

## **Chapter One:**

### **The Problem for Analysis**

#### **Introduction**

This thesis investigates the dynamics of transnational sub-regional cooperation and the extent to which it relates to economic integration in the East Asia Pacific.

The first chapter serves as the map of this research. The first section introduces the problem for analysis. Three different cases of transnational sub-regional cooperation in the East Asia Pacific form the main subjects for analysis in this thesis. The second section describes the complexity and the evolution of the East Asian integration. A brief discussion of sub-regional cooperation in the East Asian Pacific is presented, the involvement of the key actors is discussed, and the selection of the cases is explained in the third section. The fourth section shortly introduces EGPIB factors (Economic complementarity, Geographical proximity, Political commitment and Policy coordination, Infrastructure development, and Business networks), as well as the theories used to examine the transformation of the cases. The fifth section concerns the relevance of this research to comparative political study. This thesis can contribute to the understanding of the establishment and the development of the transnational sub-regional cooperation

in the East Asia Pacific. It contends that, firstly, economic complementarity, among five factors, is the most important determinant for forming a sub-regional economic zone. Secondly, micro-regionalisation and micro-regionalism are both important in maintaining a growing sub-regional economic zone. However, they weight differently in the course of a sub-regional cooperation project. And thirdly, a sub-regional economic zone which closely follows the flying geese pattern is more likely to grow. Last, the outline of this thesis is summarised in the final section.

### **The Problem for Analysis**

This thesis explores the practice of transnational sub-regional economic zones in the East Asia Pacific by examining the dynamics of micro-regionalism and micro-regionalisation in three selected cases. The emergence of sub-regional economic zones can be seen as a discontent response to the current regional integration mechanisms. In order to understand the problem for analysis in this thesis, the concept of region-building requires a discussion first.

The emergence of regional blocs is believed by many scholars and policy makers as a leading feature in the contemporary international political economy

(Schmidt, 2002:1). Following the end of the World War II, the world was facing two dramatic changes: the rampant movement for national liberation, and the declaration of the Cold War. The first one contributed to the establishment of many new independent countries while the second one resulted in the confrontation of two camps led by the United States and the Union of Soviet. During the Cold War, no single country, except these two leaders, was strong enough to act alone in the international affairs. In order to deal with the pressure of this bipolar system, many countries, including those new independent ones, sought to strengthen self-influence and regional stability through cooperating with neighbouring nations (Butler, 1997: 410 ; Ravenhill, 2001a: 7). Region-building was then beginning to take shape.

During the 50s to 60s, many regional cooperation organisations were set up in Western Europe, Middle East, Asia, and Africa. Among them all, the establishment and the transformation of the European Community has thrown great impact to both the European and the world political economy. Scholars studied these post-war cooperation among the neighbouring nations and defined such practice and theory of forming regional blocs as “regionalism”.

There have been at least two major waves of regionalism since the end of World War II. Kim (2004: 41) claims that both of them “arose in the context of successive milestones in Europe, from the creation of the European coal and Steel Community in 1952, to the establishment of the European Community in 1957, and then to the coming of the single market and currency after 1986 (the Single European Act in the mid-1980s and the Maastricht Treaty on European Union in the early 1990s)”. Kojima (2002:3), furthermore, examines each stage and makes two important conclusions: first, the Treaty of Rome formalised regional integration by abolishing intra-regional tariffs and creating a customs union in 1957; and second, deeper integration was promoted through the establishment of the European Union in 1993.

The discussion above shows that the contemporary understanding of regionalism is mostly based on the European experience of regional integration, which involves intergovernmental arrangements, and can be achieved through launching large scale of economic cooperation among neighbouring nations in the first place. In addition to Europe, regionalism is also popular in other regions. Another significant example is the North American Free Trade Agreement (NAFTA). It has bound Canada, the United States, and Mexico together, and

increased their influence on the world economic affairs. However, regionalism does not seem to gain the same success in the East Asia Pacific. So far, not a single practical economic cooperation organisation has achieved what the EU and NAFTA have accomplished in binding member states as a solid bloc. Revenhill (2002: 183) explicitly points out "the emergence of an East Asian economic bloc is nowhere in sight<sup>1</sup>".

Why cannot the EU-based regionalism succeed in shaping the East Asia Pacific region as a whole? If the two regions are objectively similar, the European integration path should apply to the East Asia Pacific as well. Although the focus of this thesis is not to explain why the East Asian integration pattern is different from the EU's, it helps to clarify the problem for analysis if the uniqueness of the East Asia Pacific region is provided as background information. Therefore, we will look into the nature of East Asia Pacific, and try to find out the reason why regionalism is not effective in this region in the next few paragraphs.

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<sup>1</sup> Revenhill is one of the leading scholars in studying East Asian integration. His two books *Asia-Pacific Economic Cooperation* (Cambridge: Cambridge University Press, 2001), and *APEC and the construction of Pacific Rim regionalism* (Cambridge : Cambridge University Press, 2001) provide a comprehensive overview of East Asian integration, and are considered as one of the most influential English-language works on regionalism in the East Asia Pacific.

According to the actual practice of region-building in the world, Than (2010) asserts that regionalism holds the following conditions. First, the member countries must have geographical proximity. Second, the cooperation among the countries is either in economic, political or social fields. And third, probably the most important one, the regional cooperation is set up for the achievement of common purposes. These three conditions can be generalised into three aspects: geopolitical, economic and cultural. Hence, in the next few paragraphs, we will look into these aspects and make comparison between Western Europe and the East Asia Pacific region to provide background information for the further study in this thesis.

*(1) Geopolitical Aspect*

The geopolitics in the East Asia Pacific region is probably the most complicated case in the world. The region contains 17 accredited countries and 19 acknowledged economies<sup>2</sup>. No only the numbers of the countries are twice than

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<sup>2</sup> In the East Asian sub-regional cooperation study, Russia is recognised as both a European and an Asian country. The reason why the numbers of the countries are different from the numbers of the economies is because Hong Kong and Taiwan are sometimes recognised as independent economies but not independent countries in either international political economy research or international economic organisations. This is especially true in the field of contemporary sub-regional cooperation study. What worth noting is that even though China claims Taiwan is

those in Western Europe, the total geographic areas and populations are also times more than those of Western Europe. Unlike the United Kingdom is the only economy separated from the Continent in Western Europe, economies in the East Asia Pacific region scatter widely from the frigid zone to the torrid zone. In addition to the continental countries, and peninsular countries, there are at least 6 island countries even if Taiwan is considered as an independent economy but not an independent country. The region is so vast that the Southeast Asian countries, for example, are completely separated from the Northeast Asian countries in the geography. The advantage could be that they may have less geopolitical disputes, but the disadvantages are that they are less connected and have less communication or cooperation.

Besides, among all these countries, another huge difference that can be observed is the political divergences. In Western Europe, most countries are either democracies or monarchies. They are all rated as free countries. However,

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only its one province, in the practice of international affairs, Taiwan is treated as an independent country in most cases. It has the elements that constitute a country: people, territory, sovereignty, and government. Moreover, China and Taiwan separately join the international organisations, games and beauty campaigns as two individuals. It is fairly important to examine the subjects from the perspectives of theories and actual practice in the international society when conducting a research on international politics. Therefore, no matter what China claims, Taiwan certainly qualifies as an independent country and a research object in this thesis form the theoretical view and the actual practice in the international relations.

in the East Asia Pacific, countries hold different political systems range from totalitarianism, communism, constitutional monarchy, to democracy. All these systems share different fundamental spirits in governance and some of them are even against each other. According to Freedom House's annual survey and ranking, the distribution on a "freedom rating" in the East Asia Pacific countries is quite even (Freedom House, 2010). Six countries including Japan, South Korea, Taiwan, Thailand, the Philippines, and Mongolia are ranked as "free" while seven countries including China, North Korea, Brunei, Burma, Cambodia, Laos and Vietnam are ranked as "not free". Meantime, there are three "partly free countries" which are Indonesia, Malaysia, and Singapore. East Asian countries are operating under different assumptions about governance. Kim (2004:55) therefore criticises that it is difficult for the East Asian countries to come to a consensus on setting up regional institutions as they hold a great worry that the game rules of the regional institutions may bring an impact on the their domestic rules.

As previously discussed, regionalism is about setting up regional cooperation for achieving common purposes. So what are the common purposes that East Asian countries seek to achieve? If we review the origin of regionalism



mentioned earlier in this chapter, the World War II and the Cold War have pulled Western European countries to form a regional bloc. The emergence of the EU was not just to create a freer commerce between the member states. It had a clear goal of binding member states for collective force to confront with the potential enemies after the war. However, there is no overall war in the East Asia Pacific region which is significant enough to awaken the need for creating collective forces through forming a regional bloc. Instead of having a great war across the whole region, military confrontation and civil war break in the sub-regions. Differ from Western European countries knowing one major enemy; East Asian countries have different imaginary enemies in mind. For example, China's major enemy could be Japan, whose invasion had caused China great loss of lives and properties. Meanwhile, China itself is the main threat to Taiwan as it never gives up to "liberate Taiwan by force". As for Japan, it has unsettled territorial disputes with Russia, China, South Korea and Taiwan over years. As we can see, these disputes cover almost every country in Northeast Asia. Meanwhile, China also has territorial disputes with some Southeast Asian countries, India and Vietnam for instance. All these disputes are confined to local conflicts.

There is no overall war across the region. Nevertheless, civil wars have made the East Asia Pacific one of world's prominent killing fields. The number of fatalities in this region is greater than in any other international region: 1 million in the Chinese civil war, 1.2 million in Pol Pot's Cambodian genocide, 2 million in the Vietnam War, and 3 million in the Korean War (*Armed Conflicts and Fatalities 1945-1994*: 1997).

Even though there is no single common enemy in the region, East Asian countries generally hold a hostile attitude towards Japan who once intended to rule over the whole region by launching the war. Apart from territorial conflicts and ideological confrontation, the contemporary two tense cases which could escalate to wars again are North Korea-South Korean confrontation and China-Taiwan confrontation. However, they are still more like civil wars in nature and are less likely to draw region-building in the East Asia Pacific.

In short, the East Asia Pacific region is notable for its remarkable number of countries, diverse political systems, as well as vast and scattered geography. If regionalism is about setting cooperation to achieve common purposes, the fact that East Asian countries are geopolitically inharmonious with rare common

purposes may have already disclosed the long road ahead for forming a regional bloc in the East Asia Pacific.

*(2) Economic Aspect*

We realise from last section that the geographical distribution ranges widely in the East Asia Pacific region. Countries in this region size variously and spread widely from the frigid zone to temperate zone to tropics. Those geographically vast countries, China and India for example, tend to have abundant natural and human resources. As a result, they have better chance in developing agriculture, raw-material and labour-based industries. On the contrary, those small economies with smaller territories, Hong Kong, Taiwan and Singapore for example, have very little natural and labour resources to rely on. Such limitation has driven them to engage in financial or technology-based industries. In other words, the location and the size of a country would determine the type of economic structure it seeks to develop.

The economic disparity is no less manifest than geopolitical disparity in the East Asia Pacific region. Unlike member states of the EU and NAFTA advocate capitalism, and share similar economic development level, East Asian

countries hold different economic systems and the policies. In addition to that, their economic development is extremely uneven. Kim (2004: 55) argues that “the global North-South, or center-periphery, the divide is more pronounced in East Asia than in any other region of the world, as the region encompasses the world’s poorest countries (Cambodia, Laos, Burma, Mongolia, Vietnam, and North Korea, all with annual per capita GNP at or below \$500) and the world’s richest economies (Hong Kong, Singapore, and Japan, all with annual per capita GNP at or above \$20,000)”.

According to the International Monetary Fund (IMF, 1999:115), five East Asian countries have made it into the classification of “advanced economies”—Japan in the major industrial countries (G7) subgroup and Singapore, Hong Kong, Taiwan, and South Korea in the advance economies subgroup. Japan appears to be the economic superpower in the East Asia Pacific. However, it is not necessarily influential enough to initiate and sustain an economic cooperation mechanism in this region. Kim (*ibid*: 55) brings up China as an challenger: “China has easily won the global economic growth sweepstakes, registering a whopping average annual growth rate of 10 percent for the period 1990-2001, as compared to 1.3 percent for Japan and a global average of 2.7

percent. On a purchasing power parity basis, China (\$5.4 trillion) is the world's second-largest economy after the United States (\$9.9 trillion) and ahead of Japan (\$3.4 trillion)". Clearly, even though China is not a rich or developed economy, its economic influence is no less than those advanced economies in the East Asia Pacific. As to its relation to Japan, the so-called economic superpower in the region, it is probably more like a competitor rather than a co-operator to Japan.

In sum, we have defined regionalism with three features: the member countries must have geographical proximity, the cooperation among the countries is either in economic, political or social fields, and the regional cooperation is set up for the achievement of common purposes. The discussion above shows that East Asian countries may have geographical proximity to some degree; yet, they have quite a gap to overcome in terms of political economy before they could organise a regional-wide cooperation to achieve common purposes. In the next section, we will continue to explore East Asian countries' characteristics in the cultural aspect to obtain a further understanding of East Asia's uniqueness.

### *(3) Cultural Aspect*

Cultural affiliation can be a force binding countries together. A very

well-know case is Latin American where countries are united by the linguistic and historical similarities. This section is going to examine the cultural affiliation in the East Asia Pacific.

The East Asia Pacific region embraces numerous races. Among them all, China is the largest racial group. But even in China, there are huge differences in the local dialogues and life styles from the north to the south, and the east to the west part of the territory, not to mention in the East Asia Pacific, countries share wild disparities in linguistics, life styles, values and religious faith.

Compare to the near universality of liberal democracy seen as the core value in the EU and the NAFTA, one can hardly draw in one line the common vale in the East Asia Pacific. As a matter of fact, there are doubts and debates in academia whether “Asian values” exist. From the historical and literary perspectives, Confucian culture was once extensively studied and believed a putative value in the region. Nevertheless, such statement does not sustain long but is overturned by the fact that Confucian culture is neither generally inherited by the people nor drawn in the national animus in the East Asia Pacific.

In addition to linguistic and historical influences, religious faith has posed a great impact especially in Southeast Asia. Similar to the fact that the spirit of Christianity is blended into the constitution in some western countries, the religious faith is the fundament of the nation especially in certain Southeast Asian countries. For example, Thailand is governed by Buddhism. The disciplines of Buddhism are strictly practiced in the government, military, and people's daily life. Another similar case can be found in the region is Malaysia, whose establishment is rooted on Muslim instead of Buddhism. Such difference in beliefs would sometimes pull two countries away from each other as their faiths could be fundamentally contradictory in the matter of discipline. Nevertheless, the religious influence is not that prominent in either the EU or the NAFTA.

Moreover, another unique incident that EU members have not encountered with is being colonised. Quite a number of countries in the East Asia Pacific share the experiences of being colonised by different western countries. To some degree, colonists' values would have gradually permeated through the colonies. Take Taiwan and Hong Kong for instances. The former one was the colony of Japan till the end of the WWII, and the later one was the colony of the

United Kingdom till 1997. Nevertheless, the ties with their colonists were not cut off completely after the colonisation was terminated. In the case of Taiwan, it is probably one of the very few countries in East Asia holding no explicit hostile attitudes against Japan. Taiwanese have largely inherited Japanese way of living which can be observed from their eating habits, dressing styles, TV programmes and so on. In other words, the contemporary Taiwanese culture is a mixed product with Japanese culture blended on top of its own culture. Unlike Taiwan was colonised by an Asian country, the experience Hong Kong had was a cultural shock projected from the west. The United Kingdom has brought a great deal of cultural impact to Hong Kong in terms of linguistics, living styles and values. The impact is so significant that the mainland Chinese would recognised them as a different group of Chinese.

As we can see, the divergence in cultural aspect is just as complicated as that in geopolitical and economic aspects. And to sum up, the discussion above echoes to Kim's finding that the defining feature of East Asia is not a singular set of "Asian values," but linguistic, cultural and religious diversity (*ibid*:54).



We have explored the geopolitical, economic, and cultural conditions of the East Asia Pacific and found out that there are many barriers standing in the path of regional integration. Among them all, quite a lot of are informal barriers. Moreover, the East Asia Pacific can hardly meet the three conditions that regionalism hold for regional integration. Firstly, countries in this region can not fully meet the compulsory condition that member states must have geographical proximity. Instead, countries in the sub-regions in the East Asia Pacific show a strong geographical proximity. Secondly, regionalism demands that the cooperation among the countries is either in economic, political or social fields. But in the case of East Asia, there are many disputes in these fields require to be settled before passing a resolution to build up a large-scale cooperation across the region. And thirdly, regionalism claims that regional cooperation is set up for the achievement of common purposes. Yet, common purposes are what East Asian countries find difficult to achieve due to the huge diversities and informal barriers in politics, economics and culture we have elaborated in the this section.

In comparison with the EU or other regional blocs, the geopolitics and political economy in the East Asia Pacific are far more complicated. What

regionalism has succeeded in shaping Western Europe as a whole does not reached the same success in the East Asia Pacific. Unlike the EU is a solid economic institution, APEC, the only regional economic organisation in the East Asia Pacific, has become a forum for national political rivalries rather than an avenue for economic cooperation. The uneven development, historical animosity, strong political conflicts and the weak market economies amongst the nations, have resulted in the fact there is not a single practical economic cooperation organisation has yet been created to surmount the divergence between the states in East Asia Pacific. The European experience based integration path cannot fully apply to East Asian countries. East Asia risks the danger of drifting away from being central to international affairs to becoming just a peripheral observer.

The background information presented above helps us to realise the limitation of the regionalism in shaping the East Asia Pacific as a whole. If the “macro-concept” of regionalism is not effective in boosting region-building in the East Asia Pacific, could a “micro-concept” of regionalism complements the shortages and be an alternative? Meanwhile, we have also recognised the unique characteristic of the East Asia Pacific region is its diversity, expressed in the categories of political freedom, economic development and culture. Since the

barriers among the nations in this region are mostly informal, would an informal type of cooperation be more likely to outwit the confrontation and pave the way for future integration?

Under such context, transnational sub-regional cooperation was therefore, brought up as a response. The idea is to set sub-regional economic zones with focus on smaller scale of economic cooperation in parts of the member economies rather than the cooperation of entire national economies through trade blocs or international groupings. The rationale is that as many trade barriers in this disunited region are related to political confrontation, cultural animosities and other “informal barriers”, the “informal nature” of sub-regional economic zones can outwit these predicaments, and may furthermore, “help to resolve those political and cultural problems” (Peng, 2002: 617).

Scholars like Peng (*ibid*: 613) believe that this type of economic cooperation is “shaping East Asia as an economic region”. Here in this thesis, I am going to examine how far this judgement holds true and whether transnational sub-regional cooperation can promote closer integration in East Asia as a whole.

The purpose of this thesis is to explore the dynamics of transnational sub-regional cooperation and the extent to which it relates to economic integration in the East Asia Pacific through examining three cases which are more likely to generate future integration in the region. And the three selected cases which are believed to have better chance to succeed are Singapore-Johor-Riau Growth Triangle (SIROJI), the Tumen River Area Development Programme (TRADP), and the Southern China Sub-regional Economic Zone (SC SREZ). In the next section, we will look into the complexity and the evolution of the East Asian integration, and explain why these three different cases of transnational sub-regional cooperation in the East Asia Pacific are selected to form the main subjects for analysis in this thesis.

### **The Evolution of East Asian Integration**

The first section of this chapter has disclosed that transnational sub-regional cooperation is a discontent response to the regionalism in the East Asia Pacific. Following that, a brief history review of East Asian integration is presented in this section to describe further the complexity of the East Asia Pacific, as well as how micro-regionalism has come into existence in this region.

To begin with, one must bear in mind that international political economy is a broad issue which in most cases, the causal relationship of a matter can hardly be explained by one single factor. Regional integration, being the subject in the field of international political economy, shares the same characteristic. The deliberate cooperation between the governments may be recognised as the leading force in regional integration in the case of the EU, but it may not necessarily be the only force. For example, the neo-functionalism argues that transnational economic exchange between industries brings important impact on the European integration too. Similar to that, there may be other forces working side by side with the governments in the process of binding East Asian countries as a economic bloc. Therefore, it is important to consider the possible involved forces, and give clear definitions of the terms related to the region-building process before we review the history of East Asian integration.

The first part of this section is to discuss the relevant terminology defined in the literature. In terms of the regionalist process in the world and especially in the East Asia Pacific, concepts such as regionalisation, regionalism, regional cooperation, regional integration and sub-regional cooperation have been widely

used in various literatures. Although they all relate to each other and “could partly feature some similar developments’, they do stand for different meanings (Liu and Régnier, 2003:xviii; and Liu, 2003b:221).

Copper (1994:12) provides a general concept of regional integration that it can refer to “the market relationship among goods and factors within the region” or “the legal and institutional relations within a region in which economic transactions take place”. In other words, the traditional understanding of regional integration is mostly referring to economic integration rather than political integration.

In addition to that, regionalisation and regionalism are regarded as the two main forces in forming a bloc. The difference between two forces is regionalisation is a bottom-up and market-led force while regionalism is a top-down and policy-led force deliberately to “enhance national interest” (Liu, 2003a:6-7, 24 and 17-19). In Ethier’s opinion, regionalism is “the expression of regional consciousness that develops from a sense of identity among states situated in geographical proximity’ (Ethier, 1998: 1152).

As for Mansfield and Milner (1997:3), they describe it as “the disproportionate concentration of economic flows or the coordination of foreign economic policy among the group of countries in close geographic proximity to one another”. Moreover, Allagapa claims such collective efforts as the “cooperation among governments or non-government organisations in three or more geographically proximate and interdependent countries for the pursuit of mutual gain in one or more issue-areas” (Allagapa, 1995:362).

Hurrell has even offered a comprehensive definition of regionalism with five indicators including the regionalisation process, the emergence of regional identity, regional interstate cooperation, state-promoted integration, and regional cohesion (Hurrell, 1995b:38-45). However, from the discussion in the first section, we have learnt the uniqueness of the East Asia Pacific. It is so different from other regions that these indicators do not quite apply to examining its experience. And one of the very uniqueness of regionalism in East Asia is that it really refers to “regional cooperation” but not necessarily to “regional integration” (Liu, 2003a:7). In other words, there is distinguishability between

regional cooperation and regional integration even though they are both related to the region-building process<sup>3</sup>.

Scholars including Liu and Régnier (2003, xvi-xvii) point out that regional cooperation is interactions between states or regional actors without involving any legal form of commitment. During the process, some common awareness of interdependence as well as mutual understanding and trust will gradually come about. “This does not however imply that regional countries may merge into a new body” addressed Liu and Régnier (*ibid*, xvii).

There can be two different levels of regional cooperation: wider cooperation refers to the expansion of interactions in terms of frequency between regional actors, while deeper cooperation refers to releasing national sovereignties and policy-making for further interdependency.

According to Liu and Régnier’s definition (2003, xvi-xvii), regional

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<sup>3</sup> According to scholars’ definition and from the experiences of the present regional blocs (e.g. EU and NAFTA), regional cooperation and regional integration usually refer to regional economic cooperation and regional economic integration. Therefore, this thesis will adopt the same concepts. Terms including cooperation and integration are used mostly referring to economic aspect. It will be specifically noted if cooperation or integration is referring to political aspects.



cooperation can be seen as interactions between states or regional actors without involving any legal form of commitment. Such cooperation can have two levels: wider cooperation and deeper cooperation. The main difference between them is that the former one simply means the expansion of the cooperation in terms of scale while the latter refers to the higher level of expansion with more compromise of national sovereignties. For example, wider cooperation in terms of economics can be detected from the increasing number of the projects and member states; the expansion of geographical area involved; the raising amount of trade and investment; economic growth; and the enhanced competitiveness of the growth triangle. Deeper cooperation in terms of economics, however, includes policy-making to allow freer movement of personnel, goods, capital and services in the sub-regional economic zone. Meanwhile, wider political cooperation could be that the economies increase the frequency of holding official talks or exchanging opinions on diplomatic, social, or cultural issues; while deeper political cooperation means the signing of agreements to solve long-standing conflicts such as territorial dispute and national unification issues. The following table uses one of the cases studied in this thesis as an example to illustrate the difference between cooperation and integration, as well as their levels.

**Table 1.1: The Three Levels of Integration Process and Examples of Wider and Deeper Cooperation, and Integration in Economics and Politics in the SC SREZ**

	<b>Level 1: Wider Cooperation</b>	<b>Level 2: Deeper Cooperation</b>	<b>Level 3: Integration</b>
<b>Economics</b>	Taiwan has opened its tourism to China and allowed Chinese people to travel aboard.	China has claimed fruits imported from Taiwan may enjoy non-tariff treatment	The Closer Economic Partnership Arrangement (CEPA) between
<b>Politics</b>	China has decided to export two pandas as gifts for Taiwan.	China and Taiwan have agreed on direct flights from Shanghai to Taipei during the Chinese New Year Festival to transport Taiwanese investors home for their traditional family reunions.	Hong Kong and China. It is an official arrangement signed by the authorities of the two economies. Such arrangement is an open platforms for trade liberalisation extended on an ongoing basis.

It is believed that in the process of seeking integration, wider cooperation and deeper cooperation among member states are potential triggers for integration. Nevertheless, in the case of EU, instead of having the first two levels of wider or deeper cooperation as the basis for the third level of integration, it worked the other way around that the third level actually came up as a top-down force to sustain the first two levels of interactions between member states.

What we need to understand, as we have also mentioned before, is that cross-border activities is sometimes a mixed product with many factors interacting together. It is especially obvious in the East Asian region-building which we have already found out the process is affected by mix factors including geopolitics, geoeconomics, and political economy of the member states. In other words, a clear distinction between political and economic influence is not always available in the matter of cross-border cooperation or regional integration.

Although regional cooperation does not necessarily result in regional integration, it can be a cornerstone for future integration. Comparatively,

regional integration is measured by more delicate disciplines. Different from cooperation leading to a loosely knit community, Pentland (1975:10-11) defines regional integration as a process “two or more states form a new entity”. It has a clear goal of reducing heterogeneity, increasing homogeneity, and in the end setting up a mechanism moving from economic cooperation to economic integration. There are six stages. They are, from lower stage to higher stage, harmonisation, free-trade area (FTA), customs union (CU), common market (CM), economic union (EU), and economic integration (Balassa, 1961 and Zhang, Y.Z., 2001:167-168). And in this section, a brief review of the contemporary regional cooperation institutions in the East Asia Pacific will be presented to find out in which stage this region is now.

*(1) The Association of Southeast Asian Nations (ASEAN)*

ASEAN was one of the first examples of regionalism in East Asia. Unlike APEC aims to create an economic bloc embracing all nations in the whole East Asia Pacific region, ASEAN limits its scope to Southeast Asia only. Theoretically, it is based on the assumption of the equality of states. However, in practice, the larger ASEAN member states can and have exerted greater influence over the regional organisation. Since member states share a fragile identity based on

increased economic development, it is difficult to come up with formal institutional mechanisms for extensive policy coordination like what the EU stands for the European integration.

Besides, its attention on regional affairs is limited to relatively simple cooperation in trade, industrial development, environment management and exchange of information. In fact, member states seem to be more interested in competing for similar investments and accessing to the same markets than cooperating for their common interests. Moreover, nationalism often appears to prevail over regional interests. For example, the United States had once offered ASEAN preferential trade benefits. However, the ASEAN members insisted that Washington should sign six separate treaties with each of them (Bangkok Post, 1991). It turned out that they would rather have the offer shelved than sign a treaty jointly.

Furthermore, the legitimacy of the ASEAN framework is relatively weak. It is not governed by any legal or legislative agreement or in the form of a treaty but by loose and flexible arrangements based on memorandum of understanding. Instead being aggressive, the governments appear to be passive. They rather stay

outside, watching regional integration taking shape naturally than put great efforts to make it happen.

ASEAN may have created many opportunities for member states to cooperate and gain more economic benefits. However, as defined in the literature mentioned earlier in this section -- cooperation does not necessarily equal to integration. In fact, in the aftermath of the Asian Financial Crisis, ASEAN has proved to be a disunited regime incapable of coping with regional-level affairs. Goh Chok Tong, the Prime Minister of Singapore, has once made the following comment in 1999 that "ASEAN as a group is being seen as helpless and worse, disunited... in our summits in 1997 and 1998, we failed to convince the outside world that ASEAN was tackling the crisis with determination and decisiveness to regain its high [regional] growth". And even Secretary General of ASEAN Rodolfo Severino admits that the frustration over the sudden crises have raised up questions about the effectiveness, utility as well as the validity of the very idea of ASEAN (Zakaria Haji Agmadand Baladas Ghoshal, 1999: 759-778). From then on, ASEAN attracts no positive viewpoint that it could bear the responsibility to drive East Asian integration.

The background information presented above has pointed out the flaws of ASEAN. It also gives us a clue that this organisation is still in the low stage of economic cooperation between harmonisation to FTA. Since most disputes among member states are informal, which nationalism often appears to prevail over regional interests is one example; they can hardly be settled through a formal agreement or organisation which requires a high level of political commitment and action.

*(2) Asia-Pacific Cooperation (APEC)*

Comparatively, APEC carries a more ambitious goal of shaping East Asia as a whole. The APEC grouping set up by the nations of the Pacific Rim nations typically under the concept of “open regionalism” in 1989<sup>4</sup>. It was an important steppingstone towards regional integration for Asia. At that period EU was proceeding rapidly towards customs union, Canada and the US were in negotiations about the formation of NAFTA, and the Uruguay Round was stumbled. Sensing the threat that the East Asia Pacific area would be left out of the world trading system, the Australian Prime Minister Bob Hawke therefore put forth the idea of establishing a multilateral forum to facilitate economic

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<sup>4</sup> A more in-depth literature review about open regionalism will be presented in the section chapter.

cooperation between Asia and Pacific economies (Das, 2001: 74).

The APEC was first established as a forum for economic cooperation and consultation dealing with trade liberalisation and trade facilitation. The criteria for membership are that applicants must be states in the region and have close relations with existing members, as well as accepting the goal of trade liberalisation by 2020<sup>5</sup>. Although it requires the full state-level commitment, some scholars satirise it as nothing but a mere “Talking Shop” (Pomfret, 1995) or a “Chat Forum” (Flamm and Lincoln, 1998) while others consider it to be the most influential trade organisation in Asia as it incorporates two of the four global trade super powers-- the US and Japan, encompasses 40% of the global population, and 54% of the global GDP, and 42% of the regional trade (Das, 2001: 75).

Das (*ibid*: 75) argues, “APEC represents the most significant and diverse group of countries ever assembled together”. There are several prominent characteristics of APEC that make it unique from other trade zones (Ravenhill,

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<sup>5</sup> Taiwan is accepted as a member state in APEC. This is supporting evidence that Taiwan shall be seen as an independent country in the East Asia Pacific in this thesis no matter what China’s viewpoint is.



2001: 2-4): first of all, it links the world's three largest economies- China, Japan and the United States. Moreover, following the acceptance of Russia in 1997, APEC now includes three of the five permanent members of the United Nations Security Council, which are also the principal adversaries in the Cold War. Second, unlike the EU or NAFTA, it has adopted a non-discriminatory approach, which is also known as "open regionalism" to trade liberalisation. Third, instead of building up a strong regional secretariat, APEC relies more on the capacity of national governments, in other words, inter-state cooperation in the global system (Ravenhill, 2001:2-4). Das (2001) also points out that the greatest difference between APEC and other regional integration organisations like the EU or the NAFTA is that APEC does not have a formal trade treaty to back up its blue print of trade liberalisation.

APEC is generally acknowledged to have experienced some success and effectiveness during the decades after its establishment in 1989 (Ravenhill, 2001). By acknowledging variety and emphasising flexibility and openness, member states have achieved mutual respect, reciprocal favoured treatment, as well as concordant agreements (Zhong, 2002). Bergsten (1994) has even hailed it as "potentially the most far-reaching trade agreement in history". However, both the

APEC institutional design and effectiveness have reached a crossroads. It is currently experiencing a period of significant disillusionment. The practice of seeking common ground and shelving any differences has now brought up a number of defects, such as the lack of either multilateral negotiation or institutionalisation on multilateral action (Zhong, 2002). The awkward situation is well-described by the dramatic change of Bergsten's evaluation in January 2001, saying that the APEC's various efforts at trade liberalisation were "dead in the water" (Bergsten, 2001).

APEC has progressed so slowly that it has not yet established any binding rules, but can only reduce trade barriers and facilitate investment, economic and technical cooperation by the principles of unilateral liberalisation and open regionalism. Such a deficiency can be traced back to the following cause: compared with Europe or North America, its economic mechanisms and development levels of the members are diverse. Even for Mexico, whose development is relatively inferior to the United States and Canada, it carries out the same market economy of capitalism like other North American countries. However, the economic systems found in the East Asia Pacific vary from the market economy of capitalism, planned economy under totalitarianism, to natural

economy. Therefore, it is highly likely that any common policy would be too slow for some states in the region but too fast for others (Zhong, 2002).

In addition, the fact that East Asia lacks a powerful advocate for regionalism has resulted in discord on regional competition and integration. Therefore, in order to maximise the regional economic power, scholars like Das (*ibid*: 81) have suggested that member states shall consider agreements on domestic practices, harmonise regulations, improve efficient customs procedures and increase regulatory transparency; so that both insiders and outsiders of APEC could benefit more by the trade creation effect rather than trade diversion effect.

As for its relationship to the global trade system, APEC declarations and statements have recognised the superiority of the global trade system, believing that regional economic cooperation should be carried out within the framework of the WTO. APEC Ministerial declarations have addressed both the primacy of the WTO and the need to strengthen the multilateral trading system after the Uruguay Round (APEC, 1995). In fact, APEC has put forth substantial strategies, including agents' transformation, structure change, and global linkage, to cope

with contemporary global trade liberalisation (Yang, 2001). Regarding the first strategy, APEC aims to raise the level of economic cooperation and development of Asia as a whole through liberal trade and investment. Thus, individual states promise to change trade policies in order to enhance their competitiveness. Individual Action Plans (IAP) in 1996 is exactly the agenda that states in the region voluntarily proposed to explain how they would achieve the goal set up for 2010 and 2020. The second strategy is in connection with intra-states trade interaction. For example, Early Voluntary Sectoral Liberalisation (EVSL) was advocated to improve the trade relations among member states. The final strategy stresses the principle of “WTO Consistency”, coordinating global trade liberalisation and regional economic cooperation by linking its agendas to WTO goals.

However, as Thurow in his book “Head to Head” published in 1993 argues that potential political matters, economic problems, and complex intra-state diplomatic relations in East Asia will prove to be the unstable factors for the global leaders in the 21<sup>st</sup> century; East Asian governments have gradually realised that they have to cohere to a regional identity. Hence, a decade after APEC’s establishment, it is time to look for a new principal means to promote

collaboration in the region. And such claim could be seen as the signal for forming the sub-regional cooperation -- an "Asian Way" for the regional integration.

In short, the progress of APEC sustains the previous analysis that the disparities among the nations in the East Asia Pacific are too great to be overcome through a large-scale of regional cooperation. Although APEC itself has not reached the stage of urging the East Asia Pacific region to be a totally free-trade area, it inspires the future regional integration attempts that East Asian countries could achieve mutual respect, reciprocal favoured treatment, as well as concordant agreements by acknowledging variety and emphasising flexibility and openness.

### *(3) The World Trade Organisation*

The last two sections have pointed out the flaws and the failure of ASEAN and APEC. The former one had little success on the economic integration; and the latter one, based on open regionalism, was therefore established as a solution to the problems of old regionalism. If the existing regional regimes are not capable of binding the East Asian economies together, could seeking cooperation under

the framework of global economic institution be a possible option to achieve integration?

Under the parallel development of economic globalisation and regionalisation, the global trade system has been linked to three major regional economic bodies in Europe, North America and Asia, for which the EU, NAFTA and APEC are their representative organisations (Teng, 1999). Nevertheless, APEC, known as an important steppingstone towards new regional integration, has made slow progress when compared to other examples of major regional cooperation in the world.

It is generally believed that the WTO is superior to all these regional economies as it bears the major responsibility for coordinating international labour division, promoting efficiency, and expanding commodity production. Thus, some may say why not take the advantages of the WTO? By participating in the WTO, the economies in East Asia will have more opportunities to build firmer economic networks with others, especially those from the same region. Over time, it is highly anticipated that the economies will eventually be bound up as a whole. Yet, the fact is developing countries, or so-called “disadvantaged

minority”, are not satisfied with the WTO. For them, economic globalisation and highly developed technology facilitated by the growing of the WTO are disturbing the balance of world economic development, enlarging the gap between the rich nations and the poor ones (Wei, 2001). The disappointment with the WTO is especially strong in East Asia as most states in the region are still counted as developing countries. Feeling that their interests have been sacrificed for those developed industrial states, East Asian countries continue to seek economic transformation: despite the WTO regulations are becoming stricter, countries in the East Asia Pacific have come to adopt strategies that seek regional preferential agreements as well as a better circulation in capital, technologies, resources and trade. By doing so, they may be able to enhance their competitiveness, dealing with the impact caused by economic globalisation.

Furthermore, after three series of negotiations, it has been agreed that the NAFTA will be enlarged before the end of 2005. In other words, the American Free Trade Area (AFTA), with 34 member states from North and South America as well as Caribbean Sea area (Zhong, 2002). A new economic grouping of this proportion, with over 1.2 billion US dollar output and 800 million population, nearly 15% of the world’s total population, clearly casts a threat to which the

disintegrated East Asia must respond to and make changes if it is to keep its share of the market.

In short, the WTO may have opened up a wider market for the economies in the East Asia Pacific to take part in, yet, there is no strong evidence showing that it helps East Asian countries to form a solid bloc while seeking better economic development in the global society. The disappointment with WTO has become another reason reinforcing the call for a new kind of regional cooperation in the East Asia Pacific. It is a great pity that neither regionalism nor global trade liberalisation has fulfilled the expectation of promoting regional binding in the East Asia Pacific (Acharya, 1997).

*(4) Alternative Proposals for Region-building in the East Asia Pacific*

If none of the existing mechanism plays the role of building up the East Asia Pacific as an integrated bloc, why cannot East Asian countries ever try to establish formal institutions other than APEC or ASEAN to cope with regional cooperation problem? The question has been asked and the action was actually put forward once after the financial crisis.



As there is no formal institution capable of coping with the crisis when it came, the economies in the East Asia Pacific had no choice but to follow the IMF's lead. However, the IMF's monopolised rescue efforts, with the World Bank and the Asian Development Fund playing indistinctly subordinate roles, showed very little regional coordination with the suffering economies. In order to get the aids from the IMF, most countries had to make huge sacrifices abandoning their financial policies or change the economic structures. As a result, the idea of creating the Asia Monetary Fund (AMF) was brought up as an alternative.

The proposal of establishing a \$100 billion AMF was first introduced by Japan in August 1997 with the pledges mostly from China, Hong Kong, Taiwan and Singapore. It was believed that speculation against a currency backed altogether is less attractive. Moreover, it would be more acceptant for East Asian countries as the AMF stuck to financial matters only and would not break any political status quo. However, such highly feasible proposal was shut down by the US Treasury. Schmidt (2002: 11) argues that the US government has preferred "cash-trapped" international agencies so that it could easily have its influential power over other countries where it is less dominant. As USA has

good control over the IMF, it would not allow another similar institution established to compete with IMF

Even though the economies in the East Asia Pacific have been aware of the danger that the lack of coordination and management from a formal institution, the development of regionalisation would break the stability of the region, they find it difficult to have a solid regime established to lead the region-binding process as most of them are developing countries that could hardly take such large-scale action without the endorsement of the “super outsiders”, the United States for example. In other words, the regionalism in the East Asia Pacific is not mature enough to facilitate integration.

In sum, at the moment, the East Asian countries could only afford to launch projects with smaller scales, lower levels, and less difficulties to pave the way for future regional integration. And sub-regional cooperation appears to be an appropriate choice.

### **Sub-regional Economic Zones in the East Asia Pacific**

After looking at the historical background of East Asian integration and the

relevant theories, this section aims to introduce sub-regional cooperation in the East Asia Pacific. It contains two parts: first, a brief discussion of sub-regional economic zones in the East Asian Pacific; and second, the selection of the cases utilised to answer the general research question: can sub-regional cooperation be the basis for regional integration in the East Asia Pacific?

*(1) The Nature of Transnational Sub-regional Cooperation*

The rampant development of transnational sub-regional cooperation in the East Asia Pacific is well-represented by the growing number of sub-regional economic zones (SREZs), which is believed a new type of informal integration without the enforcement from regional integrative organisations or comprehensive legal agreements. Peng (2002: 615) illustrates that the so-called comprehensive legal agreements refer to those “that cover a dominant portion of the international exchange among all the member economies, such as free trade agreements (FTAs) and customs unions”. In other words, even though the practice of sub-regional cooperation, on the basis of micro-regionalism, is the new political economy of regionalism, the path it has taken for regional integration is different from regionalism. Therefore, before we introduce the SREZs in the East Asia Pacific, some fundamental concepts of sub-regional

cooperation requires a discussion first.

Peng (*ibid*: 614) defines a SREZ as an economic area that serves as a medium of economic integration. Unlike a free trade area, a SREZ may include only parts of the participants' territories, unless the participants are relatively small city or island economies. For example, the Singapore-Johor-Riau Growth Triangle includes Singapore, one state of Malaysia (i.e. Johor) and one province of Indonesia (i.e. Riau). Another example is South China Sub-regional Economic Zone which includes Taiwan and Hong Kong, and Guangdong Province<sup>6</sup>. In short, one of the features of transnational sub-regional cooperation is that it is below the national level.

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<sup>6</sup> Scholars have different definitions of SC SREZ's participants. There are four popular comments: some assert the SREZ includes Taiwan, Hong Kong, Guangdong Province; others claim it includes Taiwan, Hong Kong, Guangdong and Fujian Provinces; still others say it includes Taiwan, Hong Kong, Macao, Guangdong province; and the rest think it include Taiwan, Hong Kong, Guangdong and Hainan Provinces. It is worth noting that scholars all agree that Taiwan and Hong Kong are definitely the members in the SC SREZ. In addition, earlier in this chapter, we have already confirmed that no matter what China claims, in the view of international organisations and academia, Taiwan and Hong Kong are qualified as dependent economies not only for international political economy research but also for sub-regional cooperation study in this thesis. Moreover, since China has focus it economic development strategies on the Pearl Delta which is in Guangdong province and most enterprises from Taiwan and Hong Kong are gathered in this area, I suggest that in this thesis we should recognised the fact and take the first comment that SC SREZ embraces Taiwan, Hong Kong and Guangdong Province, as the research subject.

There are many SREZs in the East Asia Pacific, but as the title of this thesis suggests, we only focus on “transnational sub-regional cooperation”, which is anticipated to pave the way for East Asian integration. Thus, the second feature of transnational sub-regional cooperation is that it is a “cross-border” economic activity. This echoes to the majority of the literature that “micro-regionalism concentrates on cross-border economic interactions between geographically contiguous areas”, said Beslin and Hook (*ibid*: 11).

There are two things worth mentioning: first, the sub-national areas of a SREZ can be separate by sea, where TRADP and SC SREZ are the cases. Therefore, rather than perceive seas as barriers, Breslin and Hook (*ibid*) propose the concept of “liquid continents” to address the fact that sea-routes have been a major means of economic interaction. Second, why is SC SREZ qualified to be studied in this thesis? As we have explained many times in this chapter that no matter what China says about Taiwan’s status, it would not affect the fact that Taiwan is treated as an independent economy in the international society. Besides, Taiwan has all the elements that would constitute a country. Moreover, we not only find the support from the literature, but also from the research institutes that Taiwan has been studied as an independent subject just like many

other countries in the world. Furthermore, it is also a member in the international economic organisations, the WTO, APEC, and Olympics for instances. Hence, I take the side of the literature that Taiwan is seen as a “nation” in all the transnational sub-regional cooperation research in the academia and also in this empirical study. As for Hong Kong, it was the colony of the United Kingdom when SC SREZ was taking shape. At that time, it was treated as an independent economy in the East Asia Pacific. Later on when it reunited with China in 1997, the “One Country, Two Systems” policy was pronounced. Such policy granted Hong Kong a high level of autonomy especially in economic affairs. In other words, in most cases, Hong Kong continues to act as an independent economy, separated from China. Hence, in the research field of East Asian sub-regional cooperation, scholars continue their study and regard Hong Kong as an independent subject in the cross-border SREZ without much doubt. Based on the discussion above, I continue what have been studied in the literature about SC SREZ and support it as one of the transnational sub-regional cooperation cases in the East Asia Pacific.

As said before, a SREZ is an economic area with micro-regionalisation and micro-regionalism working within it. Similar to regionalisation,

micro-regionalisation represents a market-led force. However, being a policy -led force, micro-regionalism does not capture the full characters of its origin--regionalism. Since Chapter one serves merely as an introduction chapter aiming to provide historical background information, defined concepts, and clear terminology, I leave the in-depth discussion about the theories utilised in this thesis in the next chapter, the chapter of the literature review. Nevertheless, here I attach a table below to introduce the different types of regionalism for readers to gain an idea about their contents.

**Table 1.2: Different Types of Regionalism**

Type	Regionalism	Sub-regionalism	Micro-regionalism
<b>Geographic concept</b>	Traditional concept of a region, e.g. Five continents.	Fragmental geography, e.g. Latin American, the Middle East, and East Asia.	Sub-national geography, e.g. growth triangles.
<b>Main actors</b>	Regional powerful countries.	Small and medium-sized countries.	Local governments.
<b>Objectives</b>	To form a trade framework and carry out non-discriminatory measures	To form a collective force to confront the pressures from the outsiders, such as regionalism and globalisation.	To promote economic growth and carry out the division principles for comparative advantages.
<b>Advantages</b>	It forms an effective scale economy.	It conforms to small and medium-sized countries' interests.	It is full of flexibilities.
<b>Limitation</b>	1. The geographic scope is too vast. 2. Instead of emphasising common interests, member states	1. The definition of the geographic scope is vague. 2. Member states do not have common	1. Member economies may not be bound with legal agreements. 2. The market scale



	<p>compete with each other for supremacy in the region.</p>	<p>consensus on development programmes.</p>	<p>is limited.</p>
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Source: this table is formulated by this author.

(2) *The Selection of the Cases*

Peng (*ibid*: 615) points out that most countries in the East Asia Pacific use sub-regional cooperation as parts of their integration strategies. Therefore, one of the main efforts in this section is find out how many SREZs exist in this region and what types they are? Based on the findings, I will then decide what three SREZs are the most appropriate cases for further analysis.

The East Asia Pacific region is constituted by three main parts: Northeast Asia, the Asia Pacific, and Southeast Asia. Many different forms of sub-regional cooperation were set up sometimes around the 1970s to 1980s. Some of them were promoted by the central or local governments while others had developed spontaneously. In the following paragraphs, I will examine the sub-regions one by one to search for transnational sub-regional cooperation projects.

(a) The Northeast Asia Sub-region

Northeast Asia is the area with the greatest unexplored economic potential in the East Asia Pacific. The economies in this sub-region are highly complementary.

For example, Japan and South Korean have strong capital and technology; Northeast China and North Korea have abundant cheap labour; and Russia and Mongolia have rich natural resources. In Northeast Asia, there are three transnational sub-regional cooperation projects: the Sea of Japan Rim SREZ (SJR SREZ), TRADP, and Bohai/Yellow Sea SREZ (BYS SREZ).

(b) The Asia Pacific Sub-region

The SREZs in this sub-region are well known for their speedy development. China not only possesses the most land, it also initiated the most SREZs in this sub-region. However, most of its SREZs are limited to domestic economic activities but not cross-border economic interaction. The only SREZ which conforms to the given definition of the transnational sub-regional cooperation is the SC SREZ. SC SREZ has been performing well ever since it was established. Similar to the SREZs in Northeast Asia, the three economies of the SC SREZ are highly complementary too: Guangdong Province owns abundant raw material, land and labour resources while Taiwan and Hong Kong owns steady capital and high technology.

(c) The Southeast Asia Sub-region.

Most SREZs, except SIJORI, in the Southeast Asia sub-region were set up later

than those in Northeast Asia or the Asia Pacific. Among them all, SIJORI was not only the first sub-regional cooperation project but is also the most successful one (Peng, 2002:633). It has a strong spill-over effect, leading to the establishment of a number of other SREZs in the Southeast Asia sub-region. The total number of SREZs is way more than those in either Northeast Asia or the Asia Pacific sub-regions. In comparison, these SREZs are considered substantially more successful than those in Northeast Asia. However, their chain effect is comparatively weaker than that of the SREZs in the Asia Pacific (*ibid*).

There are 8 SREZs in this sub-region:

1. SIJORI
2. Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT)
3. Yunnan-Laos-Myanmar-Thailand Growth Quadrangle (Golden Quadrangle/GQ)
4. Brunei-Indonesia-Malaysia-Philippines Growth Quadrangle or East ASEAN Growth Area (BIMP-GQ or EAGA)
5. Greater Mekong Sub-regional Economic Cooperation (GMS)
6. Ayeyawady-Chao Phra-Mekong Economic Cooperation Strategy or Cambodia-Laos-Myanmar-Thailand-Vietnam SREZ (ACMECS or CLMTV SREZ)

7. Mekong Ganga Economic Cooperation (MGEC )

8. Bay of Bengal Multi-Sectoral Technological Economic Cooperation  
(BIMSTEC)

(d) The types of SREZs in the East Asia Pacific

In order to help readers to build up a comprehensive understanding of 11 transnational sub-regional cooperation projects in the East Asia Pacific, I present below a table listing all these SREZs and their main attributes. Abbreviations are used in the table but the full name can be found in the section above or in the footnote.

**Table 1.3: Transnational SREZs in the East Asia Pacific<sup>7</sup>**

	<b>Est. year</b>	<b>Countries/ Sub-regions Involved</b>	<b>Types</b>	<b>Actors</b>	<b>Objec-tives</b>	<b>Achievements</b>
<b>SC</b>	1980s – 1990s	Taiwan, Hong Kong, Guangdong Province of China	Informal State Natural	Govts Private	Infrastr. Trade FDI	Infrastr., Trade, FDI, Jobs, CEPA, ECFA, and

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<sup>7</sup> “Est. year” refers to the established year of the SREZs; “Govts” stands for governments; “Infrastr.” stands for infrastructure; “Eco.development” stands for economic development; and “Private” means private businesses. Please note that in this table “Govets” include central and local governments

						Economic growth
<b>SJR</b>	1988	Cities along the coast of the Japan Sea and their counterparts in China, Russia, North and South Korea.	Informal State Construct-ed	Govts Private	Trade FDI	No obvious progress in trade or FDI.
<b>BYS</b>	1988	Beijing and Tianjin municipalities, and Hebei, Shangdong, and Liaoning Provinces of China. The west coast of North Korea and South Korea. Kyushu of Japan.	Formal State Construct-ed	Govts, Private	Trade FDI	Weak economic networks
<b>TRADP</b>	Early 1990s	Phase 1: Yanji (China), Chongjin (North Korea), and Vladivostok (Russia) Phase 2: Huichun (China),	Formal State	Govts UNDP	Infrastr. Trade FDI Tourism Eco. development	Slow progress in economic growth

		Rajin (North), and Posyet (Russia)				
<b>SIJORI</b>	1989	Singapore, Johor (Malaysia), and Riau (Indonesia)	Formal Non-state Natural	Govts Private	Infrastr. Trade FDI	Infrastr. FDI, jobs
<b>GMS</b>	1992	Greater Mekong sub-region, including parts of Cambodia, Laos, Myanmar, Thailand, Yunnan, and Vietnam	Formal State natural	Govts ADB	Infrastr. Trade FDI Develop- -ment	Infrastr., Hydropower, Navigation, Management, Tourism
<b>IMT- GT</b>	1993	The north part of Indonesia and Thailand, and several cities of Malaysia.	Informal State Natural	Govts ADB	FDI, Eco. develop- ment	Economic growth, Tourism
<b>GQ</b>	1993	The upstream of Mekong River, including China, Laos, Myanmar, and Thailand.	Formal State Natural	Govts	Econom ic develop ment	Slow progress in economic development
<b>BIMP- GQ</b>	1994	Brunei, and islands of the Philippines, Malaysia, and	Informal State Construct -ed	Govts ADB	Eco. develop- ment	Joint-FDI

		Indonesia.				
<b>BIMS TEC</b>	1997	The border areas between Bengal, Indonesia, Myanmar, and China	Formal State	Govts	Infrastr. Trade Tourism	FTA in 2007
<b>MGEC</b>	1999	Mekong Countries and India	Formal State Natural	Govts	Eco. develop-ment	Slow progress in economic development

Source: formulated by this author according to various literatures in this thesis.

The table above shows that there are three different kinds of SREZs in the East Asia Pacific: economic geography-based SREZs, river-based SREZs, and cross-subregional cooperation SREZs. For example, SIJORI is the economic geography-based SREZ, TRADP is the river-based SREZ, and BIMSTEC is the cross-subregional cooperation SREZ. In most cases, the standard SREZ is set up in a growth triangle form with three major participants. Only in a few cases the SREZs are set up in a growth quadrangle form or embrace more than three economies in the cooperation project. Moreover, these SREZs in the East Asia Pacific have well-represented the flexibility addressed in the literature about sub-regional cooperation. In all 11 SREZs, we see both formal type and informal type of transnational sub-regional cooperation. Some of them were naturally established without much force from the government; others were initiated by

formal arrangements; still others were collaborated by both governments and the private forces. In addition to that, we understand from the table above that there are three possible key actors: an international organisation, the private businesses, and the governments, including central governments and local governments. The key actors vary in each case though. For example, in SC SREZ, the key actors are governments and private businesses<sup>8</sup>. But in TRADP, the key actors are the governments and UNDP, an international organisation. An international organisation participated SREZ is especially popular in Southeast Asia that Asia Development Bank is one of the key actors in three transnational sub-regional cooperation projects in this sub-region. Furthermore, as we can see that the objectives of all SREZs in the East Asia Pacific are to seek various economic interests. It echoes to the definition set earlier in this chapter that the purpose of transnational sub-regional cooperation is to link three (or more) areas with different factor endowments and different comparative advantages for greater economic growth.

It was expected that these SREZs would rise simultaneously, generate spill-over effect to other areas, and eventually merge into a broad East Asian

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<sup>8</sup> Governments here include the central government and the local governments.



Economic region. Since the East Asia Pacific is divided into three groups, it is anticipated to find a proper case from each group for further study. However, the reason why I choose TRADP, SC SREZ, and SIJORI is not only because they happen to be in each sub-region but also because they are with better chance to answer the general research question in this thesis: what is the extent transnational sub-regional cooperation can achieve in paving the way for East Asian integration?

As we can see, SREZs in the East Asia Pacific have shown a highly unbalanced pattern in their progress. Many SREZs, mostly in Southeast Asia, have proceeded very slowly or achieved limited objectives. We should not dismiss the significance of the SREZs which have not lived up with their expectations since studying a failed case can provide important insights just as studying the successful ones. However, one can hardly make sustainable analysis and draw significant conclusion from studying a SREZ that is still on an early stage or an initial scale. What really counts is whether the selected cases could contribute to further analysis so that the research questions can be answered. In addition to this concern, the criteria for the case selection are as follows. First, as stated earlier, the SREZs should be significant cases in each sub-region. Second,

instead of being on an initial stage, the SREZs should be well-constructed and achieve a sustainable scale by now. Third, the progress of the SREZs should enable us to build up a comprehensive understanding of the establishment and the transformation of transnational sub-regional cooperation in the East Asia Pacific. Fourth, from the experiences of the present regional blocs (e.g. EU and NAFTA), a solid economic bloc is more likely to endure if it has endorsements from the regional powers (e.g. UK, France, and Germany in the EU, and USA in the NAFTA). Same principle should apply to SREZs in the East Asia Pacific as well. Thus, those transnational sub-regional cooperation projects embracing influential economies are believed worth studying than others.

After considering all these conditions, SIJORI, TRADP, and SC SREZ are the cases that fit in mostly with the description above. Firstly, all of them stand out comparing to the other SREZs in the same sub-regions. Unlike SJR SREZ, BYS SREZ in Northeast Asia or IMT-GT, GQ, BIMP-GQ, BIMSTEC, MGEC in Southeast Asia describe their participants and the involved territory in a vague concept such as “cities along the coast of the Japan sea and their counterparts in China” or “countries in the upstream parts of Mekong River”, SIJORI, TRADP, and SC SREZ have clearly defined their main participants as well as concrete

land involved in the sub-regional cooperation. Besides, SIJORI, TRADP, and SC SREZ have progressed to have their economic objectives planed in details, when the rest SREZs are in a quite early stage seeking economic growth in a general idea. In addition, similar to the EU and the NAFTA, SIJORI, TRADP, and SC SREZ have embraced at least one of a regional influential or advanced economies in the sub-regions. Therefore, comparatively strong business networks and economic markets are more likely to be found in their cooperation. Further discussion about these three cases will be presented in the following paragraphs to address the validity these three SREZs can be the subject of case studies in this research.

SIJORI was the first official sub-regional cooperation project in the East Asia Pacific. Most understanding of the SREZs was drawn from its experience. Since it is the origin of transnational sub-regional cooperation, the case is worth studying. Besides, the fact that SIJORI has generated the emergence of other SREZs in Southeast Asia has furthermore proven the value of this case. However, the importance of SIJORI is more than just that. In Southeast Asia, the most significant organisation is ASEAN. We have discussed in the second section of this chapter that member states of ASEAN on one hand hold serious competition

against each other; on the other hand, they seek intra-cooperation against Japan and China. SIJORI happens to include the essential member states of ASEAN: Singapore, the most developed country in the area; Malaysia, which aims to be the leader of ASEAN; and Indonesia, which possesses the largest territory among all other members<sup>9</sup>. If their experiences of transnational sub-regional cooperation are pleasant and successful, they may be able to drive other Southeast Asian countries to put more efforts on their own SREZs.

TRADP, with the participation of three major countries (Russia, North Korea and China), and the support from UNDP, is considered the most ambitious sub-regional cooperation project in the East Asia Pacific. It possesses the greatest volume of natural resources in the East Asia Pacific that are underdeveloped. In other words, the potential economic interests are huge. Nevertheless, similar to the conflict that SIJORI has between the members, the three major participants of TRADP also hold hostile attitudes against each other on various cultural, security and political issues (Long, 1991:39). In fact, this sub-region is considered the most turbulent area in Northeast Asia. In addition, these three major participants

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<sup>9</sup> Singapore's growth competitiveness is ranked world top 10. Its business competitiveness and the quality of the national business environment are also ranked world top 10 (World Economic Forum, 2005; and Porter, 2005).

appear to be the most influential countries in Northeast Asia in terms of politics, economics and security<sup>10</sup>. It is assumed that if the programme is successful; it would encourage the emergence of more SREZs in the sub-region and result in the harmonious relationships among the member states which can be the basis for regional integration.

As for the SC SREZ, it is considered the most dynamic SREZ in the whole East Asia Pacific region. As demonstrated in the beginning of this chapter, the purpose of this thesis is to explore the dynamics of transnational sub-regional cooperation and the extent to which it relates to economic integration in the East Asia Pacific. Therefore, SC SREZ being the “most dynamic” SREZ should serve better than two other cases in terms of being analysed. And in the next few paragraphs, I am going to justify the validity that SC SREZ is the “most significant” case for in-depth analysis.

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<sup>10</sup> With the greatest territory and population, China is expected to be a regional hegemony. Meanwhile, Japan is regarded as the regional economic superpower. Its growth competitiveness is ranked world number 9 in 2004 and number 11 in 2003; while the business competitiveness is number 8 and the quality of the national business environment is number 11 in the world (World Economic Forum, 2005; and Porter, 2005). Although North Korea has performed poorly in economic development, the possession of the nuclear weapons has increased its power on the regional affairs .

The significance of the SC SREZ can be examined from the following aspects: first, participants' economic performances; second: their political harmony; and third, the expansion of the case. As for the first one, SC SREZ is the greatest SREZ in the East Asia Pacific in terms of the geographic scope, the number of population, the economic wealth, and the developed level. The economic performances of Taiwan, Hong Kong and Guangdong Province of China are extraordinary in the world. Taiwan and Hong Kong are both ranked world top 20 in terms of business competitiveness while Guangdong Province has earned a reputation for creating an enormous trade volume<sup>11</sup>. Guangdong is not only the richest and the most developed provinces in China, it is also reputed as the world factory. In other words, these three major participants are influential not just to the regional economy but also to the world economy.

Moreover, a SREZ is an informal type of economic cooperation which the participated economies can enjoy economic interests through exploiting each others' complementary resources. Based on that, the SC SREZ has once again shown its significance in realising the practice of transnational sub-regional

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<sup>11</sup> Taiwan's growth competitiveness is ranked World Top 5 since 2003. Its business competitiveness and the quality of the national business environment are both ranked world top 20. The growth competitiveness of Hong Kong is world 21 in 2004 and 24 in 2003 (World Economic Forum, 2005; and Porter, 2005).

cooperation. The three participants happen to possess abundant resources for exchange: Hong Kong, being an international financial centre, it has abundant capital in exchange for labour force. As for Taiwan, it shares a similar experience. It has abundant technology and knowledge, the computer gadget making for instance, also in exchange for labour force as well as raw materials. Meanwhile, Guangdong has a great number of labours gathered in the Pearl River Delta. Thus, these three participants are well-matched not only in enjoying the comparative advantages but also in getting the cooperation project rolling. That is to say, the economic performances of these three economies do surpass that of other economies of SIJORI and TRADP. Moreover, since SC SREZ is strongly backed up with their abundant resources in terms of capital, advanced knowledge, labour force; it is capable of maintaining a steady and long-term progress which is perfect for further analysis.

The significance of the SC SREZ can also be demonstrated in the second aspect: how is the conflict dealt between economies? Same with SIJORI and TRADP, the long-standing confrontation between China and Taiwan has made the area extremely unstable. In fact, the political confrontation in the SC SREZ is probably the worse case among all other SREZs in the East Asia Pacific.

Therefore, it is worth analysing the extent of the SC SREZ in terms of outwitting political disagreements and constructing economic agreements between politically-tangled economies. In short, SC SREZ can form a good subject for further analysis aiming to answer the question: can transnational sub-regional cooperation be the basis for future integration? Can opponents establish secured relationships for long-term cooperation and win-win prosperity by increasing interdependency through participating in the SREZ?

Finally, the significance of SC SREZ being a good choice for in-depth analysis can be demonstrated by the factor that it is a “growing” SREZ which is more likely to generate spill-over effect and pave the way for future region-building. It is considered a growing SREZ for two reasons: first, the SREZ has geographically expanded its scope; and second, it has gone beyond the economic field and created good political phenomena across the Taiwan Strait. The cross-strait relation is also an indicator for other economies to examine whether China follows its slogan of “Peaceful Rise”. That is, can it be a trustworthy partner? Or is it a threat, in terms of economics, politics or security, in the region? In short, the SC SREZ not only forms a proper subject for case study, it also shows greater significance than SIJORI and TRADP for more



in-depth analysis.

To sum up, this study utilises these three cases to explore the dynamics of the transitional sub-regional cooperation in the East Asia Pacific. The anticipation is to find out the determinant factor to establish a growing SREZ. The interaction between micro-regionalism and micro-regionalisation in maintaining the a SREZ will be discussed in the next section.

### **The Main Forces in a Sub-regional Economic Zone**

We have review the literature and pointed out the nature of transnational sub-regional cooperation and the features of the SREZs in the second and third section in this chapter. In this section, the factors and the theories used to investigate the three cases will be introduced.

#### *(1) The EGPIB Factors*

As mentioned earlier in this chapter, the SREZ is an informal and transnational mechanism serving as a medium of regional economic integration. It is a “new spatial-economic complex” which usually involves contiguous border areas of national economies (Chen, 1995: 606). In other words, it transcends political

boundaries. The operation is not enforced by any comprehensive legal agreement or regional organisation but is determined by economic factors (Peng, 2002: 614-615). And the private sector is in charge of it, while governments usually play supportive roles in the background. There are also other names given by scholars, such as “economic circles”, “extended metropolitan regions” (Tang and Thant, 1995a: 1-28), “natural economic territories” (Scalapino, 1995), “natural strategic alliances” (Storper and Harrison, 1991), or “loosely connected alliances” (Connolly, 1993). All these names illustrate the fact that the transnational sub-regional cooperation with limited official involvement is spontaneously formed to tackle economic relations with contiguous states.

Based on such understanding and the actual practice of the SREZs in the East Asia Pacific, scholars have generalised several factors and claim these factors not only relate to the forming of a SREZ, but also being the key to a successful SREZ. And these factors are Economic complementarity, Geographical proximity, Political commitment and Policy coordination, Infrastructure development, and Business networks (EGPIB). Since EGPIB factors offer an integrated concept of transnational sub-regional cooperation, they would be suitable criteria used to examine the three selected cases in this thesis.

In the second section of this chapter, we found out that there are 11 SREZs in the East Asia Pacific. We also found out that the progress of these SREZs are uneven. But what we did not find out is the reason leading to such uneven development. If EGPIB factors determine the establishment and the transformation of a SREZ, are they equally important? Or do certain factors weight more than others?

*(2) Micro-regionalism vs. Micro-regionalisation*

As for the application of the theories, the two main forces that constitute and sustain a SREZ are micro-regionalism and micro-regionalisation. As mentioned earlier, micro-regionalism and micro-regionalisation have taken the fundamental concepts from regionalism and regionalisation, and have made them their own. Many efforts were made in recent years to study regionalism, since it is believed to be the cornerstone of regional cooperation. Nevertheless, scholars like Liu, Régnier, and Dosch argue that most approaches to regionalism were based upon European understanding of regional cooperation and may not be profound enough to apply to East Asia. Although there are other studies of regionalism focused on East Asia; however, they largely concentrated on the

process of regional institutions or regime build-ups (Liu, 2003b:221; Régnier, 2003:52; and Dosch, 2003:30 and 36). As we have disclosed earlier in this chapter, the East Asia Pacific region is much more complicated than other regions in terms of uneven economic development, historical animosity, and tangled geopolitics amongst the nations. The contemporary perspective of regionalism in East Asia may just be too simple to explain the whole region-building process.

Comparatively, micro-regionalism and micro-regionalisation which sustain the sub-regional cooperation attract more attention in East Asia than in Europe or America. So far, the most profound research is probably done by Breslin and Hook (2002) in their co-edited book 'Micro-regionalism and World Order: Concepts, Approaches and Implication'. They (*ibid*: 14) suggest that we should place our understanding towards SREZs on considering different types and levels of state, sub-state actors, international organisations, and private enterprises. Even though micro-regionalisation plays an important role in stimulating the progress of SREZ, in many cases, the key state actors are the central governments, but in others, the local leaders of sub-national political authorities. They take Franco-Spanish micro-regionalism as an example that sub-regional

cooperation was brought into being through dialogues between local state elites in Catalonia, Languedoc-Roussillon and Midi-Pyrenees. However, as pointed out in the beginning of this section, there is no profound study made to explain what factors or which force are responsible for sustaining a SREZs, and not even in Breslin and Hook's research. Therefore, I will try to fill the loophole in the literature by analysing the involvement of EGPIB as well as the interaction between micro-regionalism and micro-regionalisation in the selected cases.

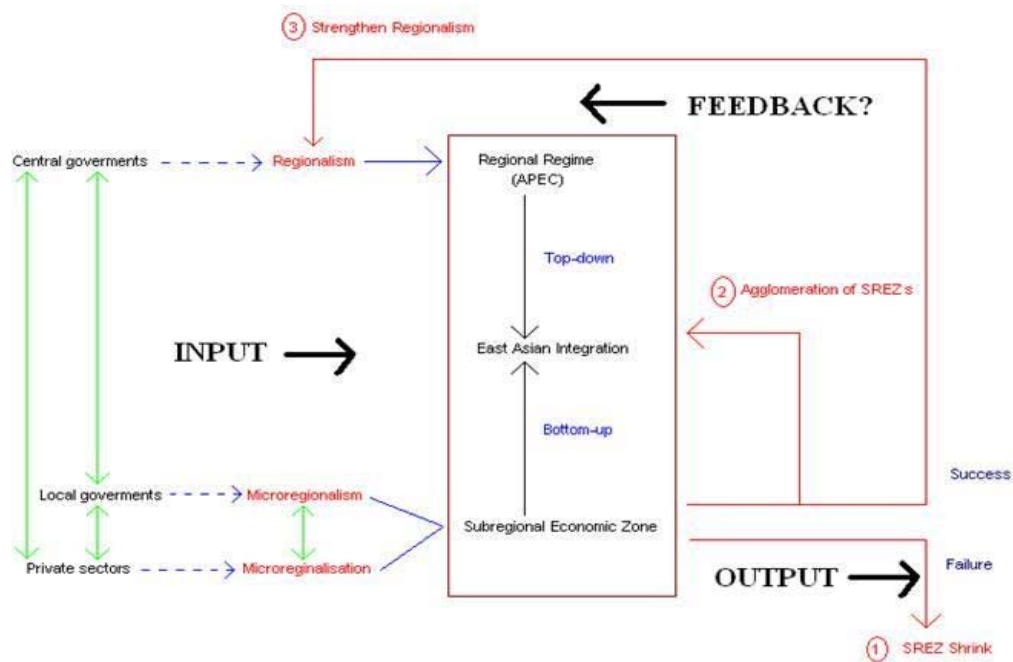
### **The Relevance of the Study**

This thesis can make two contributions. The first one is to offer an integrated analysis of the transnational sub-regional cooperation in the East Asia Pacific. The second one is to clarify the relationship between the SREZs and East Asian political economy.

Most academic works on transnational sub-regional cooperation in the East Asia Pacific focus on either general understanding of SREZs, or individual SREZ in one sub-region. For example, Peng (2002) concerns the establishment of East Asian SREZs, Than (2010) focuses on SREZs in Southeast Asia; and Hughes

(2000) emphasises the development of TRADP. In other words, the contemporary research on transnational sub-regional cooperation in the East Asia Pacific tends to be fragmented. However, this thesis can provide a comparatively integrated perspective and avoid an explanation set on single-cause reductionism.

**Figure1.1: The Dynamics of the Region-building process in East Asia Pacific.**



The figure presented above is formulated by myself. It is based on “Structural-Functional Analysis”, proposed by Almond and Powell, Jr. (1992: 9), regarding the process of transnational sub-regional cooperation in the East Asia

Pacific as a system with the interplay of input, output and feedback. It shows that a SREZ could involve in the region-building process. And the main purpose of this thesis is to explore to the extent SREZs affect regional integration, and the dynamics of transnational sub-regional cooperation.

### **The Outline of the Thesis**

This empirical thesis is motivated to formulate an integrated account of transnational sub-regional cooperation in the East Asia Pacific. The thesis is constructed with eight chapters in total. Chapter one is served as a map of this research. The problem for analysis has been addressed, and the relevant background information has been provided. Chapter two is the literature review of the academic research on region-building and transnational sub-regional cooperation. The gaps in the existing literature will be introduced. Chapter three presents methodology and methods utilised for the analysis of the case studies. Chapter four, five, six are the empirical studies of the three selected SREZs. Chapter seven is the in-depth analysis of the fieldwork research. The final chapter is a comparative analysis and a conclusion.