

# THE POLITICAL ECONOMY OF ASIAN REGIONALISM

*John Ravenhill  
Australian National University  
December 2009*

This paper explores the dynamics of Asia's regional economic institutions to assess what potential they offer for further institutionalization of regional cooperation. To do so requires an examination of the factors that have driven regional cooperation in Asia in recent years as well as the characteristics/effects of existing institutions. I begin by briefly examining the experience of APEC. I then turn to the Preferential Trade Agreements that have proliferated in the region in the years since the financial crises of 1997-98, arguing that they have been driven primarily by a "political domino" effect. A brief section looks at the experience of financial cooperation. I conclude by drawing lessons for the future institutionalization of regional cooperation in Asia.

## **From Open to Discriminatory Regionalism**

One of the truisms about regional integration in Asia before the mid-1990s was that it was "market-driven" (Drysdale 1988). Unlike other parts of the developing world, where the landscape was littered with the wrecks of failed regional cooperation schemes that had rarely enjoyed any tangible success, Asia—with the notable exception of the members of the Association of Southeast Asian Nations—largely eschewed institutionalized cooperation on a regional basis either in trade or in finance.

Emphasis on the market-driven character of Asian economic integration can, however, lead observers to overlook the important role that governments played in facilitating processes of economic enmeshment that caused the region to sustain the world's highest rates of economic growth over four decades. Governments supported the construction and extension of transnational production networks through the unilateral actions they took to facilitate the movement of components across the region. Export-processing zones and various forms of duty-drawback arrangements were a principal instrument (Warr 1989). Unilateral reduction of tariff rates, which proceeded apace across the region from the early 1980s, similarly played an important role in facilitating the construction of what Richard Baldwin (2007) has termed "Factory Asia".

Governments took these unilateral actions in an effort to encourage foreign direct investment, seeking the opportunities it afforded to increase exports of manufactures. They stepped up their efforts in response to the downturn in commodity prices in the early 1980s. Simultaneously, their moves were encouraged by an informal regional grouping, the Pacific Economic Cooperation Council [PECC], which brought together representatives of the academic world, business, and governments (officials acting in a private capacity).<sup>1</sup>

---

<sup>1</sup>An official history of PECC appears on the organization's website at <http://www.pecc.org/about-us/about-us>

The Asia-Pacific Economic Cooperation [APEC] grouping was a logical extension of the work of PECC, embracing its core objectives and the means to realize them, but the process was now formalized as an inter-governmental forum. APEC, in its early years, maintained the emphasis on trade and investment liberalization that would be both unilateral and non-discriminatory ["open regionalism"] in its approach (Aggarwal and Morrison 1998). APEC's principal institutional role was to provide reinforcement for those domestic groups that sought to promote trade liberalization: the belief was that, once-established, this preference would be "self-enforcing", there was no need for APEC to develop institutions for dispute resolution, etc. APEC's monitoring of the activities of member economies related primarily to the extent of their commitments rather than to their actual compliance with commitments made.

In its pronouncements, APEC gave priority to liberalization at the global level and, through its support of the Quad initiative for an Information Technology Agreement, helped to free the vast majority of trade in electronics, by far the single largest export sector in Asia. APEC's gradualist approach of encouraging unilateral measures, however, soon generated dissatisfaction from some members who believed that the pace and scope of liberalization were too modest; some of them also expressed concerns about the capacity of non-members to free ride on APEC members' liberalization efforts. With the low-hanging fruit susceptible to unilateral liberalization quickly harvested, further progress on reducing protectionism would require tackling entrenched domestic interests—and hence reverting to a process that featured both reciprocity and enforcement. The subsequent attempt in 1996-7 to impose a negotiated, more legalized, framework for the grouping's trade liberalization efforts ("Early Voluntary Sectoral Liberalization" [EVSL]) generated a schism within APEC from which it has never fully recovered (Ravenhill 2001; Wesley 2001; Krauss 2004).

Although overshadowed by the EVSL debacle, APEC's various working groups, comprising government officials, continued to do useful work on trade facilitation. At their Shanghai meeting in 2001, APEC leaders agreed to reduce transactions costs across the region by 5% in the following five years, to be achieved through a Trade Facilitation Action Plan. APEC supported adoption of the HS Convention for harmonization of tariff structures, and membership in the Kyoto Convention ("International Convention on the simplification and harmonization of Customs procedures"), the adoption of electronic procedures for lodgement of trade-related documents, customs clearance, payment of duties, etc., and the creation of an on-line tariff database. After the terrorist attacks of September 11, 2001, it actively promoted the securitization of trade (Ravenhill 2007b).

With the lowering of tariffs that has occurred worldwide over the last two decades, many trade economists argue that behind-the-border barriers today impose far more significant costs on traders than do tariffs (see the studies reviewed in Dee and Ferrantino (2005); Dee et al. (2008) also Elek (2003)). APEC, then, might reasonably be considered to be well-placed to continue useful work in facilitating supply chain management in the region. Similarly, the proliferation of discriminatory trade agreements in the region affords a role for APEC in promoting a "multilateralization" of arrangements. APEC is not of course a supranational institution so what it attempts to do is entirely in the hands of its member economies. In its two decades of existence, APEC's forward momentum has depended upon one or more governments providing the leadership to and investing the necessary resources for driving initiatives forward. APEC has suffered since the financial crises from relative neglect by its members—only sporadically, as with the Bush administration's post 9/11 initiative on improving

the security of movement of goods and people around the region, have they launched significant initiatives through APEC.

APEC has always suffered from the disjuncture between the high profile of its Leaders' Meetings (which have provided invaluable informal channels of communication at times when relations between some members have been tense), and the rather mundane character of its work program. Harmonization of standards and customs duties, however important for supply chain management, are not front page news. Proponents of APEC, moreover, have always had a problem in demonstrating exactly what impact it has had on its member economies' policies. It is impossible to disentangle APEC's "peer pressure", "socialization" and "informational exchange" effects from other influences on member governments' policies. APEC's website notes, for instance, that the average applied tariff of its member economies fell from 16.9%, when APEC was established in 1989, to 5.5% in 2004. But to what extent was this due to the implementation of countries' Uruguay Round commitments rather than to APEC's influence? Negotiation and implementation of measures at the WTO may, however, have been influenced by APEC's support for global liberalization—again, demonstrating the difficulty in attempting to isolate the "APEC effect". Meanwhile, the various internal assessments that APEC has conducted of its work program generally have not been persuasive because they have typically rested on an analysis of member economies' implementation of measures *relative* to their overall commitments rather than an evaluation of the commitments themselves: the less ambitious the commitments, the more impressive the record of implementation is likely to be (cf. for instance APEC (2004)).

What dynamics has the APEC process generated? What lessons are there for future institutionalization in the region? On the one hand, membership has remained an attractive option for states in the Asia-Pacific region broadly defined, expanding from its original 12 economies to the current 21, and limited less by geography than by a moratorium on new membership that will expire in 2010. Through its annual Leaders' Meetings, it has provided an important political forum, the only summit meeting that brings together leaders from both sides of the Pacific. It continues to make modest contributions to trade facilitation among its member economies. Yet, much of the dynamism of APEC's early years has disappeared. With only a modest secretariat, limited to playing nothing more than a support role [in other words, it enjoys no agency slack], APEC is entirely dependent on the initiatives that its member economies wish to pursue under its auspices. APEC's program for economic and technical assistance has depended entirely on the enthusiasm of member economies for sponsoring individual projects, an enthusiasm that has waxed and waned over the years, with a consequent absence of continuity or prioritization (Yamazawa 1997). Although APEC has continued to express support for trade liberalization through the WTO, it has been rare that members have been willing to go beyond rhetoric: the support that it gave that provided critical momentum for the ITA remains a rare exception. The principal cleavages that beset the WTO are reflected within APEC's own membership (and will be reinforced should India's aspirations for membership be realized when the moratorium on new members expires).

Over the years, various non-official review committees have provided detailed suggestions for how APEC's effectiveness might be improved—ranging from the reports of APEC's Eminent Persons Group in the 1990s (APEC 1993, 1994, 1995) to those of the APIAN network in APEC's second decade (APIAN (APEC International Assessment Network) 2000, 2001, 2002). PECC and APEC's own Business Advisory Council have also frequently made

contributions on how APEC might be moved forward. Proposals for reform focused on decision-making procedures (the need to move away from a lowest-common-denominator approach so that “pathfinders” could undertake initiatives even if they were not immediately of interest to all members); on prioritization of objectives (especially in the area of economic and technical cooperation); on finances—especially a call to provide a more secure financial footing for APEC’s various capacity-building exercises; and the need to strengthen the Secretariat to enable it to play a more effective role in coordinating and prioritizing activities.

Calls for the implementation of (generally very modest) proposals for institutional reform have been largely unheeded by APEC’s members in the last decade as they shifted the focus of their attention (and diplomatic resources) to other arenas. APEC essentially lost direction in 1998; there was nothing in its activities that generated a self-sustaining momentum let alone a process that led to a deepening of cooperation. APEC’s EVSL difficulties had stemmed from the potential domestic political costs that the negotiated liberalization would impose and the apparent belief on the part of many governments that these would outweigh any potential gains from the agreements. In their subsequent forum shopping, Asian governments have chosen arrangements that give them greater control over outcomes in an attempt to minimize domestic political costs (Pekkanen et al. 2007). Bilateral or minilateral preferential trade agreements have been the instrument of choice.

### **Asia’s New “Regionalism”**

The regional architecture of Asia has been transformed in the years since the financial crises of 1997-98. As late as 2000, the region had only one effective preferential trade agreement [PTA] in operation (the ASEAN Free Trade Agreement); by 2008 governments had concluded more than 40 PTAs and a similar number was under negotiation (for discussion of Asia’s new bilateralism see Aggarwal and Urata (2006)). From being a laggard in regional trade agreements, Asia has become the most active site globally for their negotiation.<sup>2</sup> Two pan-East Asian cooperative arrangements have come into existence—the ASEAN plus Three grouping, and the East Asia Summit [EAS]. In addition, governments in the region have engaged in unprecedented collaboration on monetary matters including the creation of a set of bilateral currency swap arrangements (the Chiang Mai Initiative [CMI]) and the promotion of domestic and regional bond markets through the Asian Bond Market Initiative and the Asian Bond Fund.

To what extent do the new Asian regional institutions provide a platform for deeper regional cooperation and for further institutionalization? What dynamics have the new institutions set in train? To address these questions, we need to consider first what forces have driven the new regionalism and, second, what its consequences have been for participants and non-participants alike.

---

<sup>2</sup>In this paper I use “regionalism” as shorthand for the negotiation of preferential trade agreements and for international cooperation on financial matters. This usage is consistent with the definition of regionalism provided by the Asian Development Bank (2008b: 1) as “any formal preferential trading arrangement between two or more countries”. “Regionalism” as used here is thus both broader and narrower than how the concept is frequently used in the literature of international relations. Broader because it lacks a specific geographical referent. Narrower because it focuses only on the economic dimensions of inter-state collaboration, and may only involve two participants. The absence of any geographical referent in the definition of regionalism is consistent with the usage by the World Trade Organization (2009): “RTAs [Regional Trade Agreements] may be agreements concluded between countries not necessarily belonging to the same geographical region”.

### *Has Increased Economic Interdependence Driven the New East Asian Regionalism?*

Arguments that increased economic interdependence has driven regionalism have a long pedigree. They rest on various strands of theoretical literature from economics including those pertaining to the securing of property rights and to the actions required to overcome transactions costs. Functionalist explanations for why governments demand and supply regional institutions continue to enjoy popularity (e.g., Mattli (1999)). The relevance of functionalist accounts of regionalism for Asia has long been questioned, however. There, the puzzle was to explain the absence of formal inter-governmental collaboration despite the substantial increase in economic interactions among states. Asia had experienced regionalization without regionalism. Haggard (1997: 45-6) provided one of the most sophisticated accounts: greater economic interdependence in the region, he suggested, simply had not created the collaboration and coordination problems that would have led to a demand for regional institutions (see also (Kahler 1995: 107; Solingen 2008: 288-89). Unilateral action by governments had largely removed obstacles to the development of region-wide supply chains.

Many commentators have suggested, however, that the financial crises of 1997-98 marked a critical juncture in regional collaboration in East Asia. The East Asian regional architecture, writes T.J. Pempel (2008: 164), “today is more complex, more institutionalized, and more Asian than it was when the crisis struck”. For some authors, this new regionalism has been driven by the imperative of responding to the challenges of increased interdependence: Munakata (2006b: 29) is typical of this reasoning in asserting that in contemporary East Asia “the intensity of economic interaction contributes substance and depth and thereby a basis for institutionalized intergovernmental cooperation, including preferential trade agreements”.

But has economic interdependence really increased in the years since the financial crisis? It all depends on how the “region” and “interdependence” are measured. If the region is defined as ASEAN Plus Three, that is, the ten member states of ASEAN plus China, Japan, and Korea, then the share of intra-regional trade in the ten economies’ total trade rose only from 37.6% in 1995 to 38.3% in 2006 (an increase so small that one might regard it as being within a statistical margin of error, and a final total figure that is substantially below the equivalent for NAFTA) [data from (Kawai and Wignaraja 2008: Table 1)].<sup>3</sup> Other studies that suggest that East Asia has a much higher share of intra-regional trade in total trade include trade between Hong Kong and China, which involves a substantial amount of “double counting”.<sup>4</sup>

To be sure, production networks and their associated trade within East Asia have been radically re-orientated in the years since the financial crisis. China’s rapid economic growth has seen it emerge as a major (frequently the single most important) export market for other East Asian economies (Ravenhill 2006). But, at the same time, China’s own export dependence on East Asian markets has declined dramatically—down from 53% in 1996 to 36% in 2007 (author’s calculations from IMF Directions of Trade data—if Hong Kong is excluded, the East Asian share in 2007 was only 20.7%). The consequence is that the dependence of East Asia as a whole on markets outside of the East Asian geographical region has changed little over the decade.

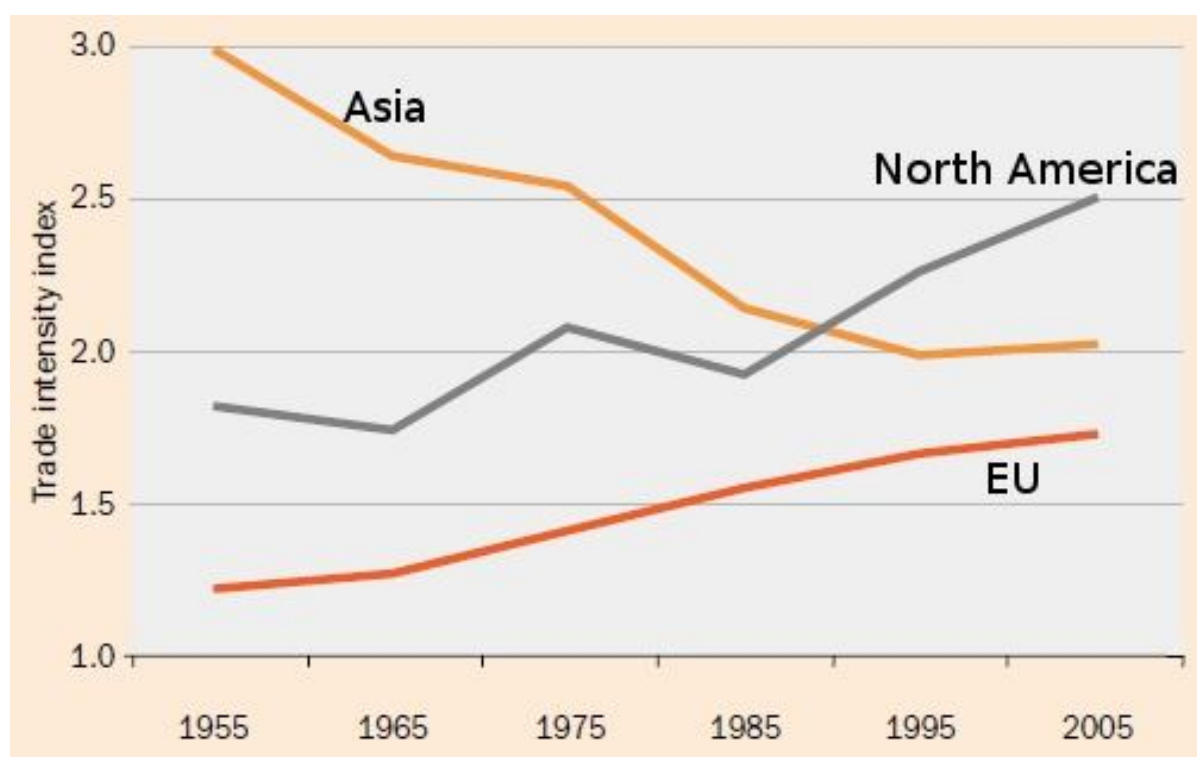
---

<sup>3</sup>For the broader EAS grouping, the figures were, respectively, 40.8% and 42.6%.

<sup>4</sup>For instance, Capanelli, Lee and Petri (2008).

Moreover, as has long been recognized, conclusions regarding the “bias” that economies have towards trading with one another that rest merely on the portion of trade with specific partners can be misleading if they are not adjusted for the changing share of the economies concerned in overall world trade (Frankel 1991; Lincoln 2004). Asian economies in the last two decades have grown far more rapidly than the world average, with a consequent increase in their overall shares in global GDP and trade. To avoid such distortions, the trade intensity index adjusts raw shares in trade for the changing share of the region in global commerce. When this adjustment is made (Figure One), one finds that the intra-regional trade intensity of Asia declines consistently from 1955 through 1995, at which point it stabilizes. In contrast, the equivalent indices for the European Union and North America trend upward throughout the period.

**Figure One: Intra-Regional Trade Intensity Indices**



**Source:** Asian Development Bank (2008a: Figure 2.6, p. 41), calculated from IMF *Directions of Trade* data.

The significance of markets within the East Asian geographical region for East Asian economies' exports is also over-stated in the unadjusted market share figures because of substantial double-counting arising from the trade in components across the region. Whereas under one half of East Asian exports in 2006 was shipped directly to European and North American markets, fully two-thirds of the value of total exports ultimately ended up in these markets once the parts and components content of exports was taken into account (Asian Development Bank 2008a: p.71); see also Athukorala (2009)). Substantial double-counting also arises because of Hong Kong and Singapore's role as entrepôts (both economies have ratios of exports to GDP in excess of 200 percent).

Can the hypothesis that increased interdependence among Asian economies has been

responsible for a growth in inter-governmental collaboration among these economies be “salvaged”? One could argue that the end of the decline in Asia's intra-regional trade index in the mid-1990s was sufficient to prompt a new interest in inter-governmental collaboration ... but this is hardly persuasive. Alternatively, one might suggest that a time lag occurred between when the raw shares of East Asian exports going to other East Asian economies increased (the key period was the decade after 1985 during which the figure for ASEAN Plus Three jumped from 30.2% to 37.6% (Kawai and Wignaraja 2008: Table 1)) and when governments became interested in negotiating new instruments for cooperation. Possibly. The increase in intra-East Asian trade was almost certainly necessary—if not sufficient—for the subsequent increase in inter-governmental collaboration to be launched. And commentators have frequently identified the financial crises of 1997-98 as a critical juncture that led to a new interest in regionalism. But the key question here is whether one can identify any additional costs arising from the increased trade integration that collective government action might conceivably have effectively addressed. This is far from easy to do.

As noted above, production networks across East Asia flourished because of the unilateral actions that governments had taken to support them by removing barriers to trade. In addition, all of the major Asian economies signed on to the WTO's Information Technology Agreement (1996), which provided for the removal of tariffs on most electronics products, by far the largest single category in Asian trade (the only EAS members that have not signed the ITA are Brunei, Burma, Cambodia, and Laos—Hong Kong and Taiwan are also signatories). More generally, tariffs have become of decreasing importance in trade involving Asian economies—by 2005 only three East Asian economies (Cambodia, Malaysia and Vietnam—no information was available for Burma) had average applied most-favored nation tariffs on manufactures that exceeded 10 percent (Asian Development Bank 2008a: Table 3.3 pp. 82-3). Against this, a critic could contend that the objective of recent PTAs has been to go beyond dealing with tariffs to address “WTO Plus” issues such as competition policy, intellectual property rights, investment etc. But, as argued later in this paper, only a handful of the agreements negotiated among East Asian countries tackle these issues.

An alternative argument might be that data on intra-regional trade are too blunt an instrument to capture a new deeper interdependence that has arisen among Asian economies. Inconveniently for such arguments, however, other data point to a similar lack of increase in economic interdependence within East Asia. Data for Japan, the largest source within East Asia of foreign direct investment, show that whereas this geographical region accounted on average for 40% of the country's outward FDI flows in the three years before the financial crisis, the average for the years 2005-2007 was less than 29% (author's calculations from data in (JETRO 2008). More broadly, ASEAN Plus Three countries accounted for less than one third of total ASEAN FDI inflows over the years 1995-2006; the percentage actually fell during the years after 2002. In Northeast Asia, the share of intra-regional FDI was much smaller (Hew et al. 2007). And intra-regional portfolio asset holding as a share of total assets held by East Asian states is smaller still—in 2006, under 8 percent of the total, in contrast to 37% derived from the United States (Kim and Lee 2008: Table 5).<sup>5</sup> A similar lack of interdependence is evident in the exchange rate field. Ogawa and Yoshimi (2008) demonstrate that East Asian currencies, rather than moving in alignment with a notional Asian Monetary Unit (a weighted basket of regional currencies) have increasingly deviated from this unit in terms of real exchange rates.

---

<sup>5</sup>For an alternative conclusion using earlier data see Capannelli et al. (2008).

Moreover, if concern over the increasing transaction costs from growing interdependence within Asia was the principal driving force behind the new enthusiasm for PTAs, then the expectation would be that these agreements would have been negotiated with countries' major Asian trading partners. To date, this has not happened, particularly for the larger economies of Northeast Asia. China's rapid economic growth has catapulted it to the position of top export market for several East Asian economies—including Japan, Korea and Taiwan. Yet the Japanese government has completely eschewed a PTA with China (rejecting a Chinese proposal in 2002), the Korean government has resisted Chinese overtures: negotiations (that Beijing rather than Seoul has repeatedly proposed) have not begun. Of the three Northeast Asian economic powers, only Taiwan has (recently) expressed interest in negotiating an agreement with China (this did not occur until February 2009 and the outcome is uncertain, the anticipated date for conclusion of an agreement having recently been put back). ASEAN did negotiate an agreement with China—but the initiative for this agreement, which took ASEAN leaders by surprise, came from China (for which ASEAN constitutes a tiny market, with observers attributing the initiative to political motives—see further discussion below). Meanwhile, neither of the Pan-East Asian groupings has gone beyond conducting feasibility studies of “region”-wide trade agreements, further development being blocked by governments concerned in particular about the impact on domestic interests of liberalized economic relations with China.

Most of the PTAs that Asian governments have concluded or are currently negotiating are with states outside the East Asian geographical region. Of the 139 agreements completed, under negotiation or proposed at the start of 2009, 109 were with countries outside the region (Asian Development Bank 2008a: p. 88). While this orientation is inconvenient for arguments that increasing interdependence among Asian economies has driven the new interest in inter-governmental collaboration, it is potentially entirely consistent with a more general argument that PTAs are negotiated in response to the policy challenges posed by increasing interdependence (and would be consistent with the argument above that intra-regional trade as a share of Asian economies' total trade has not increased significantly). But the concentration of negotiations on relatively minor trading partners casts doubt on such arguments. Japan has negotiated PTAs only with ASEAN collectively, the larger ASEAN economies individually, and with Mexico—countries that collectively account for only 14 percent of Japan's exports (Table One). China has a larger number of PTAs—but excluding that with Hong Kong (a treaty that China regards as a “domestic” economic agreement), its PTA partners account for less than 9 percent of its total exports (Ravenhill and Jiang 2009). For Korea, the share of total exports covered by PTAs is 13 percent (the share is doubled if the agreement with the US, not ratified by either party at the time of writing, is included). The extreme case is Taiwan, whose participation in PTAs has been limited by Beijing's frequently expressed hostility to countries entering agreements with Taipei (despite Taiwan's membership in the WTO): the country's four PTAs collectively cover less than one quarter of one percent of its total exports [author's calculations from IMF *Direction of Trade* data, except for Taiwan, from Bureau of Foreign Trade, Government of Taiwan, <http://cus93.trade.gov.tw/bftweb/english/FSCE/FSC0011E.ASP>].

In short, conventional indicators of trade and financial interdependence provide no support for arguments that increasing economic integration has driven the new Asian regionalism. Such skepticism is reinforced by the absence of empirical evidence for a transmission belt through which any concerns over the costs of increasing interdependence have been translated into effective demands for governments to engage in regional collaboration.



**Table One: Bilateral/Minilateral PTAs involving Asian Countries**

Country	Share of Total Exports Covered by PTAs <sup>†</sup>	PTA Partners (Figure in parenthesis is partner's share in total exports)
ASEAN	53.5	AFTA (25.2), Australia-New Zealand (2.9), China (8.7), India (2.5), Japan (10.8) Korea (3.4)
Brunei	62.8	AFTA (24.8), Chile (0)-New Zealand (1.2)-Singapore (2.4)*, Japan (36.8)
Cambodia	6.7	AFTA (6.7)
China	25.3	ASEAN (7.3), Chile (0.3), Hong Kong (16.3), Macau (0.2), New Zealand (0.2), Pakistan (0.5), SACU (0.5), Singapore (2.2), Thailand (1.0)
Hong Kong	45	China (45.0)
India	13.1	Afghanistan (0.15), Bhutan (0.10), Chile (0.14), MERCOSUR (1.24), Singapore (5.29), Sri Lanka (1.90), Thailand (1.04), Nepal (0.84), South Asia FTA [Bhutan, Maldives (0.06), Nepal, Pakistan (0.65), Sri Lanka, Bangladesh (1.67), Afghanistan]
Indonesia	39.4	AFTA (18.3), Japan (21.1)
Japan	14.0	ASEAN (12.8), Indonesia (1.6), Malaysia (2.1), Mexico (1.2), Philippines (1.5), Singapore (3.1), Thailand (3.8), Vietnam (0.6)
Korea	13.0**	ASEAN (9.6), Chile (0.4), EFTA (0.4), Singapore (2.6), US (14.6)
Lao PDR	72	AFTA (72.0), Thailand (29.4)
Malaysia	36.0	AFTA (26.1), Japan (9.4), Pakistan (0.5)
Myanmar	61.2	AFTA (61.2)
Philippines	34.8	AFTA (17.3), Japan (17.5)
Singapore	70.6	AFTA (30.9), Australia (4.0), China (9.5), EFTA (0.4), India (2.8), Japan (6.0), Jordan (0.02), Korea (3.9), New Zealand (0.6), Panama (0.9), Peru (0.01), US (11.5), Brunei-Chile (0.02)-New Zealand*
Taiwan	0.1	El Salvador-Honduras (0.03), Guatemala (0.03), Nicaragua (0.01), Panama (0.07)
Thailand	35.3	AFTA (22.2), Australia (2.9), China (8.3), India (1.4), Lao PDR (0.7), New Zealand (0.5)
Vietnam	30.4	AFTA (16.8), Japan (13.6)

*Notes*

† Assumes that agreements cover 100% of exports to FTA partners; figure is cumulative, i.e., no double counting where countries are joined by more than one FTA.

\* Trans-Pacific Strategic Economic Partnership.

\*\* The figure rises to 27.6% if the agreement with the US (signed but not ratified by either party) is included.

Source: Data are for 2005, calculated from IMF, *Directions of Trade* database except for those for ASEAN collectively (from ASEAN Secretariat website, <http://www.aseansec.org>, and those for Taiwan, from Bureau of Foreign Trade, Government of Taiwan, <http://cus93.trade.gov.tw/bftweb/english/FSCE/FSC0011E.ASP>).

*The Sources of Trade Policy in Asia*

In recent years, many IPE theorists have borrowed heavily from economics in their efforts to explain the growth of regionalism. The starting assumption in the literature on the political economy of trade policy is that governments are rational actors whose primary concern is to maximize their utility, which in this instance means re-election to office. Exporting interests will lobby the government for improved access to foreign markets. But why would governments that

respond to their pressures, and exporters themselves, choose a regional (preferential) approach to trade liberalization rather than a non-discriminatory global agreement, which all economic modeling suggests would bring larger aggregate economic gains? For governments, the political advantage of PTAs is that they can exploit the lax discipline of the WTO's rules on regional trade agreements to exclude sensitive domestic sectors from the liberalization process, which, consequently, poses fewer political risks for them (Grossman and Helpman 1995).

For firms, the literature predicts that exporting interests are more likely to lobby for regional rather than global liberalization when they are competitive within the proposed regional market but not at the global level. A variant of this argument suggests that a regional trade agreement will be particularly attractive to companies that either do depend or could depend on a regional market to realize economies of scale (Milner 1997; Chase 2005). Although attractive as a theoretical proposition, little empirical support has been offered for arguments based on scale economies. In many industrial sectors, the introduction of numerically-controlled machine tools has facilitated more flexible manufacturing, making shorter production runs more viable. Similarly, economies of scope have substituted for economies of scale. The relatively small additional markets provided by the current PTAs involving Asian economies render such arguments implausible as an explanation for the new Asian regionalism.

An intuitively more persuasive explanation views the support exporting interests give to PTAs as being driven primarily by defensive concerns. For Baldwin (1993), the new enthusiasm of exporting interests for regionalism in the 1990s was triggered by “idiosyncratic” developments—NAFTA, and the EU’s move to a Single Internal Market. A “domino effect” of proliferating PTAs was created as exporting interests in countries excluded from the new regional arrangements pressured their governments to negotiate their own agreements to level the playing field with their rivals within the PTAs.

Regionalism is indeed the product of purposive action by state elites. But where does the initiative for trade policy originate? Most of the writing on the political economy of trade policy has been developed in the context of the US political system where the legislature, especially in a context of weak party discipline, enjoys a more central role in trade policy-making than its counterparts in other industrialized economies. And the central assumption of arguably the most influential political economy model of regional trade agreements (Grossman and Helpman 1995) is that trade policy is driven by governments’ calculations of the likely impact on campaign contributions. Despite the US-centric character of the premises, the expectation is that the propositions are of universal applicability: economic and political rationality knows no geographical bounds.

Yet, institutional configurations matter. The extensive literature on Asian political economy suggests that the logic of political action may be different in that part of the world. In particular, researchers have asserted that the state has been both a relatively autonomous actor and the lead player in formulating economic policies—whether of a “developmental” type as in Northeast Asia (Johnson 1982; Deyo 1987; Amsden 1989; Wade 1990; Woo-Cumings 1999) or those that facilitate rent-seeking patrimonialism as in many Southeast Asian countries (Mackie 1988; MacIntyre 1991). Not only does this literature propose that the state enjoys substantial autonomy from domestic interests in formulating foreign economic policies but models of economic policy-making that depend on predictions of the behavior of the median voter are unlikely to have much purchase in East Asia’s authoritarian and quasi-democratic polities.

In Singapore, government-linked corporations dominate the local economy, providing an opportunity, Lee (2006) notes, for the state to impose its trade policy priorities with little domestic resistance. In Taiwan, Hseuh (2006: 170) asserts, a different logic of state action applies: because of the relative political weakness of sectoral interests and the government's pre-occupation with the Cross-Straits relationship, "the Taiwanese government's trade policy is often made in response not to domestic economic interests, but rather to the international political economic environment of threat under which Taiwan is forced to operate" (see also (Dent 2005)). In Thailand, where the administration of former Prime Minister Thaksin Shinawatra embarked on an active policy of simultaneously negotiating multiple PTAs with partners as diverse as Croatia and Peru, Nagai (2003: 279) states bluntly that "the private sector does not play an important role in forming FTA policy". Similarly, Chirathivat and Mallikamas (2004) noted that under Thaksin, "academia, policy-makers and even the business sector have difficulties monitoring the longer term development and progress of this FTA strategy"; some of Thailand's PTAs, Hoadley (2008: 111) contends, "seemed impulsive, the result of tourism by Thai leaders, for which the preparatory staff work had not been done".

And in Southeast Asia in particular, the configuration of economic actors may be very different from that in Western industrialized economies, with consequences for both policy preferences and the policy-making process itself. In Malaysia and in Singapore, for instance, subsidiaries of multinational corporations are responsible for more than 80% of the value of domestic exports. The regional production networks they operate often import components from a number of countries for local assembly for ultimate export to markets outside East Asia. Their interests in trade agreements within the region, therefore, may lie less in securing tariff reductions in other countries' markets than in ensuring low *domestic* barriers to the components they wish to import.

The one example that is often cited in the literature in support of arguments that domestic business interests were the primary driving force in the new regionalism is the PTA between Japan and Mexico. In the negotiation of a PTA with Mexico, a domino effect is said to have occurred with Japanese business interests, led by *Keidanren*, the peak organization of large Japanese business firms, scrambling to level a playing field that had been tilted against them by the implementation of NAFTA (particularly by the changes it required in Mexico's treatment of maquiladora industries) and by the negotiation of a PTA between Mexico and the European Union (Solis 2003). Manger (2005) uses the Mexican case to argue that lobbying by firms was "crucial in motivating Japanese policymakers to pursue FTA".

The evidence is more equivocal than acknowledged by such arguments, however. *Keidanren* did publish strong statements in support of the government's concluding a PTA with Mexico *after* negotiations were under way. But several dimensions of the case are inconvenient for those who see the negotiations for a PTA as being driven primarily by Japanese business interests that were responding to their disadvantaged position in an important export market. First, the initiative for the PTA came not from Japan but from Mexico. Second, the initial response of the Japanese government was not to pursue a PTA but to offer the counter-proposal of a bilateral investment treaty. Third, a JETRO survey conducted among Japanese subsidiaries in Mexico in the second half of 1999, after the initiative had been launched, Ogita (2003: 244) reports, found no company stating that it required a PTA to sustain its Mexican operations. Fourth, even though the public position adopted by *Keidanren* favoured a PTA, the business sector in Japan was by no means unified on the issue.

Japan's Ministry of Economy and Industry had been re-considering its approach to trade policy even before the invitation from the Mexican government to negotiate a PTA. Elements within the ministry had been disappointed at the Japanese government's failure to back the proposal from Malaysia's Prime Minister Mahathir Mohamed for an East Asian Economic Group; the financial crisis and subsequent unhelpful response from Western governments and existing regional institutions alike reinforced the case for strengthening regional cooperation and opened a window for policy change (Munakata 2006b) provides the most detailed discussion; see also (Krauss 2003; Ogita 2003). The policy appeared to be driven more by geo-political concerns and a desire to enhance the effectiveness of Japan's economic diplomacy both within East Asia and globally rather than by efforts to level the playing field for Japanese business (which did not face significant economic competition in Southeast Asia in particular where there were no PTAs that benefited competitors, and which was able to take advantage of various duty drawback arrangements to import components duty-free for products destined for export to third country markets). Hence, the first PTA that Japan negotiated was with Singapore, essentially a free port, where Japanese exporters faced tariffs on only four product lines. The Japanese government reportedly sought support from the business community for the agreement but failed to gain an enthusiastic response (Ogita 2003: 244). A subsequent decision to negotiate with ASEAN as a whole was prompted by China's proposal of a PTA to ASEAN (which itself followed quickly on Singapore's undertaking negotiations for PTAs with the United States and Australia)—again primarily a reflection of defensive diplomatic-strategic concerns rather than economic issues or lobbying by the business community (Munakata 2006b: 117, 121).

No commentator would be so naïve as to suggest that governments in their foreign economic policy-making give no consideration to the interests of domestic firms. But little evidence can be drawn from the Mexican negotiations to support the argument that lobbying by business interests was “critical” for the switch in Japanese government policy away from multilateralism towards the negotiation of PTAs. Rather, the change in policy was largely *government-driven*, an attempt to stimulate East Asian cooperation in the wake of the financial crisis, and to ensure Japan's centrality within the emerging regional architecture. Even if one was to concede a role for business lobbies in driving the PTAs, this evidently was offset to a considerable extent by the Japanese government's concern for other domestic economic interests that opposed the domestic liberalization they feared would accompany PTAs.

A similar government-led process is evident across the region. Interviews I conducted in Korea, for instance, indicated that the government determined the choice of partners with which to negotiate FTAs: government officials reported that many businesses were either ill-informed about and/or indifferent to the government's strategy.

The Asian experience does provide strong support for one political economy argument: that in negotiating PTAs governments have been pre-occupied with balancing, on the one hand, the potential economic gains from liberalization (and possible increased political support from exporting interests) with, on the other, the potential loss of support from domestic interests hurt by liberalization. Given the autonomy from societal interests, discussed above, that many Asian states are said to enjoy, one might anticipate that governments would be able to resist domestic pressures in their design of PTAs. But protectionist interests have frequently triumphed. They have often been aided by electoral systems that over-represent the countryside. In its choice of partners for PTAs the Japanese government appeared to be motivated as much by a concern to minimize domestic economic adjustment as to maximize gains in foreign markets (hence the

choice of relatively minor economic partners, and the exclusion of most agricultural products that competed with domestic production) (see, for example, Mulgan (2008); Solis (2003)).

The opportunity that PTAs afford to pursue trade policies that maximize domestic political advantage (or minimize domestic political costs) is one source of their attractiveness to Asian governments. But much of the explanation for the new enthusiasm for PTAs lies not in economics but in governments' political-strategic considerations. The explosion of PTAs in the region has been driven by a "political domino effect", with governments' primary concern being their potential exclusion from a new dimension of regional economic diplomacy. Choi and Lee (2005: 15) note, for instance, that the Korean government expressed increasing concern in the early years of the new millennium at being isolated as the only WTO member besides Mongolia that had not entered into a PTA. With the economy in disarray in the immediate post-financial crisis period, Korea had experienced difficulties in finding potential partners willing to negotiate with it (Park and Koo 2007).

Once the PTA bandwagon started rolling, competitive regionalism became the name of the game. As Munakata (2006a: 133) notes, competing conceptions of the region rather than a desire to reduce transaction costs have been the principal driving force. Of particular significance here has been the rivalry between China and Japan for leadership in East Asia. China's offer of a PTA to ASEAN was a diplomatic masterstroke. It was designed to assuage ASEAN fears (reinforced by contemporaneous econometric studies) that low-income Southeast Asian economies would be the principal losers from China's accession to the WTO (Ravenhill 2007a). But it also served to place Tokyo on the defensive because of the domestic problems Japan faced in negotiating comprehensive agreements with ASEAN economies that were significant exporters of agricultural products. Moreover, its status as a "framework" agreement not only was in keeping with ASEAN's own vague approach to trade liberalization but also was likely to impose few domestic costs on the Chinese economy.

With governments unhappy at the prospect of missing out on new diplomatic opportunities, they clamored to enter agreements. Recipients of requests for negotiations faced a dilemma: a negative response would have been regarded as undiplomatic in a region where "face" is of great importance. Governments frequently found themselves under pressure to sign on to negotiations with relatively minor partners (or with partners in whose capacity or commitment to implement effective arrangements they had little confidence—for an earlier discussion of such problems in US negotiations with Japan, see Cowhey (1993)). The proliferation of PTAs has been driven more by a political domino than an economic domino effect. A survey of elite opinion in eight Asia-Pacific states provides support for this conclusion: Dent's (2006: Chapter Two) survey found that "strengthening *diplomatic* relations with key trade partners" [my emphasis] was the reason most frequently cited for the negotiation of PTAs).

In sum, the primacy of the political over the economic in Asia's new regionalism is reflected in agreements that link countries with relatively unimportant trading partners, and in agreements that are shallow. These characteristics have significant implications for the dynamics that these agreements have set in train.

## A Domino Effect?

Richard Baldwin's (1995) influential "domino theory" of regionalism rests on the argument that PTAs will proliferate once exporting interests that are disadvantaged by an agreement signed by the government of the country in which their principal competitors are located demand that their own government level the playing field by negotiating an equivalent agreement. Ultimately, the proliferation of PTAs will generate its own non-tariff-barriers in the form of incompatible rules of origin: in turn this will lead businesses that operate increasingly globalized production networks to demand a multilateralization of regional arrangements (Baldwin 2006). A straightforward explanation for the proliferation of trade agreements involving Asian governments follows from the domino theory: it simply reflects a rational response on the part of business groups to their being disadvantaged by preferential arrangements afforded their competitors.

But has a domino effect been in operation in Asia in the years since the financial crises? Arguments in the previous section questioned assumptions about the centrality of business in trade policy-making in most East Asian economies. In this section, the focus is on how business interests are being affected by the proliferation of PTAs.

Preferential trade agreements by definition are discriminatory in character, and therefore in breach of the most fundamental principle of the WTO, its most-favoured nation clause. Regional trade arrangements were legitimized first under Article XXIV of the original GATT Treaty and subsequently (for arrangements solely involving less developed economies) under the 1979 Enabling Clause, and for services under Article V of the GATS. WTO members have failed to agree on operationalizing the requirements of Article XXIV that PTAs should cover "substantially all trade" among their signatories—with the consequence that PTAs have largely escaped effective scrutiny by the international community. The Enabling Clause, meanwhile, does not require even the loose disciplines of Article XXIV, providing only [in its third paragraph] that preferential arrangements involving less developed economies should not "raise barriers to or create undue difficulties for the trade of any other contracting parties" and shall not constitute an impediment to the reduction or elimination of tariffs and other barriers on a most-favoured-nation basis.

As noted above, it is the capacity to take advantage of the lax discipline of WTO requirements on PTAs that is one basis of their political attractiveness for governments. For business, the appeal of PTAs is two-fold. They can provide a "positional good" if they afford an advantage that is not available to competitors. Second, PTAs may be regarded as essential for removing disadvantages generated by the PTAs enjoyed by competitors. In the first instance, we would expect to see business lobbying to preserve any advantage that PTAs have created. In the second, lobbying would be prompted by desires to level the playing field. For PTAs to have such effects, their content must create significant advantage or disadvantage for business groups. For several reasons, skepticism that current PTAs involving East Asian economies have had such effects is warranted.

The first points to the limited coverage of many of the agreements, particularly those exclusively among the region's developing economies. Taking advantage of the lack of specificity of the Enabling Clause requirements, the agreements entered into by ASEAN, China, and India are vague in their provisions, frequently failing to clearly specify the products that will

be included and the specific tariff rates that will apply (ASEAN's definition of "free" trade is tariffs that fall in the range from zero to five percent). Moreover, agreements involving these countries typically have lengthy timetables for implementation. India is particularly notorious for seeking to carve out substantial sectors of its economy from its PTAs. In its agreement with Singapore, for instance, only 4.3 percent of products was granted duty-free access when the agreement was initially implemented, while 56 percent of the total was completely excluded from the agreement (Institute of South Asian Studies 2006: 24-5).

Few of the agreements involving the region's less developed economies are "WTO Plus" in scope: they fail to address issues of "deeper integration" such as intellectual property rights, investment and competition policies, government procurement, the environment and labor standards. On services, the region's developing economies have seldom gone beyond a restatement of their existing commitments under GATS. But in their lack of ambition they are not unique. Although the agreements involving industrialized economies [Japan, Australia, New Zealand, the United States] do attempt to extend coverage of trade in services, and include provisions on government procurement, competition policy, and environment, they do not, unlike NAFTA, include provisions relating to the environment and labor standards. And their references to intellectual property rights are typically no more than re-statements of the governments' commitments under existing international agreements. Even on services, industrialized countries have failed to extract substantial concessions from the region's developing economies (Ravenhill 2008). Some of the region's more advanced economies have also taken advantage of the lax disciplines of the WTO to carve out sensitive sectors—most notably, of course, agriculture, but also key service industries—from their liberalization schedules.

#### *Sources of a Domino Effect: Will Asian PTAs Significantly Disadvantage Non-Participants?*

The proliferation of PTAs within the region has created regular work for economic modelers. Most of the negotiations for PTAs have been preceded by the creation of "study groups", which in turn have commissioned (either from private consultancies, think tanks or academic economists) economic modeling exercises to gauge the potential welfare gains from the proposed agreements. These exercises, because they involve *ex ante* estimation of the impact of the PTA, typically apply a computable general equilibrium (CGE) model. Although a core component of the contemporary economist's toolkit, CGE models have a number of significant limitations, especially when applied in the context of PTAs.

The results generated by CGE models are dictated by the parameters chosen, which inevitably rest on a number of simplifying assumptions on how economies work and on how they will be affected by a PTA. As noted by the lead economists of a major World Bank project on regional trade arrangements, in CGE modeling "critical relationships are often specified with no empirical justification; many crucial variables cannot be measured satisfactorily; the level of sectoral detail is often rather low...and the specification of the behavioral relationships is usually very simple" (Schiff and Winters 2003: 49). Even economists sympathetic to CGE modeling acknowledge that the record of assumptions regarding the substitution elasticities governing trade flows, critical to the modeling of trade agreements, is "checkered at best" (Hertel et al. 2004).

The most important assumption that CGE models make regarding PTAs is that they will be “clean”, that is, they will involve a complete removal of tariff barriers, and that potentially restrictive non-tariff barriers such as the rules of origin that are an inevitable component of free trade agreements will generate no significant distortions. As already noted, however, the lax disciplines imposed by the WTO on PTAs has meant that such assumptions are not reflected in the agreements negotiated by Asian governments. Other problematic common assumptions found in CGE models, and utilized in the most comprehensive modeling of Asian PTAs published to date (Scolay and Gilbert 2001), are that industrial sectors are under perfect competition (no returns to scale, etc.), that national and foreign goods are imperfect substitutes for one another (the “Armington assumption”, which discounts the possibility, for instance, that a Honda produced in Thailand will be identical to the same model manufactured in Japan), and that no factor mobility occurs across national borders. Further unrealistic assumptions are introduced in the various “closure rules” that the models use, e.g., employment is constant, and the wage endogenous (for further discussion see Kimura (2006); and Taylor and Amim (2007)).

Even with the assumption of a comprehensive liberalization of trade between parties, CGE models predict very low aggregate welfare gains from PTAs—typically less than 0.1 percent of GDP for an industrialized economy with low tariffs (Kimura 2006: 65). Although the assumption of clean implementation of PTAs may lead CGE modelers to over-estimate their benefits, many economists believe that the static nature of the models fails to capture some of the potentially important effects of PTAs, e.g., stimulation of foreign investment. Consequently, the distinguished Japanese trade economist, Fukio Kimura (2006: 65) notes, “researchers face strong temptations to enlarge the estimated effects by introducing model settings that include accumulation, technological progress, and FDI”. He cautions that such extensions are entirely “ad hoc”. It would not be unreasonable to assume that such temptations are strengthened by the desire to provide government patrons with the results that they want to see. The outcome can be a modeling process based on assumptions far divorced from reality.

An egregious example occurred in the context of the negotiation of a PTA between Australia and the United States. A consulting firm’s original modeling of the agreement assumed a clean implementation of a comprehensive agreement. The anticipated welfare gains to Australia were driven primarily by increased exports of sugar and dairy products, which were estimated to contribute 60% of the total increase in Australian exports projected for the PTA (Centre for International Economics 2001). When an agreement was reached that excluded sugar and severely limited the potential for expansion of Australian exports of dairy products, the Australian government commissioned a second report from the same consulting firm. This second study attempted to measure the potential dynamic effects of the agreement, suggesting that investment liberalization and “dynamic productivity improvement” resulting from the agreement would contribute a welfare gain four times the magnitude of that derived from trade liberalization, and that the total welfare gain would be more than double that estimated in the original study (Centre for International Economics 2004). Few economists found the assumptions underlying the new model to be plausible.

Economic modeling of PTAs, then, gives little confidence that these arrangements will result in any substantial welfare gains for participating states. *A priori* reasoning supports a skeptical conclusion about their aggregate economic impact. Two factors of importance here have already been noted. The first is the capacity of governments to exclude politically-sensitive sectors, that is, the ones that are most likely to have the highest levels of protection. The



second is the trend in Asia for negotiations to be conducted with countries that are relatively minor trading partners. To these must be added several others.

- Overall tariff levels are low, even for many less developed economies so that a PTA may provide a partner with limited preferential advantages. Moreover, given the extended time period afforded countries to phase in reduced tariffs under PTAs, situations may arise where the preferential tariff is actually higher than the MFN tariff. In his study of Japan's PTA with Mexico, Ando (2007: 7-8) found that in January 2007 about one half (close to 10,000) of Mexico's MFN tariff lines on manufacturing and mining commodities were **lower** than those that Japanese exporters enjoyed through the provisions of the PTA.
- Various mechanisms (duty-drawback arrangements, export-free zones, and sectoral trade arrangements—especially the Information Technology Agreement) already provide duty-free access for components to many economies in the region.
- In a world of floating exchange rates, any advantage provided by a PTA may be more than offset by currency realignments.
- Restrictive rules of origin together with other limitations on liberalization, such as tariff rate quotas, seasonal limitations, etc. may constitute significant non-tariff barriers that limit the benefits from an agreement.

### **Does Business Take Advantage of Current PTAs?**

CGE modeling of the welfare effects of PTAs assumes not only that the agreements will have comprehensive coverage and be cleanly implemented but also that traders will take advantage of their provisions—which, in reality, is another problematic assumption. The incomplete coverage of trade afforded by PTAs creates uncertainty for business. Rules of origin generate costs that firms must incur if they are to gain access to the preferential tariffs. The cost of complying with rules of origin is estimated to vary from four to eight per cent of the overall cost of a consignment (Estevadeordal et al. 2007), which may not be substantially less than the advantage afforded by a preferential tariff given the relatively low levels of MFN tariffs. Consequently, the share of total trade that takes advantage of preferential tariffs created by PTAs may be relatively small.

Estimating the extent to which traders take advantage of PTAs is complicated by the failure of most Asian customs offices to collect or publish specific information on the value of trade that takes advantage of preferential tariffs. Only two countries regularly publish this information: Malaysia and Thailand. In 2007, the percentage of Thai exports to other ASEAN countries that took advantage of AFTA amounted to 30.9% (as reported by Hiratsuka et al. (2008: 415) citing an unreferenced JETRO study) (up from the 21% in 2005 reported by an earlier study (Prasert 2007: 123)). The equivalent figure for Malaysia was 19.1% . For the Philippines, a study of customs documentation suggested that in 2005 only 14% of exports to other ASEAN countries took advantage of AFTA preferences (Avila and Manzano 2007: 109). These figures are higher than the notorious estimate that less than five percent of intra-ASEAN trade was conducted under the preferential rules established by the ASEAN Free Trade Area (McKinsey and Company 2003); the overall ASEAN usage of preferences is dragged down, however, by the lower income economies. Cambodia issued only 23 certificates of origin for AFTA in 2005, for trade with a total value of under one half of a million dollars (Kakada and Hach 2007: 70). A study of the issuance of ASEAN's Form D by the Foreign Trade Department of the Ministry of Commerce in Laos indicates that only 0.1% of that country's trade with other

ASEAN economies, by far the major trading partners of Laos, make use of AFTA preferences (Phetmany and Rio 2007: 105). Anas (2007: 91) estimates that less than 4 percent of Indonesia's exports to other ASEAN economies makes use of AFTA's provisions; for Vietnam, the figure was under 8% (Van 2007).

Similarly low utilization rates have been reported for other preferential arrangements involving Asian countries. Thai customs data indicate that only 11 percent of Thai exports took advantage of the ASEAN-China FTA in 2007 (Hiratsuka et al. 2008: 415). Case studies based on the issue of the appropriate rules of origin documentation suggest even lower rates of utilization in other countries. Anas (2007: 91) estimated that only 2% of Indonesian exports were using the preferential provisions of this agreement. For Cambodia, only 6 certificates of origin were issued in 2005 for exports to China, for a total value of under \$100,000 (Kakada and Hach 2007: 70). Chinese exporters similarly failed to make use of the agreement: in 2005, the value of trade covered by Form E, required for certification of rules of origin compliance under CAFTA, amounted to less than one third of one percent of China's exports to ASEAN (Zeui 2007: 81).

The relatively recent (and phased implementation) of the CAFTA (implementation began in 2005 and will not be complete until 2010 [2015 for Cambodia, Laos and Myanmar]) may have contributed to the low utilization of its preferential arrangements. But the continuing low take-up of AFTA preferences suggests that there are broader factors at work in the Asian region. Even if one attempted a more relevant but more complex calculation, that is, the percentage of trade in products with non-zero MFN tariffs that takes advantage of the preferential arrangements, it is clear that the figure would still be small. The utilization of AFTA preferences is exceptionally low by international standards (and contrasts with, for example, over 60% of the total value of Mexican and Chilean exports to the US taking advantage of preferential arrangements, and similar figures being reported for many European agreements).

In the absence of customs data for most of the countries in the region, estimates of the utilization of PTAs have depended on surveys of firms. Such studies have numerous problems, not least issues relating to the representativeness of the sample of firms that take the trouble to respond to the surveys. And no inferences can be drawn from the percentage of firms that report that they utilize PTAs to the actual percentage of trade that takes advantage of these agreements. The data suggest a "glass half full, glass half empty" situation. On the one hand, the percentage of firms responding to surveys that report that they have used PTAs has increased over the years. Nonetheless the percentage doing so remains relatively low both in absolute terms and relative to the take-up of such agreements in other parts of the world. Kawaii and Wignaraja (2009: 11) report that 22% of 609 firms from Japan, Singapore, Korea, Thailand, and the Philippines make use of FTAs; an almost identical figure (23%) is reported for 607 Japanese affiliates in ASEAN, India and Oceania by (Hiratsuka et al. 2008: 415). Takahashi and Urata (2009) from a survey of 1,688 Japanese companies report utilization rates of Japan's FTAs ranging from 12.2% for the Malaysian agreement to 23.7 for the Chile agreement to 32.9% for that with Mexico. Chia Siow Yue (2008) reports substantially lower utilization rates for companies based in Singapore—only seven of 75 companies surveyed had made use of AFTA. Fifty-two of the sample of 75 firms reported that they had not utilized and had no intention of utilizing any of Singapore's large number of PTAs.

Of particular interest in the survey reports are the reasons companies provide for not taking advantage of PTAs. These provide strong support for *a priori* reasoning about the likely

effects of the agreements. Reasons commonly cited included negligible preferential margins (with specific reference sometimes given to concessions enjoyed through the ITA, export-processing zones and/or the removal of tariffs by investment incentives), and the costs (and delays) incurred by attempting to obtain relevant documentation required by the agreements. (Hiratsuka et al. 2008: 415) calculated that the average tariff value at which Japanese firms would make use of PTAs was 5.3%, a figure consistent with calculations of the cost of compliance with rules of origin cited above. For the China-ASEAN FTA, Prasert (2007: 123) reports that the average preferential margin for Thai exports was only 1.03 percent, a strong factor in the very low usage of the scheme. Well under 10% of the Japanese firms surveyed by Takahashi and Urata (2009: Table 3) reported that the FTAs had led to an increase in exports.

Detailed studies of trade in products where agreements have actually created preferences will be required before definitive judgments are reached on the impact of PTAs on welfare. But preliminary indications support intuitive a priori reasoning about the limited potential of the agreements. Consider, for instance, the much-vaunted “Early Harvest” provisions of the China-ASEAN Free Trade Agreement: these covered trade of a total value of less than \$1 million (Munakata 2006b: 118). PTAs with Singapore, given its zero tariffs on all except a handful of merchandise products, will only generate benefits of any significance in services trade—and while these may be of import to individual financial services firms or law firms, they will not have a noticeable impact on aggregate bilateral trade. Similarly, agreements on merchandise trade with Japan, especially given the unwillingness to impose any significant concessions on the heavily protected agricultural sector, are unlikely to generate major welfare gains: following the implementation of its Uruguay Round commitments, more than half of Japan’s tariff lines were bound at zero: its average tariff on manufactures was 3.5%.

*Ex post* evaluations of the impact of PTAs in East Asia are likely to be particularly prone to error given the relatively brief period that many of the agreements have been in force, the extended timetables for their complete implementation, and the intervention of other variables. The most important of the latter will often be changes in exchange rates—but other unanticipated developments may have significant consequences on bilateral trade for reasons that have little or nothing to do with a preferential trade agreement. For instance, the substantial increase in Mexican exports of beef to Japan after the implementation of the Japan-Mexico agreement (the commodity where Mexican exports experienced the largest post-PTA increase) was caused not by the preferences created by the agreement (which allowed for a duty-free quota of only 10 metric tons for the first two years) but by the BSE outbreak in the US, which led to Japan banning imports from this source (Ando 2007: 9). Moreover, examinations of aggregate trade data can be misleading because changes in bilateral trade may be driven by products where the MFN tariff was zero or where, for other reasons such as previous duty drawback arrangements, the PTA did not create any preferential advantage.

If PTAs seem unlikely to have any substantial influence on trade flows, what of other possible economic effects? Some observers (extrapolating from the early experience of NAFTA), believe PTAs may stimulate a substantial boost to investment flows. The preliminary evidence available for some of the region’s earlier PTAs, however, shows no positive correlation between the signature of an agreement and subsequent investment flows (on the Singapore experience see Low (2008)). In Australia, following the signature of the AUSFTA, the share of the US in overall FDI inflows dropped substantially while those of China and the EU, entities with which Australia did not have a preferential trade agreement, jumped (again, however, it would be

foolhardy to draw causal inferences from such correlations, especially those that apply to only a few years of data).

All the evidence that points to the likely limited economic impact of existing PTAs and to the failure of business to make use of the provisions of existing agreements has significant implications for whether they will generate an economic domino effect. If businesses are not adversely affected by the negotiation of PTAs that favor their rivals, then they are not likely to lobby their governments to negotiate similar arrangements. Similarly, if PTAs do not create significant benefits for domestic businesses, they would not be expected to lobby governments to maintain the “positional goods” that PTAs are expected to create—as Baldwin (2006: 1469) acknowledges, there is little evidence in the real world that governments have been unwilling to extend the benefits of PTAs to third parties; this willingness suggests that business either has not lobbied to prevent the erosion of preferential margins that the proliferation of agreements would generate or that any such lobbying has been ineffective. To the extent that business interests in East Asia have lobbied against any proliferation of PTAs, the pressure has come overwhelmingly from protectionist interests concerned that their position will be further eroded by additional PTAs.

The failure of the vast majority of businesses to take advantage of current PTAs also casts doubt on Richard Baldwin's argument that the proliferation of PTAs will generate a business-led momentum towards multilateralization of the agreements. Faced with potential benefits that are minor compared with the costs of compliance with any agreement, most businesses have simply displayed indifference towards the whole panoply of preferential trading arrangements.

## **Financial Cooperation**

I give financial cooperation relatively less attention because, even though it has arguably had greater symbolic importance in East Asia than trade cooperation (and, indeed, unlike trade, is organized on a region-wide [ASEAN Plus Three] basis), there are currently relatively few arrangements in operation. And many of the arguments made regarding trade are equally applicable to finance. Because the background conditions for cooperation on finance are unfavourable, regional cooperation in finance, as in trade, has been politically driven. The two issue areas are of course linked: relatively low levels of intra-regional trade in Asia generate few pressures for monetary integration (Eichengreen 2003:7).

Although South Asian leaders at the 14<sup>th</sup> SAARC summit in New Delhi in 2007 called for the creation of a South Asian Economic Union, cooperation on finance remains limited to the exchange of information through SAARCFINANCE, a network of Central Bank Governors and Finance Secretaries from the SAARC region established at the grouping's 10<sup>th</sup> summit. In East Asia, also, much of the cooperation in the field of finance has been of the information exchange variety—as seen in the work of the ASEAN Plus Three Asian Bond Market Initiative (ABMI), and EMEAP's two Asian Bond Funds [ABF]. Jennifer Amyx (2008: 133) concludes that both initiatives “have clearly made progress in pushing forward market reforms and encouraging the strengthening of local currency bond markets in the region.” Nonetheless, momentum, in terms of driving and sustaining regional cooperation, has been very modest. EMEAP has undertaken no further projects since the ABF2 launch in June 2005. Meanwhile, the ABMI has stalled largely because of the unwillingness of governments to permit cross-border local currency bond issues.

In many ways, these initiatives have the same strengths and weaknesses of APEC's work on trade (and, indeed, APEC began its own study on securitized debt instruments in 2003, which was superseded by the ASEAN Plus Three initiative). Grimes' (2008: 3) characterization of the ABMI is apt: despite the regional rationale for these projects, they rest "fundamentally on self-paced liberalization, with actual cooperation confined to some modest cooperative research efforts and demonstration projects, plus a minimalist monitoring process." ABMI relies primarily on "peer pressure, information exchange, and some technical assistance" (Grimes 2008: 21).

The initiatives on financial cooperation resemble those on trade on another dimension: they are government-driven and their momentum depends on governments continuing to maintain enthusiasm for the projects. Those officials who participate in and drive the ABMI have no independent means of implementing their proposals. The involvement of the private sector has been extremely limited. EMEAP's ABF2 project, for instance, attracted little interest from non-EMEAP sources. Despite being open to the public, unlike ABF1, it failed to generate substantial private participation. As (Arner et al. 2009: 47) note: "The commercial sector has been included in Asian financial integration only as a residual matter and, in contrast with the EU pattern, given no transparent role in governance other than any resulting from global initiatives".

Political considerations have also been at the heart of the region's most notable experiment in financial sector cooperation, the Chiang Mai Initiative. While the CMI is an innovation in East Asian collaboration, progress, in the sense of creating an arrangement that is an attractive policy alternative for its members, in the decade since it was negotiated has been limited. Just as there is a hierarchy of cooperation in trade, ranging from free trade agreement to economic union, so there is one in financial cooperation—this can be conceptualized as ranging from a sharing of information, through currency swap arrangements, the coordination of financial governance arrangements, the adoption of common goals such as exchange rate stability, agreement to adjust domestic policy to maintain exchange rate stability, to the highest form of collaboration: monetary union (Stevens 2005). East Asian governments have not progressed beyond the second of these levels—the construction of currency swap arrangements, something that the industrialized economies negotiated a half century ago through the General Agreement to Borrow.

Because of the inability of East Asian governments to agree on effective mechanisms for surveillance of one another's economies, and for rules to enforce any conditionality, the CMI (despite its origins in criticisms of the global financial institutions) originally depended on the IMF for these functions (only 20% of the swap arrangement were to have been released without the recipient's gaining IMF approval for its proposed adjustment policies). The failure of governments to make use of the CMI during the current global recession—at a time when Korea has drawn on the bilateral swap arrangement that it was offered by the US Federal Reserve—suggested that governments in the region doubt its value because of the continued linkage of its lending to IMF endorsement. Although proposals for the multilateralization of the CMI long pre-date the recession, the failure of East Asian government to utilize the CMI when they were experiencing financial difficulties in the first half of 2009 provided a crucial impetus for the multilateralization of the arrangement and its decoupling from the IMF. Although significant issues remain unresolved, particularly relating to how effective surveillance procedures will be put into place, the multilateralization of the CMI does mark a major step forward in East Asian financial cooperation, and demonstrates a potential for a new deepening of institutional

cooperation in the region.

## **Conclusion**

In this paper, I have focused on whether recent economic trends and/or existing regional institutions in Asia are generating a momentum favorable to deeper institutional cooperation in the region. The focus here is less on questions of institutional design, covered in depth in other papers for this project, than on the underlying factors that have driven or impeded the creation and deepening of institutionalized cooperation in Asia (although questions of institutional design have been important, for instance, in helping to explain APEC's lack of self-sustaining momentum).

The literatures on regionalism, unlike many in the field of international political economy, have the attractive feature that they identify dynamics that drive change. Functionalist approaches emphasize how the transactions costs of increased interdependence generate an imperative for institutional cooperation; neo-functionalism focuses instead on how the process of regional integration brings benefits or create challenges that cause interest groups to transfer their attention, activities [and eventually political loyalties] to the regional level with a consequent deepening of institutional cooperation. More recently, Baldwin has suggested that preferential trade agreements have their own dynamics that lead, first, to a proliferation of agreements and, second, to their multilateralization—in both cases driven by private sector actors that are dissatisfied with the status quo. The consequence of the domino effect will be a deepening of cooperation—in that governments will be concerned to negotiate more comprehensive arrangements that remove the potentially distorting effects of existing discriminatory arrangements.

For the reasons detailed in the body of this paper, I am sceptical that the current processes of regionalism in Asia will generate the dynamics identified in these theoretical literatures on any significant scale.

First, take functionalist explanations. No evidence exists that any substantial increase in the share of intra-regional trade in the total trade of the ASEAN Plus Three grouping occurred in the decade after the financial crises. As the trade intensity index indicates, any increase in Asian intra-regional trade that has occurred reflects the rapid growth of the region's economies relative to the rest of the world rather than any new "bias" towards trade with regional partners. A detailed examination of the composition of Asian trade indicates how dependent Asia remains on extra-regional markets for finished products. And there is no evidence that increasing interdependence has created collaboration problems that cannot be addressed more effectively either through unilateral action or at the global level. In other words, trends in regional interdependence have not generated a momentum for deeper regional cooperation. Moreover, less concern exists today that the world will fragment into rival regional trading blocs than was the case when Asian regionalism began to blossom in the late 1990s. To be sure, at the time of writing (in late 2009), there is no certainty that the Doha Round of WTO negotiations will be concluded successfully—but to date the problems at the global level have played more of a role in stimulating bilateral agreements than genuine Asian regionalism.

Second, consider the literature that links the growth of interdependence to a political dynamic, the demand from domestic constituencies for the deepening of cooperation at the

regional level. Private sector actors have not figured prominently in Asian economic regionalism. Many of the factors that the political economy literature identifies as exerting domestic pressure on governments to negotiate preferential trade agreements are absent in the region. Political pluralism was a key dimension to neo-functionalist approaches to regional integration: in its absence (in non-Western political systems), the founding fathers of this approach were skeptical that the dynamics that they identified in Western Europe as driving regionalism would be effective (Haas 1961; Schmitter and Haas 1964).

The context within which supply chains have been constructed in Asia—a low tariff environment, the WTO's sectoral scheme for liberalizing trade in information technology products, and the various unilateral measures that governments have taken to facilitate the free movement of components (duty drawback arrangements, etc.)--has provided business with little incentive to push for regional trade agreements. The low preferential margins that Asia's trade agreements offer, the costs of complying with certification requirements, the predominance of relatively minor trading partners, and the absence of certainty for business that the agreements provide (no binding dispute settlement mechanisms, etc.) ensures that they generate little more than indifference from the business community. The costs of complying with rules of origin would be obviated should Asia move to a customs union—but business has evidently calculated that the prospects for that development being realized are so remote as to not warrant any investment of resources in lobbying for it.

Although they are proclaimed as “living agreements”, subject to periodic assessment and re-negotiation, we have seen no substantial extension—either broadening or deepening—of any of the PTAs since their original negotiation. To date, geographical coverage has been broadened only in two agreements: the ASEAN Free Trade Area, with the accession of Cambodia, Laos and Myanmar to the grouping, and the Trans-Pacific Strategic Economic Partnership, with the addition of Brunei to the original membership of Chile, New Zealand, and Singapore. Given the desire of governments in PTAs to minimize domestic political costs rather than maximize potential gains, any multilateralization is likely to be on the basis of a lowest common denominator approach. The Asian experience—whether in ASEAN or APEC—has been that a widening of the geographical scope of regional arrangements has come at the expense of deepening of commitments. With agreements being valued primarily for political rather than economic reasons, governments have been unwilling to extend the scope of cooperation when this would pose any threat to domestic interests.

Regional cooperation in Asia has been overwhelmingly a top-down affair, driven by politics rather than economics. This conclusion applies equally to cooperation in finance as to cooperation in trade. The proliferation of PTAs across the region in the years since the financial crisis reflects the working of a political domino dynamic in which governments have jumped on the PTA bandwagon for fear of missing out on a new dimension of regional diplomacy. In East Asia, the political domino effect has been shaped by rivalry between China and Japan for regional leadership. Economic considerations have generally had a minor role in driving these PTAs; to the extent that domestic economic interests have played a role in shaping them, it has been to exclude politically-sensitive import-competing interests.

Could this situation change? If either Korea or Japan signed a PTA with China then that might well trigger an economic domino effect. Despite the overall low levels of tariffs, the advantages afforded by the ITA, etc., business in the country that was not party to the

arrangement would likely react strongly to an agreement that facilitated access for its competitors to the region's largest economy. The most likely scenario in the short-term, however, for such effects would be in relations between the Northeast Asian economies and extra-regional partners, driven by Korea's negotiation of preferential arrangements with the EU and US. These agreements, yet to be ratified, have caused alarm in Tokyo.<sup>6</sup> Nonetheless, the domino effects may be limited because it is clear that the EU is unwilling to contemplate a PTA with Japan; even if the US ratifies an agreement with Korea, the chances of its embarking on negotiations with Tokyo are slim. Ratification of the two Korean PTAs, coupled with the unlikelihood of its being able to achieve equivalent arrangements, would encourage Japan, however, to press for progress in global trade talks and, possibly, for Japanese membership in an expanded Trans Pacific Strategic Economic Partnership. In short, the main focus of collaborative activities in the region since the financial crises, the negotiation of bilateral or minilateral preferential trade agreements, has not yet generated a momentum for deeper institutionalization of regional cooperation. Skeptics might even argue that the pre-occupation with PTAs has been both a dead-end and a diversion (of scarce resources away from potentially more productive usage).

In financial cooperation as in trade, politics has also been in the ascendancy, driving a currency swap arrangement that regional countries have until now found less attractive than bilateral arrangements with countries from outside the region. In the CMIM, however, we have seen institutional adaptation in response to exposed weaknesses. The multilateralization of the arrangement, with the requirement to devise effective surveillance mechanisms, could mark a new dimension to Asian regionalism, an unprecedented intrusion of regional arrangements on national sovereignty. Here the foundations have been laid for further cooperation—but unless progress in creating effective regional surveillance mechanisms is achieved rapidly, CMIM runs the risk (in the context of a reformed IMF) of quickly becoming regarded as an anachronism. Meanwhile, collaboration on promoting the securitization of debt has depended heavily on the enthusiasm of individual governments—primarily the Japanese government, which remains strongly committed to the initiative despite the limited tangible results. Again, however, little momentum appears to have been generated to carry forward deeper integration.

If politics is indeed in the ascendancy in Asian regionalism, is this necessarily a problem in forging deeper regional institutional collaboration? After all, the European Union owed much to the activities of several visionaries in the 1950s whose proposals for integration arguably led rather than followed economic developments. And Eichengreen notes how a long history of delegation of authority to supranational agents in Europe made deeper economic integration feasible, despite a lack of popular support (Eichengreen 2003). The geopolitical context, however, is completely different. Western Europe had a powerful incentive to unite in the face of a hostile Eastern neighbor. No equivalent common external threat exists for Asia. In Asia, the problem is that regionalism has been driven by the “wrong” political actors and/or by the “wrong” politics. The proliferation of “regional” institutions has reflected political rivalry, which has resulted in competing conceptions of the “region” being promoted by its two most powerful actors. The recent Asian experience would be akin to France having promoted the EU in Europe in the 1950s and 1960s while Germany promoted EFTA. This rivalry has been evident within the ASEAN Plus Three grouping where the vast majority of projects (the notable exception is the

---

<sup>6</sup>See, for example, “Seoul-EU FTA progress has Tokyo worried, Keidanren in 'shock'”. [2009, July 28]. *Japan Times*. Newspaper, . Retrieved July 28, 2009, from <http://search.japantimes.co.jp/print/nb20090728a4.html>



multilateralized CMI) have been conducted on an ASEAN Plus One basis.<sup>7</sup> In some areas, such as the Mekong River Basin, China and Japan have launched rival projects within the ASEAN Plus Three grouping (Yoshimatsu 2008).

Are there any developments that might give grounds for a more optimistic perspective on the prospects for institutionalized cooperation in Asia? One is the emergence of new actors and institutional configurations, most notably the increasing integration of India into regional institutions (most notably the EAS but a strong possibility that it will also succeed in its quest to join APEC). The introduction of another major power into the configuration of forces in regional cooperation could possibly overcome the problems that arise from the current competition between China and Japan (although there is nothing in India's behavior within the EAS to suggest that it is keen to attempt to play a leadership role: the designation of ASEAN as being the "driving force" behind the EAS increases the probability that this new grouping will simply replicate the weaknesses of existing institutions). A second development is the advent of the trilateral summit talks in North Asia between the "Plus Three" countries, which has taken initial steps towards institutionalization (the creation of a "cyber" secretariat). If relations between China and Japan improve to the extent that they cooperate as co-leaders of Asian regionalism rather than using Asian regionalism as the principal arena in which they pursue their rivalry, then the prospects for deeper institutional cooperation will be dramatically transformed.

Institutional design in Asian regionalism has not come about by accident; the shallowness of regional cooperation is the result of governments' current preference for weak institutions that place minimal constraints on national autonomy. For deeper integration to occur, the incentives for governments to delegate more authority to regional institutions must change and/or norm entrepreneurs be able to generate more political space for themselves.

---

<sup>7</sup>See the database on ASEAN Plus Three projects maintained by the ASEAN Secretariat:  
<http://www.asean.org/22206.pdf>

## References

- Aggarwal, Vinod K., and Charles E. Morrison, eds. 1998. *Asia-Pacific Crossroads: Regime Creation and the Future of APEC*. New York: St. Martin's Press.
- Aggarwal, Vinod K., and Shujiro Urata, eds. 2006. *Bilateral Trade Agreements in the Asia-Pacific: Origins, Evolution, and Implications*. London: Routledge.
- Amsden, Alice H. 1989. *Asia's Next Giant: South Korea and Late Industrialization*. New York: Oxford University Press.
- Amyx, Jennifer. 2008. "Regional Financial Cooperation in East Asia since the Asian Financial Crisis." In *Crisis as Catalyst: Asia's Dynamic Political Economy*, eds. Andrew Macintyre, T.J. Pempel and John Ravenhill. Ithaca: Cornell University Press: 117-39.
- Anas, Titik. 2007. "Indonesia." In *Preferential Rules of Origin: Policy Research Report*, ed. World Bank. Washington, D.C.: World Bank: 85-93.
- Ando, Mitsuyo. 2007. "Impacts of Japanese FTAs/EPAs: Post Evaluation from the Initial Data". Paper presented to Assessing Quality and Impacts of Major Free Trade Agreements, Tokyo, June.
- APEC. 1993. *A Vision for APEC: Towards an Asia Pacific Economic Community, Report of the Eminent Persons Group to APEC Ministers, October 1993*. Singapore: APEC Secretariat.
- . 1994. *Achieving the APEC Vision: Free and Open Trade in the Asia Pacific: Second Report of the Eminent Persons Group*. Singapore: APEC Secretariat.
- . 1995. *Implementing the APEC Vision, Third Report of the Eminent Persons Group*. Singapore: APEC Secretariat.
- . 2004. "APEC's Trade Facilitation Action Plan: A Mid-Term Assessment." A Report Prepared for the APEC Committee on Trade and Investment, Asia Pacific Foundation of Canada for APEC, Asia Pacific Foundation of Canada, Vancouver.
- APIAN (APEC International Assessment Network). 2000. "Learning from Experience: The First Apian Policy Report." Singapore APEC Study Center for APIAN, Singapore.
- . 2001. "Apian Update: Shanghai, Los Cabos and Beyond: The Second Apian Policy Report." na, na.
- . 2002. "Remaking APEC as an Institution: The Third Apian Policy Report." na, na.
- Arner, Douglas, Paul Lejot, and Wei Wang. 2009. "Assessing East Asian Financial Cooperation and Integration." Asian Institute of International Financial Law Working Paper Number 5, Faculty of Law, University of Hong Kong, Hong Kong.
- Asian Development Bank. 2008a. "Emerging Asian Regionalism: A Partnership for Shared Prosperity." Asian Development Bank, Asian Development Bank, Mandaluyong City, Philippines.
- . 2008b. "How to Design, Negotiate, and Implement a Free Trade Agreement in Asia." Asian Development Bank, Asian Development Bank, Office of Regional Economic Integration, Mandaluyong City, Philippines.
- Athukorala, Premachandra. 2009. "The Rise of China and East Asian Export Performance: Is the Crowding-out Fear Warranted?" *The World Economy* 32 (2):234-66.
- Avila, John Lawrence, and George Manzano. 2007. "Philippines." In *Preferential Rules of Origin: Policy Research Report*, ed. World Bank. Washington, D.C.: World Bank: 95-106.
- Baldwin, Richard. 1993. "A Domino Theory of Regionalism." Working Paper Number 4465, National Bureau of Economic Research, Cambridge, Ma.
- Baldwin, Richard E. 1995. "A Domino Theory of Regionalism." In *Expanding Membership of the European Union*, eds. Richard E. Baldwin, Pertti Haaparanta and Jaakko Kiander.

- Cambridge: Cambridge University Press: Chapter Two.
- . 2006. "Multilateralising Regionalism: Spaghetti Bowls as Building Blocs on the Path to Global Free Trade." *World Economy* 29 (11):1451-518.
- . 2007. "Managing the Noodle Bowl: The Fragility of East Asian Regionalism." Working Paper Series on Regional Economic Integration Number 7, Asian Development Bank, Manila.
- Capannelli, Giovanni, Jong-Wha Lee, and Peter A. Petri. 2008. "Extent of Economic Interdependence in Asia: Developing Indicators for Regional Integration and Cooperation". Paper presented to Symposium on Asian Economic Integration, Nanyang Technological University, Singapore, 4-5 September.
- Centre for International Economics. 2001. "Economic Impacts of an Australia-United States Free Trade Area." Study Prepared for the Department of Foreign Affairs and Trade, Centre for International Economics, Canberra.
- . *Economic Analysis of Ausfta: Impact of the Bilateral Free Trade Agreement with the United States*. Centre for International Economics 2004. Available from [http://www.dfat.gov.au/trade/negotiations/us\\_fta/economic\\_analysis\\_report/austfta\\_report\\_040428.pdf](http://www.dfat.gov.au/trade/negotiations/us_fta/economic_analysis_report/austfta_report_040428.pdf).
- Chase, Kerry A. 2005. *Trading Blocs: States, Firms, and Regions in the World Economy*. Ann Arbor: University of Michigan Press.
- Chia Siow Yue. 2008. "Singapore." Singapore Institute of International Affairs, Singapore.
- Chirathivat, Suthiphand, and Sothitorn Mallikamas. 2004. "Thailand's FTA Strategy: Current Development and Future Challenges." *ASEAN Economic Bulletin* 21 (1):37-53.
- Choi, Byung-il, and Kong-Jin Lee. 2005. "A Long and Winding Road: Ratification of Korea's First FTA." In *Korea and International Conflicts: Case Studies--Volume 1*, ed. Byung-il Choi. Seoul: Institute for International Trade and Cooperation, Ewha Womans University: 11-47.
- Cowhey, Peter F. 1993. "Domestic Institutions and the Credibility of International Commitments: Japan and the United States." *International Organization* 47 (2):299-326.
- Dee, Philippa, Christopher Findlay, and Richard Pomfret. 2008. "Trade Facilitation: What, Why, How, Where and When?" In *Infrastructure and Trade in Asia*, eds. Douglas H. Brooks and Jayant Menon. Cheltenham, UK: Edward Elgar.
- Dee, Philippa S., and Michael J. Ferrantino. 2005. *Quantitative Methods for Assessing the Effects of Non-Tariff Measures and Trade Facilitation*. River Edge, NJ: World Scientific Pub. : APEC.
- Dent, Christopher M. 2005. "Taiwan and the New Regional Political Economy of East Asia." *The China Quarterly* 182:385-406.
- . 2006. *New Free Trade Agreements in the Asia-Pacific*. Basingstoke: Palgrave Macmillan.
- Deyo, Frederic C., ed. 1987. *The Political Economy of the New Asian Industrialism*. Ithaca, Ny: Cornell University Press.
- Drysdale, Peter. 1988. *International Economic Pluralism: Economic Policy in East Asia and the Pacific*. Sydney: Allen and Unwin.
- Eichengreen, Barry. 2003. "What to Do with the Chiang Mai Initiative." *Asian Economic Papers* 2 (1):1-49.
- Elek, Andrew. 2003. "Beyond Free Trade Agreements: 21st Century Choices for East Asian Economic Cooperation." Pacific Economic Papers Number 336, Australia-Japan Research Centre, Australian National University, Canberra.
- Estevadeordal, Antoni, Jeremy Harris, and Kati Suominen. 2007. "Multilateralizing Preferential Rules of Origin around the World". Paper presented to Multilateralizing Regionalism,

- Geneva, 10-12 September.
- Frankel, Jeffrey. 1991. "Is a Yen Bloc Forming in Pacific Asia?" In *Finance and the International Economy 5: The Amex Bank Review Prize Essays*, ed. Richard O'Brien. Oxford: Oxford University Press: 5-20.
- Grimes, William W. 2008. "Political Economy of Bond Market Initiatives in Asia". Paper presented to American Political Science Association, Boston, 28 - 31 August.
- Grossman, Gene M., and Elhanan Helpman. 1995. "The Politics of Free Trade Agreements." *American Economic Review* 85 (4):667-90.
- Haas, Ernst B. 1961. "International Integration: The European and the Universal Process." *International Organization* 15 (3):366-92.
- Haggard, Stephan. 1997. "Regionalism in Asia and the Americas." In *The Political Economy of Regionalism*, eds. Edward D. Mansfield and Helen V. Milner. New York: Columbia University Press: 20-49.
- Hertel, Thomas, David Hummels, Maros Ivanic, and Roman Keeny. 2004. "How Confident Can We Be in CGE-Based Assessments of Free Trade Agreements?" NBER Working Paper Number 10477, National Bureau of Economic Research, Cambridge, Ma.
- Hew, Denis, Soedradjad Djiwandono, Stephen Grenville, Andrew Sheng, Masahiro Kawai, Melanie Milo, Sakulrat Montreevat, and Sahchita Basu Das. 2007. "Options for EAS Finance Cooperation: A Scoping Study." REPSF II Project Number 07/001, ASEAN Secretariat, Jakarta.
- Hiratsuka, Daisuke, Kazunobu Hayakawa, Kohai Shiino, and Seiya Sukegawa. 2008. "Maximizing Benefits from FTAs in ASEAN." In *Deepening East Asian Economic Integration*, eds. Jenny Corbett and So Umezaki. Jakarta: Economic Research Institute for ASEAN and East Asia,.
- Hoadley, Stephen. 2008. "Thailand's and Malaysia's Cross-Regional FTA Initiatives." In *Cross Regional Trade Agreements: Understanding Permeated Regionalism in East Asia*, eds. Saori N. Katada and Mireya Solis. Berlin: Springer-Verlag: 95-121.
- Hsueh, Roselyn Y. 2006. "Who Rules the International Economy? Taiwan's Daunting Attempts at Bialateralism." In *Bilateral Trade Agreements in the Asia-Pacific: Origins, Evolution, and Implications*, eds. Vinod K. Aggarwal and Shujiro Urata. London: Routledge: 160-83.
- Institute of South Asian Studies, National University of Singapore. 2006. *Guide to the Singapore-India Comprehensive Economic Cooperation Agreement*. Singapore: Rajah and Tann.
- JETRO. 2008. "Japan's Outward and Inward Foreign Direct Investment."
- Johnson, Chalmers. 1982. *MITI and the Japanese Miracle*. Stanford, Ca.: Stanford University Press.
- Kahler, Miles. 1995. *International Institutions and the Political Economy of Integration*. Washington, D.C.: Brookings Institution.
- Kakada, Dourng, and Sok Hach. 2007. "Cambodia." In *Preferential Rules of Origin: Policy Research Report*, ed. World Bank. Washington, D.C.: World Bank: 65-73.
- Kawai, Masahiro, and Ganeshan Wignaraja. 2008. "Regionalism as an Engine of Multilateralism: A Case for a Single East Asian FTA." Working Paper Series on Regional Economic Integration Number No. 14, Asian Development Bank, Asian Development Bank, Mandaluyong City.
- . 2009. "The Asian "Noodle Bowl": Is It Serious for Business?" Working Paper Series Number No. 136, Asian Development Bank, Asian Development Bank Institute, Tokyo.
- Kim, Soyoung, and Jong-Wha Lee. 2008. "Real and Financial Integration in East Asia." Working Paper Series on Regional Economic Integration Number 17, Office of Regional Economic

- Integration, Asian Development Bank, Manila.
- Kimura, Fukunari. 2006. "Bilateralism in the Asia-Pacific: An Economic Overview." In *Bilateral Trade Agreements in the Asia-Pacific: Origins, Evolution, and Implications*, eds. Vinod K. Aggarwal and Shujiro Urata. London: Routledge: 50-71.
- Krauss, Ellis S. 2003. "The US, Japan, and Trade Liberalization: From Bilateralism to Regional Multilateralism to Regionalism." *The Pacific Review* 16 (3):307-29.
- . 2004. "The United States and Japan in APEC's EVSL Negotiations: Regional Multilateralism and Trade." In *Beyond Bilateralism: U.S.-Japan Relations in the New Asia-Pacific*, eds. Ellis S. Krauss and T. J. Pempel. Stanford, Cal.: Stanford University Press: 272-95.
- Lee, Seungjoo. 2006. "Singapore Trade Bilateralism: A Two Track Strategy." In *Bilateral Trade Agreements in the Asia-Pacific: Origins, Evolution, and Implications*, eds. Vinod K. Aggarwal and Shujiro Urata. London: Routledge: 184-205.
- Lincoln, Edward J. 2004. *East Asian Economic Regionalism*. New York & Washington, D.C.: Council on Foreign Relations & Brookings Institution Press.
- Low, Linda. 2008. "A Case Study of Singapore's Bilateral and Cross-Regional Free Trade Agreements." In *Cross Regional Trade Agreements: Understanding Permeated Regionalism in East Asia*, eds. Saori N. Katada and Mireya Solis. Berlin: Springer-Verlag: 47-9.
- MacIntyre, Andrew. 1991. *Business and Politics in Indonesia*. Sydney: Allen and Unwin.
- Mackie, J.A.C. 1988. "Economic Growth in the ASEAN Region: The Political Underpinnings." In *Achieving Industrialization in East Asia*, ed. Helen Hughes. Cambridge: Cambridge University Press: 283-326.
- Manger, Mark. 2005. "Competition and Bilateralism in Trade Policy: The Case of Japan's Free Trade Agreements." *Review of International Political Economy* 12 (5):804-28.
- Mattli, Walter. 1999. *The Logic of Regional Integration: Europe and Beyond*. Cambridge: Cambridge University Press.
- McKinsey and Company. 2003. "ASEAN Competitiveness Study." ASEAN Secretariat, Jakarta.
- Milner, Helen V. 1997. "Industries, Governments, and the Creation of Regional Trading Blocs." In *The Political Economy of Regionalism*, eds. Edward D. Mansfield and Helen V. Milner. New York: Columbia University Press: 77-106.
- Mulgan, Aurelia George. 2008. "Japan's FTA Politics and the Problem of Agricultural Trade Liberalisation." *Australian Journal of International Affairs* 62 (2):164-78.
- Munakata, Naoko. 2006a. "Has Politics Caught up with Markets? In Search of East Asian Economic Regionalism." In *Beyond Japan: The Dynamics of East Asian Regionalism*, eds. Peter J. Katzenstein and Takashi Shiraishi. Ithaca, N.Y.: Cornell University Press: 130-57.
- . 2006b. *Transforming East Asia: The Evolution of Regional Economic Integration*. Washington, D.C.: Brookings Institution Press.
- Nagai, Fumio. 2003. "Thailand's FTA Policy: Continuity and Change between the Chuan and Thaksin Governments." In *Whither Free Trade Agreements? Proliferation, Evaluation and Multilateralization*, ed. Jiro Okamoto. Chiba, Japan: Institute of Developing Economies Japan External Trade Organization: 252-84.
- Ogawa, Eiji, and Taiyo Yoshimi. 2008. "Widening Deviation among East Asian Currencies." Discussion Paper Series Number 08-E-010, Research Institute of Economy, Trade and Industry, Ministry of Economy Trade and Industry,, Tokyo.
- Ogita, Tatsushi. 2003. "Japan as a Late-Coming FTA Holder: Trade Policy Change for Asian Orientation?" In *Whither Free Trade Agreements? Proliferation, Evaluation and Multilateralization*, ed. Jiro Okamoto. Chiba, Japan: Institute of Developing Economies

- Japan External Trade Organization: 216-51.
- Park, Sung-Hoon, and Ming Gyo Koo. 2007. "Forming a Cross-Regional Partnership: The South Korea-Chile FTA and Its Implications." *Pacific Affairs* 80 (2):259-78.
- Pekkanen, Saadia M., Mireya Solís, and Saori N. Katada. 2007. "Trading Gains for Control: International Trade Forums and Japanese Economic Diplomacy." *International Studies Quarterly* 51 (4):945-70.
- Pempel, T.J. 2008. "Restructuring Regional Ties." In *Crisis as Catalyst: Asia's Dynamic Political Economy*, eds. Andrew Macintyre, T.J. Pempel and John Ravenhill. Ithaca: Cornell University Press: 164-80.
- Phetmany, Thiphaphone, and Luz Julieta Rio. 2007. "Lao PDR." In *Preferential Rules of Origin: Policy Research Report*, ed. World Bank. Washington, D.C.: World Bank: 95-106.
- Prasert, Apichart. 2007. "Thailand." In *Preferential Rules of Origin: Policy Research Report*, ed. World Bank. Washington, D.C.: World Bank: 121-27.
- Ravenhill, John. 2001. *APEC and the Construction of Asia-Pacific Regionalism*. Cambridge: Cambridge University Press.
- . 2006. "Is China an Economic Threat to Southeast Asia?" *Asian Survey* 46 (5):653-74.
- . 2007a. "China's 'Peaceful Development' and Southeast Asia: A Positive Sum Game?" In *China's Rise and the Balance of Influence in Asia*, eds. William W. Keller and Thomas G. Rawski. Pittsburgh: University of Pittsburgh Press: 162-92.
- . 2007b. "Mission Creep or Mission Impossible? APEC and Security." In *Reassessing Security Cooperation in the Asia-Pacific: Competition, Congruence, and Transformation*, eds. Amitav Acharya and Evelyn Goh. Cambridge, Ma.: MIT Press: 135-54.
- . 2008. "The Move to Preferential Trade on the Western Pacific Rim: Some Initial Conclusions." *Australian Journal of International Affairs* 62 (2):129-50.
- Ravenhill, John, and Yang Jiang. 2009. "China's Move to Preferential Trading: A New Direction in China's Diplomacy." *Journal of Contemporary China* 18 (58):27-46.
- Schiff, Maurice W., and L. Alan Winters. 2003. *Regional Integration and Development*. New York: Oxford University Press for the World Bank.
- Schmitter, Philippe C., and Ernst B. Haas. 1964. *Mexico and Latin American Economic Integration*. Berkeley: Institute of International Studies University of California.
- Scolay, Robert, and John Gilbert. 2001. *New Regional Trading Arrangements in the Asia Pacific?* Washington, DC: Institute for International Economics.
- Solingen, Etel. 2008. "The Genesis, Design and Effects of Regional Institutions: Lessons from East Asia and the Middle East." *International Studies Quarterly* 52 (2):261-94.
- Solis, Mireya. 2003. "Japan's New Regionalism: The Politics of Free Trade Talks with Mexico." *Journal of East Asian Studies* 3 (3):377-404.
- Stevens, Glenn. 2008. *Asian Financial Cooperation*. Lowy Institute 2005 [cited 30 April 2008]. Available from <http://www.lowyinstitute.org/NewsRoomGet.asp?i=544>.
- Takahashi, Katsuhide, and Shujiro Urata. 2009. "On the Use of FTAs by Japanese Firms: Further Evidence." Discussion Paper Series Number 09-E-028, Research Institute of Economy Trade and Industry,, Tokyo.
- Taylor, Lance, and Rudiger Von Amim. 2007. "Modelling the Impact of Trade Liberalisation: A Critique of Computable General Equilibrium Models." Oxfam Research Report, Oxfam Publishing, Oxford.
- Van, Dang Nhu. 2007. "Vietnam." In *Preferential Rules of Origin: Policy Research Report*, ed. World Bank. Washington, D.C.: World Bank: 129-36.
- Wade, Robert. 1990. *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*. Princeton, N.J.: Princeton University Press.

- Warr, Peter G. 1989. "Export Processing Zones: The Economics of Enclave Manufacturing." *World Bank Research Observer* 4 (1):65-88.
- Wesley, Michael. 2001. "APEC's Mid-Life Crisis? The Rise and Fall of Early Voluntary Sectoral Liberalization." *Pacific Affairs* 74 (2):185-204.
- Woo-Cumings, Meredith, ed. 1999. *The Developmental State*. Ithaca, N.Y.: Cornell University Press.
- World Trade Organization. 2009. *Scope of RTAs*. World Trade Organization, 2009 [cited 9 February 2009]. Available from [http://www.wto.org/english/tratop\\_e/region\\_e/scope\\_rta\\_e.htm](http://www.wto.org/english/tratop_e/region_e/scope_rta_e.htm)
- Yamazawa, Ipppei. 1997. "APEC's Economic and Technical Cooperation: Evolution and Tasks Ahead." In *Whither APEC? The Progress to Date and Agenda for the Future*, ed. C. Fred Bergsten. Washington, D.C.: Institute for International Economics: 135-78.
- Yoshimatsu, Hidetaka. 2008. "China, Japan, and ASEAN in East Asian Regionalism: Diverse Approaches to Regional Integration". Paper presented to International Studies Association Annual Convention, San Francisco, 26-29 March.
- Zeui, Yang. 2007. "China." In *Preferential Rules of Origin: Policy Research Report*, ed. World Bank. Washington, D.C.: World Bank: 74-83.