regional trade, a bilateral and fragmented approach to EPAs and different treatments for different member states can deepen asymmetries that favour larger economies.

A number of cautious policy recommendations can be drawn from this comparative analysis of differentiation. First, differentiation in other regions offers lessons in flexibility, i.e., it should be seen as normal. Flexible approaches to liberalisation in trade or services can provide examples for the EU of how liberalisation can be promoted while respecting national economic needs.

Second, the EU can offer its own expertise to other regions in order to apply differentiation in other fields, including security-related or political fields, in cases where flexible, non-homogeneous cooperation has contributed to stimulating and deepening regional integration.

Third, in light of one of the core drivers of differentiation in the three cases analysed, namely the different levels in development, the EU should continue aiming to contribute to reducing the development gap in other regions, in order to facilitate the opportunities for region-to-region interaction. Relatedly, the EU should seek economic agreements with regional organisations, while avoiding looking for divisive comprehensive agreements with single countries. The EU should therefore give preference to interregional agreements with regional organisations over bilateral agreements, but if this is not possible, it should avoid these agreements creating greater asymmetries between the members of a regional body. Through agreements with the different regions, the EU can contribute to consolidating convergent regulatory instruments that strengthen the multilateral system, but that also incorporate the differences between regions and countries in line with differentiated treatment.

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EU Integration and Differentiation
for Effectiveness and Accountability

Differentiation has become the new normal in the European Union (EU) and one of the most crucial matters in defining its future. A certain degree of differentiation has always been part of the European integration project since its early days. The Eurozone and the Schengen area have further consolidated this trend into long-term projects of differentiated integration among EU Member States.

A number of unprecedented internal and external challenges to the EU, however, including the financial and economic crisis, the migration phenomenon, renewed geopolitical tensions and Brexit, have reinforced today the belief that **more flexibility is needed within the complex EU machinery**. A Permanent Structured Cooperation, for example, has been launched in the field of defence, enabling groups of willing and able Member States to join forces through new, flexible arrangements. Differentiation could offer a way forward also in many other key policy fields within the Union, where uniformity is undesirable or unattainable, as well as in the design of EU external action within an increasingly unstable global environment, offering manifold models of cooperation between the EU and candidate countries, potential accession countries and associated third countries.

EU IDEA's key goal is to address **whether, how much and what form of differentiation is not only compatible with, but is also conducive to a more effective, cohesive and democratic EU**. The basic claim of the project is that differentiation is not only necessary to address current challenges more effectively, by making the Union more resilient and responsive to citizens. Differentiation is also desirable as long as such flexibility is compatible with the core principles of the EU's constitutionalism and identity, sustainable in terms of governance, and acceptable to EU citizens, Member States and affected third partners.



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