

Multilateralism, Regionalism, Bilateral and Crossregional Free Trade Arrangements: All Paved with Good Intentions for ASEAN?

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Current initiatives in Asia and Asia Pacific regionalism are responses to regionalism happening elsewhere in the context of globalization, information communication technology and knowledge-based economy. The conclusion is that many economies are 'having it both ways' in multilateralism under World Trade Organization (WTO) and new regionalism. The argument is that the 'first best' theory of free trade under multilateralism and WTO have fallen short. A 'second best' theory of new regionalism has been acknowledged by the Doha ministerial declaration to complement and supplement WTO. Both Asia challenged Asia-Pacific Economic Cooperation (APEC) and the Association of South-East Asian Nations (ASEAN) are challenged by ASEAN Plus Three (APT), which originated from the Asian crisis in the failed Asian Monetary Fund (AMF).

Singapore has responded to these challenges in bilateral trading agreements, driven by its idiosyncratic features of a small, city-state economy and frustrated by laggard ASEAN. Increasingly, there is a divergence in macroeconomic policy between Singapore and ASEAN in terms of openness and competition. The dilemma in Singapore's strategy of bilateral trading agreements and foreign economic trade policy is precisely this divergence in macroeconomic philosophy and policy. The pressure on ASEAN is no less from APT, China and regionalism elsewhere than from Singapore. However, the present paper concedes that bilateral and crossregional trading arrangements are still second best, and that broader regionalism and multilateralism are still superior. With so many regional trading arrangements and emerging competition policy there may be rules of origin or 'spaghetti bowl' effects for Singapore. In 'realpolitik' and real political economy, the balancing of gains and benefits is not easy.

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I. Introduction

The present paper assesses implications for the Association of South-East Asian Nations (ASEAN) in the light of rising regionalism and tensions in multilateralism

and the World Trade Organization (WTO). The WTO is power structured. Neither representative democracy nor open governance is its strong suit. While the Doha ministerial declaration stressed commitment to WTO as the unique forum for global trade rule-making and liberalization, it recognized that regional trading arrangements (RTA) can play an important role in promoting trade liberalization and expansion and fostering development (WTO/MIN(01)/DEC/1 20 November 2001). The World Bank's 2001 economic outlook noted that regional trading arrangements helped global trade to achieve a record high of 12.5% in 2000, despite no hard firm evidence.

Nation states act regionally to increase negotiation and bargaining power. They perceive a loss of sovereignty in a techno-economic paradigm of information communication technology and a new, knowledge-based economy (see Freeman and Louca, 2001) complicated by globalization backlash and digital divide (Brynnjolfsson and Kahin, 2000). New regionalism connotes political and security underpinnings (see Hettne et al., 1999, 2000a, 2000b, 2000c and 2000). Financial globalization in the speculative and contagious Asian crisis has taken on a regional characteristic. International financial institutions, particularly the International Monetary Fund (IMF) and World Bank, appear insensitive to regional political economy and socio-cultural dimensions (Stiglitz, 2002). Experimentation in the Asian Monetary Fund (AMF) has transformed into forms of monetary regionalism and economic integration in new age pacts that extend beyond tariffs and non-tariff barriers. ASEAN Plus Three (APT, comprising ASEAN, Japan, China and South Korea) is one legacy of the Asian crisis. With ASEAN being wooed into free trade pacts by Closer Economic Relations (CER) (Australia and New Zealand), China, Japan, the US and India, it is perhaps less baffled now by Singapore's bilateral trade agreements.

A nuanced Asian approach to regionalism seems timely and appropriate to exert influence in international political economy. Empirical evidence of new regionalism in various approaches and modalities conducted by the global-trade analysis project (Hertel et al., 2001) indicate that it can be an adjunct to dysfunctional multilateralism without supplanting it. Beyond conventional trade creation and diversion by tariff and non-tariff barrier reduction, new regionalism offers political economy gains. New age trade pacts incorporate: (i) electronically-mediated customs procedures; (ii) electronic commerce (e-commerce); (iii) human resources development; and (iv) security. Counterfactual evidence justifies a more 'political economy approach', as is used in the present paper.

Section II describes faltering ASEAN regionalism, mired since the Asian crisis, indecisive and ambivalent to the challenges of rising Asian regionalism, outlined in Section III. While ASEAN appeared unable to comprehend Singapore's strategy of bilateral trading arrangements (Section IV), it is finally more enlightened with its own flurry of bilateral pacts. As a small, open economy, Singapore's foreign economic trade policy straddles the new global environment in a delicate balance between ASEAN sensitivity and displeasure and accusation of derailing ASEAN Free Trade Area (AFTA). While the concluding section

concedes that improving multilateralism and the WTO remain the first best option, it is imperative to ensure that regional trading arrangements play a complementary and supplementary role. 'Having it both ways' is the theory of second best, because first best single-track multilateralism is imperfect.

II. Pioneer ASEAN

Since 1967, small, postcolonial ASEAN states integrated and expanded for bargaining power. The ASEAN approach towards trade liberalization has always been too cautious and ambivalent and entangled in indigenous, ethnic and particularistic factors. Respect for sovereignty and nationalism and non-interference are strictly endorsed in the Zone of Peace, Freedom and Neutrality (ZOPFAN) and the Treat of Amity and Cooperation (TAC). The 'ASEAN way' is informal and based on principles of consultative consensual decision-making, which institutionalize an emphasis on process than adherence to goals and objectives. Unstructured rules and structures are operationalized by interpersonal contacts at a pace that is comfortable to all. This is a source of strength and resilience for solidarity, but a weakness equivalent to a lack of political commitment in formal trade liberalization. Consequently, the effects of economic integration have been slow and small (Fukase and Martin, 2001).

Instead of 'most-favored nation' (MFN) liberalization, discriminatory ASEAN trade regimes have limited trade and welfare gains especially for new members. AFTA is only a stepping stone to further liberalization and competition. Unlike Mercosur, ASEAN did not underpin economic and security integration with lock-in reforms for the added capability to cope with globalization and international political economy. AFTA is, ersatz, liberalizing only 15 commodities. The initial timetable (originally set for 2008) was brought forward to 2003 in order to beat Asia-Pacific Economic Cooperation (APEC) liberalization and to 2002 at the 1998 6th ASEAN Summit in Hanoi in order to boost confidence after the Asian crisis (Jones, 2000).

Neither ASEAN nor AFTA looks promising. The Asian crisis exposed structural and institutional weaknesses in 'sins of commission or omission' as ASEAN states fell to 'captured liberalization' with poorly designed reforms and weakly regulated liberalization inducing culpable, self-serving rent-seeking and increased vulnerability (Haggard, 2000). ASEAN remains a 'zone of vulnerability' in the aftermath of the crisis, just as political uncertainty had played an important, but neglected role in both the onset and depth of crisis (Haggard, 2000). The first, prescient and long overdue ASEAN finance ministers' meeting in March 1997 identified the need for cooperation and facilitation in institutional arrangement, macroeconomic policies, transparency, supervisory, regulation and swap arrangement. However no ASEAN financing arrangement materialized. The ASEAN monetary union, as a regional liquidity fund banded during the Asian crisis, cannot short-circuit liberalization in trade, labor and capital. Belatedly, the ASEAN secretariat (with help from Asian Development

Bank (ADB)) set up surveillance to monitor capital flows and implement measures to mitigate any adverse sudden shifts. Ultimately, the Chiang Mai Initiative and APT swaps marginalized and trivialized any ASEAN arrangements.

The post-Asian-crisis environment remains beset with incomplete economic, financial and corporate restructuring to avert the next crisis (Weber, 2000; Petri, 2000; Dadush et al., 2000, Park, 2000, Richter, 2000a and 2000b and Claessens and Forbes, 2001). ASEAN's eclipse is relative to North-East Asia's buoyancy, with China as the heavyweight. The ASEAN secretariat noted a drop from US\$21.5 billion in 1997, to US\$16.8 billion in 1998, and US\$13.1 billion in 1999 in ASEAN. Successful as a caucus in APEC and WTO, ASEAN enhanced sovereignty through market-led regional cooperation by sharing resources and markets, unlike the European Union (EU) which pooled sovereignty from the start (Coleman and Underhill, 1998). Since enlargement and mismanagement of the Asian crisis, ASEAN has missed its opportunity to forge economic integration, despite three decades of minimalist regionalization, in contrast to East Asia, which is poised on maximalist approach (Hettne et al., 2000b). ASEAN and APT may converge harmoniously, or maximalist APT may dominate minimalist ASEAN. ASEAN and AFTA must consider how to respond and participate in free trade proposals of China-ASEAN, CER-ASEAN, Japan-ASEAN, USA-ASEAN and India-ASEAN. USA-ASEAN and India-ASEAN were proposed at the ASEAN Summit in Cambodia in November 2002.

III. Asian Challenges to ASEAN

With or without a faulty ASEAN, Asian regionalism has come of age to challenge ASEAN legitimacy and prospects. Asian regionalism in the 1990s ranged from exuberant Asian renaissance – with Malaysia's call for East Economic Caucus in 1993 as a countermove to the North American Free Trade Agreement (NAFTA) and EU – to more sober post-Asian crisis experimentations in AMF and ASEAN monetary union. Japan was pressured to play its regional role, as the USA did for its nearest neighbor, Mexico, and Brazil to counter the EU-Mercosur pact (Aggarwal, 2000). Japan needs to protect its foreign direct investment (FDI) and multinational corporations in South-East Asia. It was not lack of vested regional interests, but US dissent, that aborted AMF. Less politicised versions of Asian regionalism included Kim Dae-Jung's proposal for a East Asian Vision Study Group in 1998 under ASEAN Secretariat's purview and Chiang Mai Initiative. It was recognized that neither the USA nor the EU would absorb the global repercussions of the Asian crisis by being 'importer of only resort'. EU integration and Free Trade Area of the Americas (FTAA) are proceeding, despite the Asian crisis.

Economics dictate Asian regionalism as much as security. Except for 1998, Asia's gross domestic product (GDP) grew above 6% since 1990 (Asian Development Bank, 2001). There is weak evidence of direct correlation between regional integration and growth, however there are potential dynamic gains

from knowledge to induce: (i) productivity growth; (ii) accumulation of physical and human capital to enhance absorptive capability; and (iii) accelerated domestic reforms. A network of interfirm relations, more than conventional agglomeration economics based on physical infrastructure and scale efficiency, has enabled first-generation Asian newly industrializing economies (ANIE) to leapfrog in global or cross-production networks (Borrus et al., 2000; Mathews and Cho, 2000; McKendrick et al., 2000). However, diversification in intra-Asian trade is indicated as export-led industrialization and supply-chain dependency in high technology and information communication technology products – especially electronics and hard disk drives – created a double dependence on the US market. Over and above volatility and risks of global capitalism and technology alliances, Asia suffered the end of the longest American boom between March 1991 and March 2001 in its dot.com crash before the terrorist attacks on September 11, 2001 (9:11).

Asia was the largest single market for its own exports in the 1990s, as also after the Asian crisis in a wide range of manufactures and services. Asia's total trade grew at an average annual rate of 12% between 1990 and 1997, which was the most rapid growth of all geographic regions (Asian Development Bank, 2001). Between 1997 and 1998, total world share of manufacturing exports from developing Asia rose from 75% to 81.6% (Tulloch, P., pers. comm., 2000). Excluding China and ANIE, Asia's manufacturing share increased from 54% to 70% over the same period. Service-oriented ANIE, particularly Hong Kong and Singapore, have contributed papers and views in the formulation of the General Agreement on Trade in Services. Asia's share in global service trade rose from 8.1% to 14.3% between 1990 and 1997; service exports grew 15% per annum between 1990 and 1996; and Korea, Hong Kong and Singapore are net service exporters. Interestingly, despite Latin America's status as a small market, Asian exports to Latin America grew nearly as fast as intra-Asian trade in the 1990s (Tulloch, P., pers. comm., 2000). Prospects exist for Asia as a 'matured' market to play a central role in interregional trade and investment linkages and lead trans-Pacific trade into South–South trade (Tulloch, P., pers. comm., 2000). Asia may mediate in a generally harsher global trading environment, as the quad of USA, EU, Japan and Canada faces the rising power of smaller, developing countries like Mexico, Brazil, India, Egypt and South Africa (Hout, 1999).

However, clarity of Asian geography, institutionalization and arrangement remain missing. In political economy space, Asian regionalism encompasses East Asia. Until China unfurls fully, Japan (as lead economic locomotive) may be ambiguous, with its economic and security ties closer to the USA, much as it is reasserting itself. The South Asia Association for Regional Cooperation (SAARC) and its South Asian Preferential Trading Arrangement (SAPTA) have no significant impact in the Asia Pacific (Piggott and Woodland, 1999) or East Asia. Australasia is not accepted as part of Asian regionalism by Indonesia and Malaysia, although Singapore's senior minister, Lee Kuan Yew, acknowledged

Australian leadership in many Asia Pacific ideas and called for an East-Asia–Australasia bloc. CER–AFTA would have a combined market for 560 million people and a GDP of over US \$1 trillion. Australian trade minister, Mark Vaile, noted that several major trading partners of the USA in Asia – including Japan, Singapore and Australia – want to build an expanding ‘fast track’ network of free trade areas in the region which could be linked with NAFTA.

Like ASEAN, Asia may have approached globalization without globalism insofar as the non-institutionalized ASEAN–Asian way is fundamentally ad hoc, pragmatic and strategic and combines neo-authoritarianism with the market. Non-interference with domestic politics is not just a result of rule of law, but a cultural etiquette. Asia is too culturally and socially diverse for Asianism to be either an economic or a political model. Yet, a new Asian identity is discerned post-Asian crisis, mixed with security concerns (Godement, 1997; Tehrani, 1999). Despite lingering mistrust of China as a communist state, it has embellished its identity in the region by keeping its promise not to devalue its Yuan during the Asian crisis and offer a China–ASEAN free trade area. Interestingly, when China called for collaboration between its hardware companies and India’s software companies, India demurred. India’s dilemma lies in protectionism, nationalism and the struggle between politics and practical economic considerations between two most populous economies.

Despite intrinsic heterogeneity, Asian culture generally connotes commune, zen-like management in contrast with hard, positivist, functional scientific and mathematical Western management theories in data-rich environment (Kidd, 2000). Asian managers tend toward personal, subjective networks, intuition and experience to reduce transaction costs. Overseas, Chinese bamboo network or tribal and cultural encryption of business practices operate together with politics of ethnicity (Katzenstein et al., 2000). However Asian values have been under suspicion since the Asian crisis, mainly because traditional networking among families extended to the paternal state has overextended the limits of moral hazard in political business alliances (Gomez, 2001).

Regionalism as formal, government-to-government (G-to-G) political economy, or economic regionalization as private-sector-driven growth triangles (Hafiz, 1998), or new generation, global production networks reflect regional division of labor (Dixon, 1999) and the ‘flying geese’ trade and investment model led by Japan. Asian regionalism can support multilateralism without retaliating against European and American integration (Das, 2001). The political economy of East-Asian regionalism has many varieties and hybrids – open and closed, coercive and consensual, hierarchical and balanced – in economic and political forms (Ikenberry, 2000), some exclusively regulated, others decentralized or market-driven. With concerted unilateralism, Asia is still state-centric (Yamamoto, 1999), unlike highly integrationist EU, NAFTA as a national economic strategy and new hybrid APEC (Barry and Keith, 1999; Table 3). What suits East Asia appears to be APEC-style open regionalism centred around the WTO-style of non-discriminatory MFN liberalization with concessions automatically extended

to all members (Ravenhill, 1999; Panagariya, 1999; Goto, J., pers. comm., 2001).

With an Asian trade bloc, the welfare of an Asian developing country would improve substantially although the favorable effect for Japan would be relatively smaller because the rest of Asia's developing countries gain market access into Japan (Goto, J., pers. comm., 2001). The welfare of the USA under a countervailing Asian free trade area is lower than that pre-NAFTA, which explains its opposition to an East Asian bloc. The APEC free trade area has a dramatic impact on Asian developing countries and larger members like the USA and Japan. Generally, a very much welfare-improving situation occurs for an APEC free trade area which is to the detriment of non-APEC economies. Finally, in a completely free world-trade case, the welfare level of members of major free trade areas substantially declines as they lose their hegemonic power, but dramatically improves for the rest of the world.

The importance of diversification cannot be underscored because intra-ASEAN and intra-Asian trade has immense potential and scope. South-South regional trading arrangements among developing countries may not be as effective in net trade effects, which are more likely to generate trade diversion than trade creation. The loss in net welfare is due to the fact that the developing group is less likely to have more efficient producers than the rest of the world. In contrast, a North-South pact has tutelage effects of at least one developed country to exploit comparative advantage, deep integration and technology transfer (World Bank, 2000). This is precisely why ASEAN should consider APT and other liaisons with Japan and CER more carefully and strategically.

Suffice to note, as much as APT was triggered by the Asian crisis, it is also a product of disillusionment with APEC and ASEAN. Given the financial strength of Japan and China, APT has embarked on the first stage of monetary regionalism, namely regional liquidity fund, before regional monetary system, economic and monetary union and political union (Dieter, 2000). Because the APT free trade area will take a decade, it may succeed where ASEAN has failed in overtaking Balassa's (1987) five steps to regional integration in: (i) free trade area; (ii) customs union; (iii) common market economic union; (iv) monetary union; and (v) political union. The 'three' (Japan, China and South Korea), rather than ASEAN, appears at the helm, although there is not yet a consensus of APT leadership. APT only satisfies the 'demand' condition for regional integration based on potential gains. It does not satisfy the 'supply' condition in terms of 'undisputed' leadership or a third subsidiary condition of establishing 'commitment institutions' (Mattli, 1999).

An emerging challenge is regional security, which motivates new political regionalism over and above economic regionalization. Security is an implicit dimension in expanded ASEAN10 (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) and, more explicitly, in ASEAN Regional Forum (ARF), like NAFTA or Transatlantic Free Trade Area (TAFTA) parallel to the North Atlantic Treaty Organization

(NATO). There is not yet an explicit security manifestation in APT, however ARF seemed to be its security precursor in 1994 (oddly, after the cold war), spurred by domestic ASEAN territorial squabbles, two Koreas and cross-strait. Clearly, political stability and security are deemed important prerequisites to economic growth and development. ARF parallels an ASEAN economic post-ministerial meeting as a security dialogue, aimed at evolutionary confidence-building rather than defence cooperation. Led by ASEAN, ARF enhances ASEAN diplomatic standing and implicitly limits China's influence in a subtle way as part of a regional umbrella. Like Singapore as a 'soft power' as opposed to hard power in military might and resources to influence with its reputation and credibility, ASEAN can influence 'big-power' politics and uphold its non-aligned stance in the region once it regains its legitimacy and direction.

ASEAN in ARF can deal with Japan more easily than China. The final part of this section shows that ASEAN needs to triangulate or balance with the USA in regional security, tending toward global security since the 9:11 terrorist attacks. First with Japan, which is the leader in the flying geese trade and investment model and founding member of ADB, it transformed from free rider in multilateralism, to navigator in the 1990s, starting with greater visibility in United Nations peacekeeping operations (Fukushima, 1999). Seeing the USA, with its two-track approach since NAFTA, Japan has relented on strict multilateralism. Regionalism has value in improving the multilateral trading system as regional models for rule-making, combining plurality into a larger voice to advance multilateral negotiation that is stuck in deadlock, stimulate domestic reform to recover from its profoundly, irrevocably, stagnated state (Ogita, 2002; Government of Japan, Ministry of International Trade and Industry, 2000; Government of Japan, Ministry of Economy, Trade and Industry, 2001; Urata, 2002).

In a classic prisoner's dilemma, in order to counter China's new-found respect after the Asian crisis and free trade offer, prime minister Junichiro Koizumi made a similar Japan-ASEAN proposal when he signed the Japan-Singapore Economic Partnership Agreement (JSEPA). ASEAN countries need reassurance, troubled by decline in Japanese overseas development assistance due to Japan's fiscal crunch and revaluation of 'cheque book diplomacy'. Japan, in full tilt as nationalist, regionalist and globalist, is becoming increasingly proactive in order to legitimize its timely bid for political and financial leadership in Asia and serves both Japan and ASEAN with changing Sino-US relations and trends.

Second, ASEAN's relation with China is affected by China's management of its growth and aggressive globalization (Lloyd and Zhang, 2000) under a dual-trading regime of export promotion and import substitution, with profound economic, political and security implications. On one hand, China's fast-paced economic growth and 1.2 billion population might be a regional engine of growth. On the other, ASEAN fears that China's cheap labor and WTO accession will divert more FDI away. From its position of strength and implicit leadership, China has

moved to address ASEAN fears. Stronger positive ties with China is preferable to head-on competition. For energy-deficient China, the most important single ASEAN state is Indonesia for its vast natural resources, particularly oil and gas, and its sizeable regional clout.

Beside the China–ASEAN free trade area, another Chinese initiative was its government policy to encourage Chinese companies to ‘go outside’ to invest and contract for major engineering and construction projects. The policy serves China’s economic interests because it prepares its firms for operating in a global environment as WTO membership opens up to foreign investment and competition. China will invest in energy to expanding needs and will gain control over fuel sources, giving oil-producing ASEAN a bargaining chip. Politically, ‘going outside’ reassures the world, including ASEAN, that China does not only pull FDI and jobs away from other economies, but can also contribute.

However, two factors may keep individual Chinese firms’ economic ties with South-East Asia in check. One is the fact that ASEAN has to compete with the lucrative Latin American, North American and European markets. Chinese government-approved investment in ASEAN of some US\$108 million was only 20% of China’s total government-approved outward investment of US\$551 million in 2000. The second factor inhibiting Chinese private investment and tourism is sensitivity to treatment of ethnic Chinese minorities in ASEAN, particularly Indonesia and The Philippines. Indonesian racial riots in 1998 targeted at ethnic Chinese had long-term damage with the ‘bamboo network’. China’s Foreign Ministry’s position paper on Indonesia notes that the issue ‘remains sensitive’.

Much as China faces political and institutional constraints in the new age, it seems as unstoppable as Japan had been. Its influence in WTO is yet to be proven and will pose a WTO test case if it fails to implement all WTO commitments, rules and regulations. If it defaults and joins other big developing economies like India and Brazil, it would be more problematic than going with ASEAN and APT. It may need some friendly lobby in potential trade disputes with its high anti-dumping incidence. Past US–Japan trade friction in semi-conductors and automobiles may pale by comparison in any Sino–US conflict because China’s diplomacy is unlikely to be as acquiescent as Japan’s ‘geisha’ diplomacy and China is unlikely to accept voluntary export restraints. China retaliated against a ban by Japan on import of three farm products (shiitake mushrooms, leeks and rushes for floor mats grown in China by Japanese investors) with 100% tariffs on Japanese cars, mobile telephones and air conditioners in early 2002, marking the first Sino–Japanese trade friction.

On another level, China and the USA appear to be vying for influence in Asia and this calls forth ASEAN’s balancing act to ensure political security and economic stability. Small as Chinese outward investment is in absolute terms, its participation in the APT and China–ASEAN free trade area may help China to counterbalance a growing US military presence. The 9:11 attacks have eased the Sino–US tension that had escalated following the mid-air collision of an

American spy aircraft and a Chinese fighter in April 2001. At the Shanghai APEC summit meeting in November 2001, US President, George W. Bush, developed a 'cooperative, constructive relationship' with Chinese Chairman Jiang Zemin, abandoning his earlier 'strategic competitor' slogan. Deep misgivings persist in human rights, especially religious persecution, and the USA has accused China of exporting weapons of mass destruction to Pakistan and Iran.

Bush's single foreign-policy obsession to eliminate the 'Axis of Evil' in his fight against terrorism since the 9:11 attacks has unequivocally expanded to al-Qaeda cells in South-East Asia and North Korea, regardless of Kim Dae-Jung's 'sunshine policy'. A more nuanced approach may have been more sensitive to individual countries. The USA may 'lose the plot' in Asia if the Bush administration continues to make Japan the cornerstone of US policy in Asia, even if Japan were entirely peripheral to 9:11 (Krauss, 2002). Instead, it could be more concerned with Japan's continued inability to get out of its decade-long crisis, implicating its role as ally and stalwart in Asia. The USA could handle plot themes better in the short term, even if it has not lost the long-term plot. The USA needs to invest in political skills and tactics in creating institutional contexts to provide norms to facilitate passage, possibly leverage financial inducement to manage transition.

The USA lacks both political strategy and will by following a cheap, minimalist political strategy of relying on massive security presence and market access advantage to persuade others of its righteousness. It relies on Japan to finesse the Asian plot while wielding its 'big military stick', even though these power resources may have waned. So long as American military presence is part of its 'grand strategy' of economic and trade liberalization and political democratization, realpolitik is realistically fraught with inconsistency and hypocrisy. US laissez faire neoliberal ideology is also subjected to the two-level game of satisfying international and domestic politics in agriculture, telecommunication and steel. China may see the US military presence both as countering militarily resurgent Japan and as posing a threat to its political cross-strait security. Neither China nor South-East Asia may find liberalization, competition and democratization as sanguine. Interestingly, Japan has the opposite problem: it increased its influence of strategic, short- medium-term goals rather than long-term goals. For the USA to catch a free ride off Japan's political and financial contribution to Asian stability while Japan free rides off US security umbrella and liberalization achievements, the US-Japan coalition must remain strong and operate as one effective and responsible hegemon. In all probability, the postwar toleration may have exhausted and some power co-sharing, if not with China in the equation as well, has come to pass.

IV. Singapore's Bilateral Trade Arrangements

The above sections serve to set the scene for small, open Singapore as an enigma, if somewhat exemplary in its free trade, economic management and

efficiency. As Asia recovered by 1999, Singapore's external trade in 1999 (S\$382.4 billion) was triple its GDP of S\$144.0 billion. Singapore is the largest global trader in rubber and oil and is making rapid strides in paper and pulp trading. Its top trading partner in 1999 was Malaysia, followed by the USA, Japan, Hong Kong, Taiwan, China, Thailand, Korea, Germany and the Philippines. In 1999, Singapore enjoyed an average 30% growth in total trade. Its dilemma is precisely as a natural free trader, Singapore is caught by ASEAN-AFTA lethargy in trade liberalization and is driven to stir the pot and enervate others.

Lee Kuan Yew noted that the current spate of free trade agreements is no accident because Singapore has to leapfrog ahead of a region which does not seem to be managing itself forward. Its dual-track approach in bilateral free trade agreements with like-minded countries to move agilely as well as encouraging ASEAN into crossregional free trade arrangements are consonant with multilateralism and WTO. However, its macroeconomic policies are more open and competitive in contrast to the pace and depth of other ASEAN economies in embracing globalization, information communication technology and knowledge-based economy. These trends impact on structurally disparate ASEAN economies differently, like the resulting digital divide which is also as a reflection of uneven levels of growth and development.

Thriving on open and free trade, Singapore may turbo-charge regionalism, both within AFTA and by encouraging ASEAN forward to relationships with other major trade blocs. It would not do to have ASEAN in collective paralysis concurrent with regional economic adversity and its enlargement, or ASEAN no longer commanding an international alignment relevant to Singapore's interests (Leifer, 2000). ASEAN's woes are reflective of its lack of progress and cautious liberalization with domestic political economy holding sway. This divergence in macroeconomic and trade philosophy and strategy is reflected in the diametrically opposite views of whether Singapore's bilateral trading agreements are right or whether they are tearing ASEAN apart.

Ideally, if ASEAN were as integrated and developed as EU15 in intraregional trade and investment, Singapore could function more successfully as a regional economy like Ireland. Deeper EU integration includes Maastricht convergence criteria to qualify for European Monetary System, a stabilization growth pact for monetary union and fiscal discipline and a generally more open, globalized and competitive environment in EU. The competitive strength to integrate with the globalized world is different for a regional rather than national economy. A regional economy's population expands or contracts as economic conditions dictate, and is not determined by demographic factors as in a national economy. The size of a regional economy is crucially determined by its export base or, more generally, by international competitiveness. How nations trade has tilted the balance of geographic advantage, as conventional transport cost becomes less important than delivery time, commitment and personal contact, market access (Krugman, 1995; Fujita et al., 1999).

Ireland, with its American ties and US multinational corporations eyeing the EU market, has a more conducive environment than Singapore as a regional hub. This is reflected by the fact that Ireland took Singapore's top globalization rank as Singapore slipped to third place in 2001. In part, the slippage was because it took a sectoral approach to liberalization in telecommunication, finance and banking, utilities and others, rather than an across-the-board competition policy. Underscoring the environment dimension, Ireland drew in more FDI as Singapore suffered lower regional trade and capital linkages and ASEAN economies languished. To compensate for the regional drag, Singapore has gone into bilateral trade arrangements with other regions. This diversification, and Singapore's escape from some adverse neighbourhood effects, may make Singapore more aggressive as a world city than a city-state in South-East Asia (Low, 2002). At the same time, the demonstration effects of Singapore's bilateral efforts should also spur ASEAN-AFTA and arrest the regional drag.

Macroeconomic issues – such as stabilization, nominal convergence of inflation and unemployment – have attracted a regional dimension, making regional coordination imperative both for stabilization as witnessed in the Asian crisis and cost competitiveness. Loss in cost competitiveness leading to export decline and balance-of-payments deficit occurs when one region's prices and costs rise relative to other regions. The growing competition between South-East and North-East Asia with China as anchor is a clear manifestation of regional convergence and competitiveness. Singapore works at its international competitiveness, including non-price factors such as: (i) product quality; (ii) reliability of supply; (iii) back-up marketing services; (iv) taxation; (v) human resources development; (vi) business services; (vii) infrastructure; (viii) public finance; and (ix) administration. Its long-run competitiveness is, however, as profoundly influenced by research and development policy, success in product innovation and technology as it is by regional dynamics and prospects. The reality is that ASEAN as a whole is on a somewhat different trajectory and that Singapore must straddle between being a regional economy and tapping other regions and the global economy. The pace and dynamics would be faster and smoother if ASEAN were as export- and productivity-driven and merged into the globalized economy as Singapore.

After the Asian crisis, Singapore suffered another 'big brother' beside its historical baggage with Malaysia. Economic refugees and capital flight into Singapore was unprecedented as Indonesia's economic crisis escalated into ethnic social volcanoes. Instead of cash and investment, Singapore's humanitarian aid, considered as charity, culminated in Indonesian President B. J. Habibie dubbing Singapore 'a little red dot' in August 1998. Relations may have improved somewhat when his successor, President Abdurrahman Wahid asked Lee Kuan Yew to join a board of international advisers to Indonesia in October 1999. An uneasy state lingered as Goh Chok Tong voiced a 'quiet' reply only to clarify issues and correct errors as Singapore understands Indonesian rhetoric and blaming others to divert attention is a political ploy. At a broader level, Wahid

Table 1 Types of Regionalism

| <i>Factor</i> | <i>Micro-regionalism</i> | <i>Meso-regionalism (ASEAN)</i> | <i>Macro-regionalism (EU)</i> | <i>Mega-regionalism (APEC, APT)</i> |
|---------------------------------|-------------------------------|---------------------------------|-------------------------------|---------------------------------------|
| Actor | Few adjacent members | Several states | Several states | Great number of states |
| Leadership | One or two advanced countries | Shared equally | Some countries | Center countries |
| Level economic development | Heterogeneous | Homogeneous | Homogeneous | Heterogeneous |
| Production relationships | Vertical | Outward, vertical | Horizontal | Horizontal, vertical |
| Cultural identity | Homogeneous | Heterogeneous | Homogeneous | Heterogeneous |
| Regionalization/integration | Specified spheres | Political, economic caucus | Several spheres | Open, flexible |
| Institutional formality | Informal | Less institutionalized | Formal | Various types |
| Regional slogan, idea, ideology | Slogan | Idea short of ideology | Ideology needed | Slogan without political implications |

Notes: ASEAN, Association of South-East Asian Nations; EU, European Union.

Source: Adapted from Hatsuse, 1999.

had assailed South-East Asian countries, not only Chinese-dominated Singapore, over growing regional ties with China at the expense of relations with smaller and poorer states. Beside reopening a domestic ethnic wound, ill treatment of Indonesian Chinese did not bode well with China. Singapore would face another dilemma should ASEAN be split along ethnic and security issues.

Singapore depicts a flow-through economic model, sourcing resources such as intellectual capital and human resources from abroad, both in the region or worldwide. All modalities or approaches of trade liberalization, including bilateral trade agreements, are consistent with Singapore's 1993 regionalization policy to increase GNP by investing and generating income streams from the larger Asian region. Foreign policy has fused with trade policy in foreign economic policy that may be based more on instinctual pragmatism and eclecticism. Rather than relying on theoretical or rigorous econometric modelling to estimate conventional trade creation and diversion of trade arrangements, its bilateral route may be posited by perceived progress or the lack of that in AFTA, APEC and even WTO. Paradoxically, ASEAN's loose integration allows Singapore to use its full policy arsenal as a sovereign state. The learning curve is steep and slippery as issues ranging from strain on manpower and resources to handle simultaneous trade pacts to rules of origin eventually come home to roost. Implicitly, there are pains of meeting up demands in negotiations, notably competition policy implying reform and deregulation, including reassessing strategic government-linked companies.

Singapore's foreign economic policy evolved progressively after Goh Chok Tong spawned ideas of Asia-European Meeting (ASEM) and East Asia-Latin America Forum (EALAF), the precursor to East-Asian Latin American Cooperation (EALAC; Table 2), to complement and balance APEC. It is not a sudden, new turn, although the fast and furious pace of bilateral trade agreements taking off in the late 1990s is a shift in both numerical and intensity modality. Its sprint into bilateral free trade arrangement (see Table 3) started with New Zealand and the Agreement between New Zealand and Singapore for a Closer Economic Partnership (ANZSCEP) was sealed a year later. As another small economy that has opened up since the 1980s and trying to leverage outward into Asia Pacific, ANZSCEP is an important tutorial as Singapore sets its sights on larger trading partners like the USA, Japan, EU and the European Free Trade Area (EFTA). Clearly, a bilateral pact with the USA is the piece *dé* resistance after a failed bid following the ASEAN-US initiative, which also failed to take off (Naya et al., 1989). Liaisons with Mexico and Chile as NAFTA and Latin America prospects occurred before interest was indicated by US President Bill Clinton for a bilateral agreement. India, for its information communication technology skills, is a logical choice, as well as to balance the geopolitics of foreign economic policy.

Notwithstanding these justifications for Singapore's strategy of bilateral trading agreements based on its domestic needs and in following with new regionalism trends, ASEAN's initial unhappy reaction is understandable. There

Table 2 Intra- and Extraregional Asian Regionalism

| <i>Level/modality</i> | <i>Type of action</i> | <i>Groupings/blocs</i> |
|------------------------------|---------------------------|---|
| Subregional growth triangles | Pub-pte, activity-based | Indonesia–Malaysia–Singapore Growth Triangle |
| | Pub-pte, activity-based | Indonesia–Malaysia–Thailand Growth Triangle |
| Subregional Mekong | Pub-pte, activity-based | East ASEAN Growth Triangle, Brunei–Indonesia–Malaysia–Philippines Mekong River Commission (Cambodia, Laos, Vietnam, Thailand) |
| | Pub-pte, activity-based | Greater Mekong Subregion (Cambodia, Laos, Vietnam, Thailand, Myanmar, China) |
| | Pub-pte, activity-based | ASEAN Mekong Basin Development Programme (ASEAN10, China) |
| Interregional | Pte | Asia Pacific, American, European networks |
| | GPNs | |
| Regional | G-to-G, rule-based | AFTA, ASEAN10 |
| | Pending | APT |
| Interregional | G-to-G | ASEAN + 10 dialogue partners (EU, Japan, USA, Canada, Australia, New Zealand, China, South Korea, Russia, UNDP) |
| | G-to-G | ARF (ASEAN10, USA, Canada, EU, Japan, Russia, China, Taiwan, North Korea, South Korea, India, Mongolia, Papua New Guinea) |
| | G-to-G | EALAC (Argentina, Australia, Bolivia, Brazil, Brunei, Cambodia, Columbia, Costa Rica, Cuba, Chile, China, Ecuador, El Salvador, Indonesia, Japan, Korea, Laos, Malaysia, Mexico, Myanmar, New Zealand, Panama, Paraguay, Peru, Singapore, Thailand, Uruguay, Venezuela and Vietnam, Costa Rica, Cuba and El Salvador) |
| | G-to-G, business councils | APEC (ASEAN7, USA, Canada, EU, Japan, Russia, China, Taiwan, Hong Kong, South Korea, Mexico, Chile, Peru, Argentina, Papua New Guinea) |
| Multilateral | Rapprochement | ASEM (ASEAN7, Japan, China, South Korea, EU15) |
| | G-to-G, rule-based | WTO |

Notes: AFTA, ASEAN Free Trade Area; ARF, ASEAN Regional Forum; ASEAN7, Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam; ASEAN10, Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam; APT, ASEAN Plus Three; APEC, Asia-Pacific Economic Cooperation; ASEAN, Association of South-East Asian Nations; ASEM, Asia-Europe Meeting; EALAC, East Asia-Latin America Cooperation; EU, European Union; GPN, global production network; G-to-G, government-to-government; Pub-pte, public-private; UNDP, United Nations Development Program; WTO, World Trade Organization.

Table 3 Regional and Bilateral Free Trade Agreements Involving Asia Pacific Economies

| <i>Stage</i> | <i>Crossregional and bilateral trading arrangements</i> | <i>Year</i> |
|----------------------|---|-------------|
| Under study/proposed | Transatlantic Free Trade Area | 1995 |
| | Japan–Korea | 1998 |
| | Japan–Mexico | 1998 |
| | Japan–Chile | 1998 |
| | Japan–Canada | 1999 |
| | P-5 (USA, Singapore, New Zealand, Australia, Chile) | 1998 |
| | North-East Asia Research Initiative (China, Korea, Japan) | 1998 |
| | ASEAN Plus Three | 1998 |
| | New Zealand–Hong Kong | 1999 |
| | New Zealand–Chile | 1999 |
| | ASEAN–Common Economic Relations | 2000 |
| | Singapore–Canada | 2000 |
| | Singapore–EU | 2000 |
| | Singapore–India | 2000 |
| | Singapore–Chile | 2000 |
| | Korea–Chile | 2000 |
| | Korea–Mexico | 2000 |
| | EU–Chile | 2000 |
| | USA–Chile | 2001 |
| | China–Hong Kong | 2002 |
| | New Zealand–Hong Kong | 2002 |
| | ASEAN–Japan | 2002 |
| | ASEAN–USA | 2002 |
| ASEAN–India | 2002 | |
| Negotiation | Free Trade Area of the Americas | 1999 |
| | Singapore–USA | 2000 |
| | Singapore–Mexico | 2000 |
| Signed | Singapore–New Zealand | 1999 |
| | Mexico–EU | 1999 |
| | Singapore–European Free Trade Area | 2002 |
| | Japan–Singapore Economic Partnership Agreement | 2002 |
| | Singapore–Australia | 2002 |
| | ASEAN–China | 2002 |
| Implemented | North American Free Trade Agreement | 1994 |
| | ASEAN Free Trade Area | 1993 |
| | Canada–Chile | 1996 |

Notes: ASEAN, Association of South-East Asian Nations; EU, European Union.

are the usual concerns with rules of origin and ‘spaghetti bowl’ effects as both ASEAN and partners in Singapore’s bilateral trading agreements worry about the ‘back door’ effect. Traditionally protective of its agricultural sector, Japan sees its bilateral pact with Singapore and Singapore’s membership in agricultural ASEAN as a threat. However these are standard regionalism issues and Singapore is no more hurting or marginalizing ASEAN than other Asian regional efforts that must deal with the same issues. The same is occurring in

NAFTA, FTAA and bilateral pacts among members with overlapping liaisons within the larger group.

ANZSCEP is a comprehensive agreement covering goods, services, investment and government procurement, among others. All tariffs on products qualifying for preferential treatment under ANZSCEP are eliminated. Companies in electrical and nonelectric machinery and other manufactured products stand to benefit from this. New Zealand has made a commitment to liberalize a wide range of sectors for Singapore's service producers in order to access its markets for services in engineering, financial, info-communication technology, maritime transport and equipment repair. New Zealand has also committed to removing residency requirements for the registration of certain professionals. Free trade in services will be phased in over a 10-year period and phased arrangements will be made for mutual recognition for professional qualifications and technical standards. While neither side expects large benefits from free trade in goods, given small volumes, gains from services will go mostly to New Zealand. Singapore started separate negotiation with Australia, rather than with CER.

After a year-long study by officials, academics and private-sector business representatives, Japan and Singapore started and ended JSEPA negotiation in 2001. Going beyond tariff elimination in goods, JSEPA is an innovative approach to accommodate even Japan's politically sensitive agricultural sector. A vital focus is in service trade liberalization, investment and movement of natural persons. The new age elements include cooperation in: (i) science and technology; (ii) media and broadcasting; (iii) high growth areas in financial and telecommunication; (iv) electronic-commerce; (v) human resource development; and (vi) management and promotion of small- and medium-sized enterprises in both countries. As Japan's first and Singapore's second free trade agreement, JSEPA would institutionalize regulatory and other policy reforms for both to remain attractive to capital and talents. JSEPA was crafted as a template for the rest of ASEAN and is exemplary for North-East and South-East Asia regionalism.

One empirical evaluation on JSEPA using a modified version of the dynamic global trade analysis project to capture short- and long-run impacts found significant favorable results for Japan (Hertel et al., 2001). In particular, automatic customs procedures would play the most important role, driving increases in merchandise trade. JSEPA would boost rates of return and thereby increase FDI in both economies. Some deterioration in trade balance relative to the baseline over the medium term may arise, but it would improve in the longer run with higher foreign income payments. The estimated global gains from JSEPA in excess of US\$9 billion annually would accrue in bulk to Japan as it undertakes the most reforms to open up. Unlike preferential tariff cuts, the new age components of JSEPA promote imports from all sources, thereby eliminating the problem of trade diversion.

Singapore started negotiation with Mexico and Chile against the bigger backdrop of NAFTA and Latin America. Interestingly, Chile was not happy with the US-Singapore initiative broached during the Brunei APEC summit and

announced a fortnight later that it was starting its own negotiations with the USA. Set to be a member of Mercosur, Chile noted in June 1999 that it was no longer interested in becoming the fourth member of NAFTA. The US–Singapore free trade agreement was supported strongly by Clinton’s US Trade Representative, Charlene Barshefsky. She proposed a plurilateral Project 5 during the APEC Leaders Summit in November 1998 – later dubbed Pacific Five (P5) – comprising Australia, Chile, New Zealand, Singapore and the USA. By coincidence or design, Singapore has similar bilateral free trade designs which may enhance P5. Singapore, Chile and New Zealand are in some discussion over a trade pact and, with its pact with Australia after 2 years of negotiation, Singapore has become a conscious, vital common denominator or ‘broker’ in many Asia Pacific trade agreements. Singapore’s bilateral trade agreement with the USA was another achievement for the city-state while Australia failed in a similar deal with the USA. Thailand, The Philippines and Malaysia have indicated similar interest with the USA.

The Singapore–India free trade agreement is on the agenda of a 3-year memorandum of understanding which set up a task force on economic cooperation, together with two other agreements to promote cultural relations. The task force will focus on how Singapore can be catalyst for India’s reforms, measures to expand bilateral trade, economic and financial sector cooperation in the next decade. India is Singapore’s 16th largest trade partner and Singapore is India’s 13th largest investor in 1999. Since re-emerging as a diplomatic player on the world stage, drawing on Clinton’s visit in March 2000 and the new cutting edge in information communication technology manpower and skills, India’s foray into ASEAN and Asia through Singapore is logical and strategic. A partnership between India and Singapore can stem the progressive loss of Asian talent from China, India and The Philippines to the USA and EU, and possibly drive some Asian information communication technology hubs instead. Going beyond the tariff and non-tariff barrier; public key infrastructure to improve standards related to information security, e-trading and e-commerce and common legal framework are issues in new age Asian regionalism.

Table 3 sums up the empirical evidence on regionalism across the Asia Pacific, peaking in 2000. The jury is probably still out on whether regionalism advances global trade liberalization or whether it is a growing a tangled web of trade distorting regimes, as noted by Bhagwati’s ‘spaghetti bowl’ effect (Panagariya, 1999). Ironically, the APEC summit in Brunei in 2000 was unmemorable, with attention on bilateral free trade agreements led by Japan and Singapore. Japan is engaged in pacts with Canada, Chile, Mexico and Korea. New Zealand has floated ideas with Hong Kong and Chile, and Chile is poised for a deal with the EU by 2002 after Mercosur has secured one with the EU in July 2000. Thailand has proposed a pact with China. In turn, China has proposed a China–ASEAN free trade agreement, studied by the ASEAN Secretariat and to be complete in 10 years. The USA and Jordan are on to a bilateral agreement and Taiwan is the only Asian economy that is not in any bilateral or

cross-regional trade bloc, apart from informal APEC. These miniature trade deals may mean the realization of APEC open regionalism, even if it will be a formidable exercise adding up the combinations and permutations and projecting APEC as a center of gravity. A less ambitious projection would be that these regional trading arrangements add up to supplement multilateralism and WTO.

V. Conclusions and Policy Implications

This paper shows that regionalism can complement and supplement outward-oriented trade policy, globalization and multilateralism. A strong policy implication for ASEAN is that, despite its pioneering headstart, it has become a laggard as regionalism in East Asia regionalism has caught up. The Asian crisis notwithstanding, ASEAN's caucus role in APEC and its relevance in South-East Asia may be marginalized by APT due to economies of scale and changing geopolitics between the USA and Japan on one hand, and China and the USA on the other. With or without Singapore's activism in bilateral free trade agreements, ASEAN must realize that it no longer has the center stage in Asian regionalism.

Asian regionalism is generally more cautious, as even Japan did not adopt a multilayered approach and add regionalism and bilateralism to its support of WTO until late 1990s. The Asian crisis, failed experimentation with AMF, and lethargy in both ASEAN and APEC have created space for APT. APT is timely because the external effects of globalization, finance and information communication technology demand stronger regional cooperation, rather than segregated states, in order to deal with some common problems that cannot be resolved internally. From Japan to Hong Kong, policy-makers have revised their views on regionalism as a threat to multilateralism and noted certain intrinsic features of RTA in innovative rules and new age deals. Bilateral and cross-regional free trade agreements offered to ASEAN by China, Japan and CER are worth some policy reconsideration, even if ASEAN solidarity remains valued. ASEAN needs a charge, both in industrial restructuring and in economic reform, and these offers can help to pry open or accelerate liberalization and deregulation and review deeper integration involving intellectual property rights, labor standards and environmental protection. The political economy of Asian regionalism cannot be underscored and the various hybrids, new age partnerships and agreements are pulling together creative innovations to help partners overcome the challenges of globalization, information communication technology and knowledge-based economy. Socio-political reform and adjustment, as much as economics, are required.

ASEAN may be overtaken by APT as an East Asian trade bloc, however defined. East Asia is economically and politically more mature and sees the need to adopt more transparent, open and competitive approaches. Even China is locking in reforms with its WTO accession and has proposed a China-ASEAN free trade area to further push economic reforms and avoid alienating

itself regionally. ASEAN–AFTA has to move faster to preserve its relevancy and efficacy. It would be a waste for both ASEAN and APEC, with their institutional processes and resources, to run out of date by sheer inaction and lack of vision. But RTA are first and last political, never mind the economic rhetoric, and political maturity and vision vie with economic idealism as to how far, how deep and how fast Asian regionalism could go. A guarded optimism is expressed because institutional and policy capacity is not Asia's strong suit and politics are still rivalrous, emotive and state-centric. Hard empirical measurement of economic impact and gains from Asian regionalism may still be at its infancy and more efforts should be promoted in the global trade analysis project.

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