

Chapter Two:

The Literature Review

Introduction

We have engaged in a brief literature review in the first chapter. Chapter two continues the work of reviewing the existing literature concerning with region-building and transnational sub-regional cooperation in the East Asia Pacific. The main research questions of this thesis are as follows: what can transnational sub-regional cooperation contribute to economic integration in the East Asia Pacific? And what accounts for the establishment and transformation of the SREZs? These questions construct the guideline for organising this literature review, with the anticipation to provide an integrated understanding to East Asian political economy.

The Literature Review on Region-building

(1) What Constitute A Region?

Liu (2003a:6-7, 24 and 17-19) believes that both regionalisation, a loose market-led force, and regionalism, a deliberate policy-led force, were raised to

cope with the pressing pressures from globalisation and localisation¹. However, the conditions which lead to their arising are still under debate. Scholars have not yet achieved agreement on defining what constitutes a region. The indicators which define a “region” vary according to the particular problem or question under investigation. Some scholars think the geographical proximity is the key factor linking the states. Others argue that there is no such thing as a “natural region”. It is always the functional reason such as shared value or collective identities in terms of politics, economics, cultures, or institutional connections bring states together as the whole. Still some others believe that the definition of the region could be a combination of psychological and behavioural characteristics or any element just mentioned above (Russet, 1967; Hurrell, 1995a, Hurrell, 1995b: 37-73, and Kim, 2004).

Such perplexity is especially prominent in the East Asia Pacific where states can be included to form a region for different reasons. For instance, China seems to be included naturally because of its location. But as it has geographical links with almost all other sub-regions in the East Asia Pacific, geographical location does not seem to be very persuasive or accurate.

¹ These two terms sometimes are combined together to be “glocalisation”.

Buzan (1998) and Kim (2004) point out that Mongolia is also an exception of the geographical proximity-based definition. Despite being involved in the integration process of East Asia, its core population and territory have actually long remained in Central Asia. Another arguable case is in Northeast Asia where Russia's geographical and demographical position is actually on the margins. However, it is no less problematic to define the East Asia Pacific through common characteristics or shared identity, consciousness, or cohesiveness among the nominated nations. Although East Asian countries are, more or less, influenced by the teachings of Confucius, they do not share a singular set of "Asian values". The cultural and historical traditions have resulted in huge disparity among the states reflected on the freedom rating and economic development as pointed out in Chapter One.

As no single rule can be applied to describe the formation of a region in the East Asia Pacific, a more acceptable definition is to embrace both geographical and functional factors, which are closer to Thompson's (2004:71-88) viewpoints:

1. the actors are generally proximate;
2. the territories are contiguous or linked by the seas;

3. regular and intensive interaction exist between the actors;
4. internal and external actors recognise the system as a distinctive area.

As discussed earlier, most scholars including Dosch (2003:30-36) and Liu (2003b:200-201) agree that the contemporary concept of region-building is greatly influenced by the progress of the EU. The initial regional cooperation attempt began after the Second World War, and the interaction among the members was limited to trade. However, the natural interrelationship has since grown tighter and tighter. The intensive interaction has facilitated the theory of regionalism that the authorities decided to start an official arrangement to work on regional projects with the neighbourhood. And the Treaty of Rome (1957) forming the European Economic Community (EEC) could be considered as the starting point of the contemporary regional trading cooperation. It is believed that economic cooperation would gradually lead to the cooperation in terms of politics and security. Worth noting is that in EU's case, the urgency for Western European countries to form a solid bloc was not just to maintain an intensive economic tie between member states. In addition, there was also a serious concern about seeking collective power not only to confront the Russian-led grouping in Cold War but also to ensure no single super power would raise up

after the Second World War to threaten regional security and stability (Zang, Y.Z., 2001:71-77 and 84-87). Liu (2003a: 24) points out that “during the high politics-centred Cold War era, the efforts of forming regional groupings were directed by the assumption of alliance, and its reasoning was therefore rooted in the forms of intergovernmental cooperation”. In other words, there was a top-down force led by Western European countries to bind member states’ politics as well as security as a whole by signing formal treaties.

From the Western European integration example, it does show the potential that through intensive cooperation between states, it is possible to achieve integration from shallow to deep level. Nevertheless, it is obvious that the East Asia Pacific does not share much similarity with West Europe in terms of the economic or geopolitical backgrounds as discussed in Chapter One. The fact that West European countries have kept intensive economic ties between each other is highly related to the factor that their territories are naturally bound with each other. However, East Asian countries are comparatively scattered in terms of geographical locations. Besides, the Second World War and Cold War have projected an urgent need for Western European countries to form a solid grouping to maintain the regional stability and security. Yet, they did not bring

the same awareness to East Asian countries. Hence, a common question is frequently raised in the literature: can regionalism really work on the East Asia Pacific? If the answer is negative, what else pattern can East Asian countries take? This thesis is, therefore, motivated to investigate the possibility that transnational sub-regional cooperation contributes to shaping East Asia as an economic bloc.

(2) Regionalisation vs. Regionalism

After setting up the definition of what constitutes a region, the second task found in the literature would be to distinguish the difference between terminology of “regionalisation” and “regionalism”. As discussed earlier in Chapter One scholars have offered a general understanding of these two terms that regionalisation is usually a market-driven process of cooperation, while regionalism is state-driven process involving collaboration with shared values, norms, identity, and aspiration between governments. Liu and Régnier (2003: xvi-xviii) address in their book that these two terms seem contradictory to each other; yet, regionalisation can trigger the development of regionalism while regionalism could be influential in reinforcing regionalisation.

The rise of regionalisation illustrates the fact that, at both national and local

levels, states are no longer the only facilitator of economic integration. Non-state actors may also be capable of achieving the same goal. Gamble and Payne (1996:334) argue that regionalisation is a process which “although seldom unaffected by state policies, the most important driving forces for economic regionalisation come from markets, from private trade and investment flows, from the policies and decisions of companies.”

Some scholars regard it as another form of regionalism as these two concepts both link to cross-border interaction. The main difference is that regionalisation primarily emerges from the actions of non-state actors while regionalism requires high level of involvement between governments.

Breslin and Hook (*ibid*: 4) have furthermore illustrated that such cross-border processes can be initiated by non-governmental organisations (NGOs) or other private sectors. Transnational cooperation advocated by NGOs to deal with global shared issue such as environmental protection can be seen as a good example. Unlike regionalism requires a certain degree of political consensus among the authorities, regionalisation is usually based upon naturally formed economic basis. Breslin and Hook (*ibid*), therefore, repute it as “a form

of regionalism, driven by economic forces, production and finance, that do not acknowledge formal borders”. However, Schmidt (2002) believes it is the nature of regionalisation, the flexible practice based on “consensus” and a loose framework-agreement rather than a concrete legal regime, which restrains the economies from pursuing integration.

Unlike the informal nature of regionalisation, Breslin and Hook (*ibid*) assert that regionalism “refers to the conscious, deliberate and purposive attempts made by national states to create formal mechanisms for dealing with common transnational issues. Such regionalism may well be a response to economic factors and may even have been promoted by non-state actor; but the regional project is defined as one which is promoted by governments and proceeds through intergovernmental interaction”. In other words, regionalism is a “top-down” process that governments implement policies which has an impact on the economy and society within the region. And with the commitments of the states, regional projects are usually more powerful and effective.

Hughes (2000: 6-7) further suggests that regionalism could actually appear in two forms: being strong or being soft. Strong regionalism implies active

efforts from the authorities “to create the conventions, regimes and institutions which can serve to bind regions together”. Alternatively, regionalism could take the soft form of “simply the approval of nation state actors for regional projects,” that is to say, the governments hold passive attitudes and give only minimal inputs in terms of creating a loose framework to proceed a freer operation of regionalisation. In Hughes’ words: “this type of regionalism involves at the very least an implicit government commitment not to impede the process of regionalisation” (*ibid*).

However, as discussed earlier, the existing definitions of regionalisation and regionalism are mostly based on the understanding of European integration. The academia has found it insufficient to explain the region-building process in the East Asia Pacific.

Whether it is a case of strong regionalism or that of soft regionalism, Liu (2003a: 15) points out that the nature of regionalism is cooperation. Doubtlessly, no one can guarantee that cooperation will certainly lead to integration. However, Liu and Régnier (*ibid*: xvii) claim that cooperation between economies, no matter in the form of regionalisation or regionalism, could serve as stepping-stone,

increasing the possibilities to achieve regional integration. And when talking about the term of “integration”, the classification of economic integration proposed by Balassa (1961) is perceived as one of the most influential studies for the contemporary international political economy. From his survey, there are five different stages for the economic cooperation between states; which are, from lower degree to higher degree, a free-trade area, a customs union, a common market, an economic union, or complete economic integration. Each step is usually followed by another. And Lawrence (1995) asserts such movement is considered as from “low level” integration to “deep” integration. Nevertheless, the East Asia Pacific has not even achieved the lowest integration of forming a full-scale free-trade area. Thus, transnational sub-regional cooperation could be seen as a pre-integration scheme, aiming to facilitate the movement towards first step integration.

Although these five economic integrations are different in terms of level and practice, they all point out one fact: integration is to diminish the divergence between states. In Anderson and Blackhurst's (1993) words: it is to reduce the significance of political boundaries within a geographical area. Such process can be done either through inter-state dialogue or through non-state directed forces.

In addition to the different forms of cooperation, economies participating in the projects could vary much in terms of speed or performance. However, the tendency for an ongoing integration can still be recognised from some facts: the increasing number of the involved economies, the increasing items and the degree of the cooperation projects, the spread of technologies from the higher tier states to lower tier states, the harmonisation of industrialisation level and other spill-over effects for example.

(3) Old Regionalism vs. New Regionalism

The current development of regionalism for region-building is definitely not the first one in the history. Kim (2002: 41-43) identifies that there have been two waves of regionalism during the contemporary period, in which the second wave is much more significant in terms of size and importance². The first wave of regionalism in the 1950s and 1960s was confined to arrangements between Western European countries and among developing countries rather than arrangements that embraced both small countries and large industrial economies at the same time. Trade preferences provided by industrial economies to developing countries were also very few and limited. However, during the

² The first wave is also known as tradition or old regionalism while the second wave is known as new regionalism. These terms will be used in turns in the thesis.

second wave of regionalism in the 1980s and 1990s, regionalism became relatively popular that numerous economies in the world were involved in at least one or more regional trade agreements (RTAs).

Das (2001) points out the EEC was the precursor to the first wave of regionalism. Following the formation of the EEC, regional trading agreements began to spread quickly among the developing countries of Africa and Latin America. Prior to early 1980s, however, with the exception of the EEC most regional trade arrangements were ineffective. This wave of regionalism failed to prosper outside Europe, and most regional trade arrangements of this period came to very little in the end.

Teng (1999) argues the first wave of regionalism did not last for very long under the opposition from the United States to regional initiatives. The United States, the largest trading economy, insisted on the need to work towards multilateral free trade, and asserted that regional arrangements could damage global trade liberalisation. In the absence of the US support, regional initiatives eventually collapsed. The only exception is EEC, as the USA was forced to support it in order to face the threat posed by the Soviets. The USA firmly

believed that a united Western Europe was a necessary deterrent to Soviet ambitions.

In comparison to the first wave of regionalism, the second wave that began at the end of the 1980s was far more vital, vigorous and varied. During the 1990s regionalism returned with a vengeance and RTAs were widely proliferated. Most nations desired to join one or more RTAs and feared being left behind. Bhagwati (1997) comments aptly on such phenomenon saying that no politician was happy unless he had put his autograph on at least one RTA. Ravenhill (2003) also claims that it is not too much to say that the second wave of regionalism comprised almost every major player of the global economy, and nearly all the WTO's 140 members have notified participation in one, or more, RTAs.

Das (*ibid*) points out the watershed event marking the emergence of the new regionalism is believed to have been in 1988-9 when the United States agreed to, and implemented the Free Trade Area of Canada (CUSFTA), abandoning its opposition to the principle of regional integration. When comparing the two periods of time, there are several striking differences between the first and second wave of regionalism. First, while old regionalism was essentially

confined to RTAs consist of industrial economies or developing economies but not both, new regionalism is known for cross alliances between developing and industrial economies. Take Asia for instance: the first transnational Growth Triangle launched by Singapore, Malaysia and Indonesia in Johor and Riau was considered as a case of cooperation between industrial economic bodies and developing states which has been taking place in recent decades (Tsai, 2003). The Tuman River Area Development Programme (TRADP) is another good example: TRADP was a programme advocated by the United Nations Development Programme (UNDP) which aimed to build a modern transnational free trade economic area in the Tuman River Delta within 15-20 years. Nations near the border including China, Russia, and North Korea were all involved. Moreover, other North Asian states such as Japan, South Korea and Mongolia also showed a great interest in joining this regional economic cooperation (Long, 1996:45-48). Several more regional Preferential Trade Agreements (PTAs) were launched by both developed and developing economies in 2003. Take Japan for instance: regarded as the most developed nation in Asia, Japan holds PTAs separately with ASEAN, Canada, Chile, Korea, Malaysia, Mexico, the Philippines, Singapore, and Thailand in April 2003 (Ravenhill, *ibid*).

Second, while old regionalism was essentially limited to RTA formations by contiguous economies, the new regionalism does not seem to be limited to economies nearby each other. Recalling the case of Japan just mentioned, its PTA partners not only range from highly industrialised countries to less developed ones but also from Asia to America. To sum up, RTAs nowadays are intercontinental.

Third, under the new arrangements, RTAs are no longer exclusive. In other words, one country can be a member of more than one RTA at the same time. Reviewing Ravenhill's (*ibid*: 4) survey on the regional PTAs in the East Asia Pacific, the Philippines holds agreements with Japan and the USA while Singapore cooperates individually with 11 different countries, including Australia, Canada, European Free Trade Association (EFTA), the EU, India, Japan, Korea, Mexico, New Zealand, Taiwan and USA. Hence, according to such a tendency, it is not too fanciful to assert that the expansion of RTAs with more and more participators around the world will eventually become an aid in the promotion of multilateralism.

Fourth, the new regionalism is far more ambitious than the old one, which

was limited to merely shallow integration. Das (*ibid*) claims a large number of debates regarding the RTAs' impact on the global trading system have been brought up extensively in economic literature recently. In the last couple of years, a great number of agreements which involved deep integration, commitments to harmonise regulatory measures, freeing factor movements and other integrating measures have been signed.

As for the East Asia Pacific, it has been much more influenced by the new regionalism rather than the old one because countries in the region vary a lot from each other in terms of economic development and political systems. It is very often that regional arrangements in the East Asia Pacific appear to embrace both industrial economies and developing countries. However, no matter the new regionalism or the old one, they were mostly based on the understanding of European experiences of regional cooperation. In Chapter One, we have identified the unique features of the East Asia Pacific. The region is so different from Europe in terms of values, social structures, economic development and geopolitics that regionalism can hardly achieve the same success it has gained in Europe.

The Literature Review on East Asian Region-building

(1) Threats from other regional groupings

In this section, we continue to discuss the academic works on the rising regionalisation and regionalism in the East Asia Pacific. There has always been regionalisation movement in the East Asia Pacific to seek freer intraregional trade and the flow of capital. When the new regionalism prevailed over Europe and North America, setting up regimes to manage the integration movement, regionalisation still seemed to be more popular than regionalism in the East Asia Pacific. The possible reasons related to this phenomenon could be as follows: first, states in the region adopted an “export-oriented economy” so that the profits were determined by the open degree and the size of the markets. Second, unilateral reforms in individual economies, especially China’s opening-up policy, have facilitated the trend for regionalisation. Third, the rise of the logic of “flying geese” which suggests that production technology to be transferred one by one from the leading country to the least developed. Therefore, regionalisation along with liberal trade globalisation were greatly advocated, and reducing tariffs and eliminating other trade barriers were believed to be the only way to maximise profits.

The “flying geese” model was first proposed by Akamatsu (1935) in the 1930s. He used the model to describe East Asian integration with industrialisation spreading from developed countries to the developing countries. Furuoka (2005) argues that, in a broader sense, such model can be applied to examine the patterns and characteristics of East Asian integration which Japan is the leading goose of the second-tier geese (less developed countries), followed by the third-tier geese (least developed countries). Pempel (1996/1997:16) points out the hierarchical structure behind the flying geese model: “message to the rest of Asia was quite simple: follow Japan’s example, stay in line, do not try to get too close, and eventually you too will fly into this kind of successful economy”. However, such model seems too simple to describe the complexity of East Asian integration. It may be cited often in the literature but has not become the mainstream of the integration theory in the East Asia Pacific.

It took a long time for the East Asian countries to embrace regionalism. As explained earlier, the first bloc-building experience in Europe was not only to reinforce the economic interdependency among member states. It was also triggered by political confrontation during the Cold War. As a result, member

states were willing to endorse the Treaty of Rome and the EU, a supranational mechanism, was brought into existence. Nevertheless, the East Asia Pacific region has a different political and economic content which did not project urgency for the countries to adopt regionalism. The catalysts to Asian regionalism are multiple and interactive but the most notable incident is believed to be the threats from other regional economic groupings during the 1980s. With the extensive development of regional trade arrangements in other regions, East Asia was compelled to take action in response. The European Union and the North America Free Trade Agreement have already established successful track records before a successful Asian equivalent came to exist. And the EU was considered the most successful regional cooperation organisation in the contemporary world. Huntington (1998:89, 93) comments that within a decade, an agglomerate Europe, with sufficient population, economic power, technology as well as both real and potential military force, would be a competent super power in the 21st century. On the other hand, the NAFTA, led by the USA, the most powerful nation in the world, has never lost its influence on the international economic system. Hence, from that point onwards, East Asian countries have realised that they must adopt regionalism, setting up regimes to build up an integrated East Asia in order to maintain their competitiveness

against two other regional blocs, i.e. the EU and the NAFTA. However, it is also agreed that the East Asia Pacific shall undertake a different type of integration method with less political motivation involved.

One of the first examples of regionalism in the early days in Asia was the Association of South East Asian Nations (ASEAN). The ASEAN, established by Indonesia, Malaysia, the Philippines, Singapore and Thailand in August 1967, however, was not initially formed as a regional economic organisation. Instead, it was more like a political forum, aiming to promote peace and stability. As other regions benefited more and more from economic integration, ASEAN had finally arrived at an agreement to work on economic integration. Das (2001: 71-72) points out that “strengthening trade and economic linkages did not occur to ASEAN economies until 1978, when ASEAN put into force an Agreement on the ASEAN Preferential Trading Arrangement (PTA)”.

Das (1996) argues that in the past 25 years, the East Asian economies have benefited from two virtuous circles of economic growth operational in the region. The first one can be called the domestic virtuous circle. The second was a regional virtuous circle, which explains the diffusion of economic growth from

one group of economies to another. And the networking among Asian firms was an inherent part of the second virtuous circle. These two virtuous circles reinforced each other and become the cornerstone of economic growth in East Asia. Such phenomenon may appear counterintuitive, as no increased networking would be expected among competitive firms. However, this type of relationship can be seen in Japan, the new industrial nations, ASEAN and China. These newest trends in the regional economy have ended up facilitating closer integration and increasing cohesive economic ties and greater regionalisation of East Asian economies.

It has taken several decades for East Asia economies to carry out intensive intra-trade and become trading partners. Because of the historical animosity and the unsolved territorial disputes, states in the East Asia Pacific have been reluctant to cooperate with each other. Some countries, North Korea for example, have even closed themselves to both regional and international intercourse. In other words, despite being aware of the importance of forming an economic grouping to keep the regional competitiveness, the authorities are not keen to seek official regional integration. Instead, most governments in East Asia have rather chosen to stay outside and watch region-building happen naturally. Such a

region-building trend was facilitated by the changes in currency value configuration and economic complementariness. And as production locus has shifted from the firms to “networks” of regional production, such “production networks” soon became an important force driving the process of economic integration in the East Asia Pacific.

Moreover, Chen and Ku (2000) argue that the “product life cycle theory” can actually explain the regionalisation of production better than any other theory. It regards individual products as “disembodies” from larger industrial structures and that the life cycle of any given product can be treated in isolation from the myriad of other products and the organisational foundations that initially spawned it. Such production linkages are especially prominent in the electronics industry, but they are not limited to it. One of the most striking changes in regional production after the Plaza Agreement is the rapid shift of Northeast Asia’s low-end consumer electronics production to Malaysia and subsequently to Thailand. At the time, Japanese electronics industry had the highest level of investment. Undoubtedly, Northeast Asian investment in the ASEAN economies has therefore brought a number of changes to the structure of production and exchange in the electronics industry (Das, 2001).

After adopting regionalism for a decade, from the table below, it shows that the share of the world trade volume in the East Asia Pacific is still way too trivial in comparison to the EU and the NAFTA. From the 1990s and onwards, scholars have started to ask the following questions: is the existing regionalism insufficient for East Asian countries to establish a powerful economic bloc? Does East Asia need its own regionalism rather than the one based on the experiences of European integration for the region-building?

Table 2.1 : The Growth of Trade between 1980-1990

	Growth Volume of Exports (US dollars; millions)	Growth Rate of Exports (%)	Growth Volume of Imports (US dollars; millions)	Growth Rate of Imports (%)
World	3,381,620	84.56	3,517,010	83.31
Asia	263,228	156.70	293.656	185.30
EU	732,824	95.08	789,284	110.30
NAFTA	346,907.1	115.58	259,102.4	80.75

Units: US Dollars; Millions.

Source: International Monetary Fund (1980 and 1990)

Some may question why a more recent data are not included in the Table 2.1. It is fairly important to bear in mind that one of the main efforts in this chapter is to find out the transformation of regional integration in the East Asia Pacific and the turning point why and when transnational sub-regional cooperation started to take shape. Therefore, Table 2.1 with the growth of trade between 1980-1990 is addressed to echo to scholars' declaration in the literature and to reveal the message that this period was the key time that urged a new form of region-building to come into being in the East Asia Pacific.

(2) *“Open” Regionalism*

East Asian economies have recognised the importance of adopting regionalism to facilitate the region-building process. However, they have also discovered that the “western” regionalism does not fit in very well. In the views of scholars, Dosch and Mondejar, for example, both claim that regional integration theory developed upon “western concept” is not suitable to explain regionalism in East Asia (Dosch, 2003:33-34; Mondejar, 1988:120). As in the views of practitioners in East Asia, European integration was once taken as a model in their region-building ambition. Khoman (1992:xix), the former Foreign Minister of

Thailand and one of ASEAN's founding fathers claims that "it should be put on the record that, for many of us and for me in particular, our model has been and is still the European Community". Nevertheless, ASEAN governments later on realised that European integration process involving a high level of political commitment was not acceptable. And from 1987 Manila Summit Meeting onwards, ASEAN governments, especially in the field of economic cooperation show no evidence of any intention to follow the European Way (Dosch, *ibid*:36). Consequently, the regionalists have developed a very unique Asian regionalism-- open regionalism as an alternative and APEC was brought into existence.

Open regionalism, representing a contemporary regionalism that differs greatly from the one of the 1950s and 1960s, has brought up quite a lot debates. The original regionalism strictly implements "exclusivity" that whoever is not included in the system cannot enjoy any preferential treatment. It is especially reflected in terms of security. However, the open regionalism is based on "non-discriminatory" concept which seems to be totally contradictory to the original one. For example, unlike the EU or the NAFTA must have all member states on the table to have a preferential treatment applied to every one, open regionalism suggests that whatever being agreed between two countries will be

automatically applied to all other members. In Liu's opinion (2003a: 7-10), such "concerted unilateralism" could prevent the trade liberalisation in the region being constrained from most-favoured nation treatments between certain economies.

Open regionalism was first formally introduced by APEC, the most significant economic organisation in Asia-Pacific area, at its Osaka meeting in 1995. The Osaka Action Agenda was premised on the voluntary nature of the APEC process, an essential corollary to the idea of open regionalism (APEC, 1995). APEC took the stand that liberalisation of the regional economics can only be achieved through voluntary actions of individual members.

The Council of Economic Advisors (CEA) defined open regionalism in a report to the President of the United States: "Open regionalism refers to plurilateral agreements that are nonexclusive and open to new members to join. It requires first that plurilateral initiatives be fully consistent with Article XXIV of the GATT, which prohibits an increase in average external barriers. Beyond that, it requires that plurilateral agreements not constrain members from pursuing additional liberalisation either with non-members on a reciprocal basis or

unilaterally. Since member countries are able to choose their external tariffs unilaterally, open agreements are less likely to develop into competing bargaining blocs. Finally, open regionalism implies that plurilateral agreements both allow and encourage non-members to join” (CEA, 1995: 220).

Renato Ruggero, the Director-General of the WTO, goes a step beyond the CEA in defining open regionalism. He contrasted two interpretations of open regionalism: “... The gradual elimination of internal barriers to trade within a regional grouping will be implemented at more or less the same rate and on the same timetable as the lowering of barriers towards non-members. This would mean that regional liberalisation would in practice as well as in law be generally consistent with the MNF principle” (WTO, 1996: 11).

According to these definitions, there are three criteria for open regionalism: firstly, the open membership for any country that would like to join; secondly, the consistency with GATT Article XXIV; and thirdly, freedom for member states to liberalise further unilaterally or with non-members on a reciprocal basis (Zissimos and Vines, 2000). Among the criteria mentioned above, open membership is perhaps the most important one and is, indeed, what gives the

term "open regionalism" substance. It opens the possibility that if outsiders find it attractive to seek membership, a regional preferential agreement can eventually encompass the entire world and thus lead to multilateral free trade. In other words, the theory is not only anticipated to pave the way for regional integration, it was once hoped to gradually achieve the goal of global trade liberalisation. Nevertheless, critics argue that such statement is over-optimistic. They find the term inherently contradictory as arrangements that are open cannot be regionally confined and those that are regionally confined cannot be open. And Srinivasan (1995), the most vocal critic of the idea, went so far and commented open regionalism was nothing but an oxymoron. The region-building process can never succeed without clearly laying out the confines of insiders and outsiders of the region. In other words, for a self-contradictory concept -- a regionalism without discrimination, failure is a certainty.

As we also discussed in Chapter One, open regionalism has failed its mission of facilitating region-building in the East Asia Pacific. Nevertheless, unlike critics seeing it as a dying theory, Panagariya (1998) believes that Asian regionalism has been truly "open" that the liberalisation undertaken by members has been largely non-discriminatory. APEC has created no trade preferences and

the member states of ASEAN, despite having signed the ASEAN Free Trade Area (AFTA) agreement, which is basically a regional preferential agreement, have undertaken much of their liberalisation on a non-discriminatory basis. Thus, if one were looking for an example of Director-General Ruggiero's preferred form of regionalism, Asia provides just that. Other regional arrangements in North America, Latin America or Europe do not meet the standards of openness laid out in the Director-General's definition.

Panagariya (1998) holds positive viewpoints that open regionalism is a good solution for region-building in East Asia. He asserted that being non-discriminatory is inescapable for the regionalism aiming to be truly open for every potential member who may be interested to join the movement. And if such concept is wished to be promoted for further economic integration, the consistency of Article-XXIV is a necessity but highly inadequate criterion for ensuring the openness of the world trading system. In principle, open membership could result in global free trade, but it will lead to fragmentation during a transition process that will inevitably be long and drawn-out, and may even come to a dead-end at two or three large blocs.

However, APEC has never achieved the basic aim of promoting regional cooperation for further integration, and not even to mention achieving other ambitious goals. In fact, there is yet no satisfactory theory applicable in East Asia to sustain the economies launching large-scale cooperation for establishing a united bloc. When a regional crisis comes, none of the existent regimes or schemes in East Asia was capable to cope with it alone, as shown by the Asian Financial Crisis in 1997, which the cause was partially due to the unbalance brought about by the interaction between regionalisation and regionalism. Kim (2004:47-48) points out if there were an official arrangement or organisation to manage the huge flow of trade and capital between states, speculators would never dare to take any action against it. Nevertheless, the fact is that when the strike came, East Asia, without a solid regional financial coordinator, fell into chaos quickly. None of them was able to drag themselves from the crisis by cooperating with one another or seeking the regional force.

The crisis revealed a crucial fact that after adopting regionalism and regionalisation for decades, East Asian countries has not yet moved from the first two levels of region-building process (i.e. wider and deeper cooperation) to the third level of region-building process (i.e. integration) mentioned in Chapter One.

Liu (2003b: 221) gives a strong argument that that “strictly speaking, the process of East Asian regionalism cannot be regarded as progressing towards regional integration as yet. Although key regional leaders in the current dynamic of regionalism have advocated strengthening the scope of regional cooperation by pushing through the idea of forming certain effective cooperative mechanisms, it may be highly premature to predict that regionalism in East Asia is about to develop into a European type of regional integration”.

Countries in the East Asia Pacific have finally realised that regionalisation may create the dramatic economic growth in the region, official intervention based on regionalism to strengthen the region as a whole can never be ignored. So far, the problems of East Asian integration and the academic works of traditional region-building in the East Asia Pacific have been pointed out. The next section deals with the literature concerned with the new form of economic integration in the East Asia Pacific— transnational sub-regional cooperation.

The Literature on Transnational Sub-regional Cooperation in the East Asia Pacific

(1) The Nature of Sub-regional Economic Zones

The emergence of sub-regional economic zones, based on micro-regionalisation and micro-regionalism, in some degree is in response to the fact that application of contemporary regionalism has come to its limitation. A new economic cooperation shall be raised to cope with the global integration trend. Rather than creating “new economic territories”, such projects would encompass “natural economic territories”, which should hold less difficulty for participating economies.

In comparison to traditional integration theories, which places emphasis on the top-down force in binding the region as a whole; transnational sub-regional cooperation shows great flexibility in allowing various forms of cross-border interaction between member economies. A worth noting example is that regionalism-based cooperation arrangements usually occur between states whose power are well-matched with each other. In other words, it is almost impossible to draw developed countries and undeveloped countries together to form an economic or political grouping. However, Grugel and Hout (1999), and Bowles (1997) argue that transnational sub-regional cooperation could cut across a North-South divide and happen in any contiguous states³. Such flexibility reflects

³ The term North –South here is not a purely geographical concept. It refers to the problems between developed and underdeveloped countries rather than the problems of their locations.

the characteristics of post-Fordism era.

Before exploring what influences the transnational sub-regional cooperation has on the regional integration, it is important to find out how terms such as region, sub-region, and micro-region are defined in the literature. Literally, these terminologies differ from the scale they refer to. However, scholars have never come up with a clear distinction between a sub-region from a micro-region. Quite often, an area regarded as a sub-region in a journal is seen as a micro-region in another book. In this thesis, the scope that the SIJORI encompasses is definitely qualified to be titled as a micro-region. Nevertheless, as to the TRADP or the SC SREZ, the scope may be too great to be titled as a micro-region. Especially in the SC SREZ case, Guangdong province is bigger than some of the neighbouring countries. In order to keep the consistency, it is preferred to use the term sub-region only rather than using both micro-region and sub-region alternately in this thesis. And transnational sub-regional cooperation in this thesis means the inter- and intra- regional cooperation between local governments and firms with little intervention from the states. As for what constitutes a sub-region, Thompson's (2004:71-88) definition which was discussed earlier in this chapter to outline a region is also applicable in the

formation of a sub-region:

1. the actors are generally proximate;
2. the territories are contiguous or linked by the seas;
3. regular and intensive interaction exist between the actors;
4. internal and external actors recognise the system as a distinctive area.

(2) SREZs and the East Asia Pacific

As mentioned earlier, the global integration and regional integration, especially in economic affairs, have become a developing trend and main issue in the international society. Moreover, regional cooperation mechanism has granted member states influence on international matters. Unlike Europe and North America, who have increased their predominance in global market by forming the EU and the NAFTA as trading blocs and for further integration; the East Asia Pacific in the opposite, without an effective regional cooperation mechanism to provide a steady and open economic environment, is in a danger of drifting away from global core region to peripheral. Tang and Thant (1995) therefore assert that the East Asia Pacific requires some prerequisite to launch a massive trading bloc easily. First, geographical proximity is often the element for reducing the cost of transportation and communication. Second, large volumes of internal

trade are as important as intraregional trade. Third, similar laws and regulations governing trade as well as investment flows are required for member states. Fourth, the disparities of per capital income in participators shall be close enough so that any adjustments in trade flows will not cause great changes in either income or employment distribution. Fifth and the most important of all, political commitment and policy coordination among the member states are the fundamental driving force for a trading bloc.

These fundamental requirements are parts of the elements that constitute the EGPIB factors. They can hardly be fully met in the East Asia Pacific due to the widely dispersed borders, a differing degree of development among the nations, and mistrust raised by historical disputes in this region. However, these prerequisite do not necessarily affect the forming of the SREZ. Although the internal markets in East Asia are so far much smaller than those in other regions, the SREZ circumvents the inferiority as size of the regional market is relatively unimportant to its exported-oriented structure. In fact, it takes less time and cost fewer to establish a SREZ. And without the high-level political commitment and institutional arrangements, the practicing of the SREZ is still able to keep East Asia competitive in response to the global transformation.

The emergence of SREZs is not only in response to the insufficient regional projects for integration but is also in response to the development of Fordism, aiming to achieve massive production by standardising the production lines and technologies. The capital accumulation and regulation were much emphasised and the central government played an important role at the time. It reached the zenith in the 1950-60s when transnational enterprises came to exist massively. However, Guo (2002) points out that with time the surplus of production had become a serious problem and most firms could no longer maintain such a producing system. Neo-Fordism, famous for its flexibility, had therefore come up as a consequence.

Neo-Fordist had adjusted the producing strategies, moving the low-benefit industries to low-cost states while keeping the core of technology in the highly industrialised countries. It did save the firms from the burden of overproduction; yet, it brought up a new problem: with the international division of labour, the globe was disintegrated into North and South. As most countries in the East Asia Pacific were still in the process of industrialisation, they on one hand were able to utilise the foreign capital for domestic development, but on another hand, had

risked the danger of being peripheralised. As discussed earlier in this chapter, the “Flying Geese” theory was then proposed in the East Asia Pacific to ease the fear.

The advocates of the flying geese theory assert that the economies in the East Asia Pacific could take the advantages of the situation: let one of the relatively developed states be the engine. From this leading country, the production technology should be transferred one by one to the least developed countries. Although Das (2001) argues that such hypothesis is too simple to grasp the complexities of technological changes and technology transfer, the idea of spill-over does inspire the thought of launching sub-regional cooperation in the East Asia Pacific.

The spirit of transnational sub-regional cooperation was reinforced when Post-Fordism age came up. The service was customised and a full revolution was carried out from management, labour, society to economic structure. The Post-Fordists aimed to surmount the institutional mode and sweep away the control of the bureaucracy. They believed the best development could only be achieved through flexibility. The intervention and regulation from the

governments must be reduced to the lowest level. Such belief has been very much adopted into the transnational sub-regional cooperation.

The practice of SREZs is based on the rationale of comparative advantages. Members gain benefits but pay for costs, either in direct form or indirect form, at the same time. When assessing the cost, it is essential to look at total costs as well as the cost which could be shared by the participants. It would be difficult to apportion costs precisely though.

The direct costs are mainly about the development and maintenance of a SREZ. As to the former one, it includes site preparation, installation of roads, provision of power and water supplies, as well as construction of residential facilities for labours. Usually the total costs incurred for these activities are prominent in comparatively remote areas of a SREZ. Tang and Thant (1995) point out that if port facilities already exist in a SREZ, the development costs may be considerably reduced. Maintenance costs are important for a SREZ to retain its advantage over outside areas. It may be higher when public administration and management skills, a supplementary attraction to private investors, are in short supply though. Thus, it is essential for the local

government to establish an agency to deal with the evolving needs of a SREZ, ensuring applicable infrastructure is always available. The need for an independent agency may be especially strong if planning and administrative capabilities, including resource mobilisation and financial planning, are weak. In short, micro-regionalism cannot stay away completely from micro-regionalisation -- especially if the participators of a transnational sub-regional cooperation intend to expand the project's scale and bring it to a whole new level.

As for the indirect costs, they include concessions and incentives, tariff and customs duty exemptions, subsidies for using the land, buildings, and utilities, domestic raw materials, as well as allowances given to attract developers and investors. Tang and Thant (*ibid*) claim other potential costs contain repatriation guarantees, arbitration procedures, incentives to encourage pioneer industries, as well as research and development tax exemptions. Additional costs may be needed for deregulating and harmonising policies within a SREZ in order to induce investment inflows. Other invisible costs may be raised due to the domestic or external problems relating to SREZs in terms of the allocation of benefits across regions. Such problems comprise wider regional income

disparities, social and ethnic conflicts, and transaction difficulties between the central and lower levels of government (Asian Development Bank, 1992).

Since finding ways to minimise these costs is one thing but spreading the costs equitably among the participants is another, the distribution of costs and benefits has represents a major challenge for participants in a SREZ. Especially in the East Asia Pacific, the economic development of each country is so different that it would be difficult for them to share the costs equitably. Thus, explicit policies must be made to ensure the benefits are spread to other parts of member countries, and costs are equally shared without heightening the regional income inequality. That is why it is essential to have micro-regionalisation and micro-regionalism well-combined with each other. In this thesis, I intend to verify such statement through examining three selected SREZs. But before that, I will discuss the interrelationship of these two theories first in the latter part of this chapter.

(3) The Rational and Merits of SREZs

It seems that transnational sub-regional cooperation is more pragmatic than any other ways for regional integration in East Asia. How does that come about? As

the historical entanglements in the East Asia Pacific region has provoked many informal and political barriers on economic affairs in the area, the SREZ, with “informal nature”, is especially effective in outwitting cultural or political confrontation between governments, thus promoting economic cooperation. For instance, it may be less likely for Taiwan to propose an official cooperation project with China, or vice versa, due to the political and ideological tension. However, as SREZ has so far limited its integration goal on the export-oriented and technology sectors, the close ethnic and linguistic connections have provided a good niche in economic integration for the both sides. SIJORI has followed the same rationale too.

The establishment of the SREZs could also be seen as a process of resources exchanging. A nation can participate in several SREZs and exploit others’ complimentary resources according to self-insufficiencies and comparative advantages. However, Chia and Lee (1994.) argue that economic complementarity can only be exploited when a favourable policy, profitable political environment, and well-constructed infrastructure is available. In other words, areas that meet better business requirements are more likely to succeed in attracting investors as well as facilitating the movement of goods, people, and

capital. This includes workers, skills, and official support in infrastructure and land. For example, Southern China has more soft resources such as overseas connections and local entrepreneurship, and is therefore, much more suitable to carry out a regional integration project like the SREZ. In fact, it is up to now the most far-reaching SREZ in China. That is to say, as it is more possible for a nation to highlight certain areas rather than to offer the whole range of business requirements all over the land, it tends to take different schemes of integration in various parts of itself. Peng (2002: 617) therefore indicates that “SREZs well serve the purpose by developing integration part by part”. And a successful SREZ is expected to “spill over” to other areas, or even to the whole region.

The Literature Review on Micro-regionalism and Micro-regionalisation

Similar to regional cooperation, micro-regionalism and micro-regionalisation occur simultaneously in the sub-regional cooperation. When it comes to the terms of micro-regionalism or micro-regionalisation, neither of them is new in the academic field. Both have been adopted in a series of study to analyse the informal sub-national interconnectedness across national borders. They can be found in the early research of Modern German state’s political spill over resulting from the process of economic regionalisation (Rorig, 1967), in the

study about the economic development in the micro-region across US-Mexican border (Lowenthal and Burgess, 1993), or in the recent cases of Growth Triangles in East Asia (Kakazu, Tang and Than 1998, and Hughes, 2000). Nevertheless, the study of micro-regionalism remains insufficient to cope with the increasing number of both formal micro-regionalist projects and informal micro-regionalisation processes. Especially in the East Asia Pacific, the attention in regional integration is usually in state-level rather than in micro-region level. That is why it is so important first of all to explore the significance and implication of micro-regionalism and micro-regionalisation, their relationship in micro-regions and the potential force in region binding process.

Hook and Kearn (1999) argue that although there are also sub-regionalism and sub-regionalisation, they are rarely mentioned in the literatures. All these terminologies have taken the fundamental concept of regionalism. The only difference is they tend to focus on smaller scale and lower level of issues (Breslin, and Hook, *ibid*). It is easier to distinguish regionalism from the other two as it refers to the arrangements between states only. However, as local governments could participate in both sub-regional and micro-regional level projects, the distinction between sub-regionalism and micro-regionalism becomes more

ambiguous.

Scholars hold different opinions in defining these two theories. Some like Breslin and Hook (*ibid*) argue that the terms “sub” and “micro” refer to socio-spatial rather than merely spatial manners. Others like Hook and Kerans (*ibid*) regard these two terms as one thing. As for this research, these two terms both refer to cross-border cooperation below the “normal”, “formal”, and “usual” framework of region-building process. I tend to agree with Hook and Kerans’ opinion, seeing these two terms as one thing.

In this thesis, the three selected case studies reflect the same origin of cross-border cooperation with similar level of actors involved, but each one may differ greatly from others in terms of geographical coverage. For example, the size of the SC SREZ is much greater than that of the SIJORI while the participators are highly similar in terms of characteristics. Since the main focus of this research is to discuss the process and the influence of sub-regional interconnection resulted from a smaller scale of regional cooperation, rather than to assess the size of each sub-regional economic zone, micro-regionalism and micro-regionalisation are preferred in this thesis as they describe this unique

cooperation down to the basic units and are more frequently seen in the literatures.

Like regionalisation was once regarded as a particular form of regionalism, Smouts (1998:38) believes the growth triangle, the exemplary case of micro-regionalisation, is the implementation of “spontaneous micro-regionalism.” It could go beyond with or without the formal arrangement between institutionalised governments. In other words, micro-regionalisation aims to create a greater space for transnational economic activities. In Rosenau’s words, such process is usually undertaken by non-state actors who may deliberately or indeliberately foster a “relocation of authority from the political to the economic realm” (Rosenau, 1995:25-26). The non-state actors are very influential in stimulating the transnational economic activities that business networks, for example, are no longer confined strictly by the political borders. Projects are anticipated to enhance not only economic cooperation but also to promote political, economic, security, cultural and other interests among the participants.

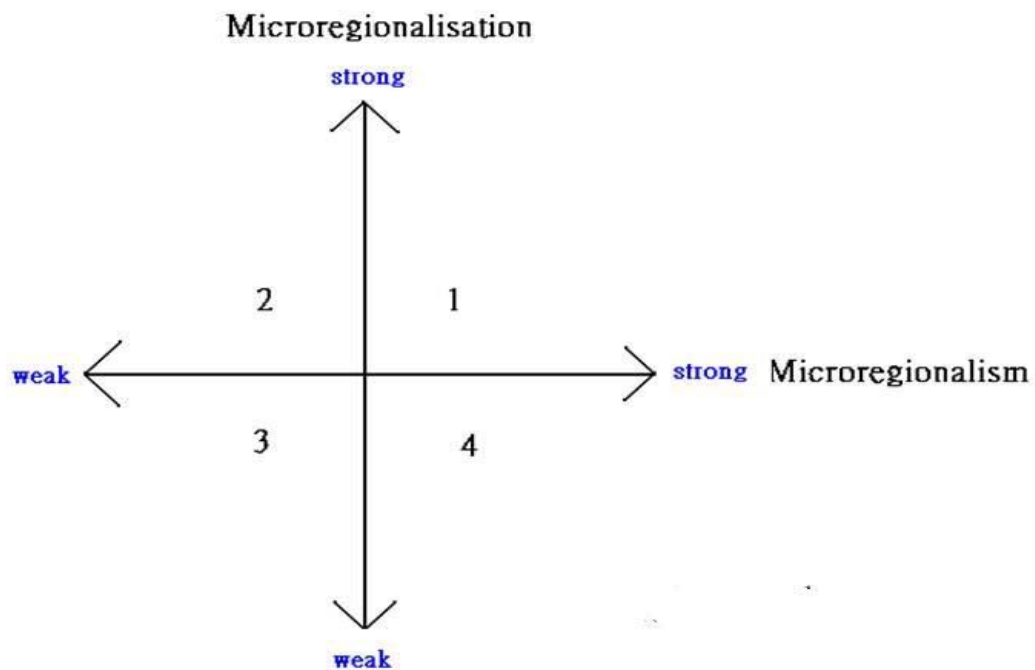
Breslin and Hook (*ibid*: 7) believe that the regionalisation process is

intricately linked with globalisation as “the former is part of the more encompassing processes occurring at the global level.” Although most international political economists are more concerned about whether regionalisation can co-exist with globalisation, many studies have at least made their stand that business unites pursuing interests on a specific region will not necessarily impede the process of globalisation. Nevertheless, the similar issues whether micro-regionalisation could help strengthen regionalisation or break the region even more fragmentally has not yet attracted much attention.

Transnational sub-regional cooperation occurs through the overlapping and interlinked micro-regionalist and micro-regionalisation processes. Such “elite-led” and “market-led” processes are like the two wheel attached on the same axle. They may not necessarily lodge in with each other but do influence one another directly or indirectly. However, these two wheels both aim to reach the same destination of developing the sub-region; they may sometimes find it hard to move forward in coordination with each other due to their different speeds. Scholars even find them clash with each other in certain projects. Breslin and Hook (*ibid*: 8) also argue that “conflicting goals and aspiration of local and national governments frequently act as a brake against micro-regional

integration". As the result, business enterprises seeking interests on a sub-regional level are separated from regionalisation process and cannot promote projects to a higher level.

Figure 2.1: The Forces Shaping the Transnational Sub-regional Cooperation



So what is the dynamics of micro-regionalisation and micro-regionalism in the transnational sub-regional cooperation in the East Asia Pacific? Are there any clashes between these two forces or do they work alongside each other in three

selected cases? Moreover, Are they equally important or does one weight more than the other in the course of a SREZ's development? From the figure above we realise there are four possibilities. I assume that when micro-regionalisation is much stronger than micro-regionalism (i.e. the quadrant 2), actors would just seek cooperation randomly without coordination. It creates striking growth rate but may never lead to further cooperation in other aspects. So which one among the three selected cases can be the representative? On the contrary, if micro-regionalism is stronger than micro-regionalisation in the area (i.e. the quadrant 4), more and more barriers would be set up and reduce the opportunities for actors to cooperate with each other. That is to say, I assume when examining a SREZ with EGPIB factors, if B factor (business networks) is weaker than P (political commitment and policy coordination) in a SREZ, no matter what strong endorsement the project has from the officials, the SREZ would still end up being paralysed. And I am going to examine these assumption through exploring the involvement and the interaction between micro-regionalism and micro-regionalisation in three selected cases.

Summary

This chapter can be seen as a continuous discussion of Chapter One. It

demonstrates the theoretical gaps in the current literature regarding to transnational sub-regional cooperation as an alternative path to region-building in the East Asia Pacific.

This chapter has provided an integrated account of the contemporary understanding of regional integration. The summaries and criticisms of the literature concerned with the traditional region-building theories have been presented. And the gaps between the existing literature and actually practice of SREZs in the East Asia Pacific have been identified. It also demonstrated two facts: first, EGPIB factors are the key elements relating to the establishment and transformation of SREZs. They can be utilised to make proper analysis of the three selected cases. Second, micro-regionalisation and micro-regionalism are the main core of the SREZs. Thus, these two forces should be taken into consideration when analysing the progress of the selected cases in this thesis.