GLOBAL OR CROSS BORDER PRODUCTION NETWORKS AND POLITICAL ECONOMY OF REGIONALISM

1 Introduction

As the new millennium unfolded, a number of trends and issues have consolidated to set the scope, dynamics and pace of economic growth and development in Asia. First, East Asian economies, especially the Association of Southeast Asian Nations (ASEAN) have recovered and reformed in varying degrees from the 1997 Asian crisis. Precipitated as a financial crisis in Thailand, worsened to an unmitigated, encompassing, socio-political crisis in Indonesia, the Asian crisis exposed fundamental domestic structural and institutional fault lines.

Second, liberalisation and deregulation policies in pursuit of international competitiveness necessitated embracing globalisation, information communication technology (ICT) and knowledge-based economy (KBE). Global competition meant efficiency and productivity just as governance meant transparency and accountability. Among 20 countries, Singapore topped in a new globalisation index (Foreign Policy, January/February 2001) driven largely by technology especially Internet access. Small countries generally are at the top in the globalisation ranking as Netherlands, Sweden, Switzerland, Finland and Ireland follow Singapore. Malaysia was the only other Asian country ranked 20th. The same ICT advantage has thus widened the digital divide and globalisation gap between developed and developing countries in general, Singapore and the rest of ASEAN, in particular.

Third, these global and technological forces dictated terms unfriendly to national industrial policies. Chaebols needed to restructure, downsize and broke the traditional social pact of lifelong employment. Malaysia's bumiputera policy was disrupted and Indonesia's Suharto Inc broke up too. The aftermath of corporate and financial restructuring and economic reforms dictated partly by international financial institutions (IFIs) like International Monetary Fund (IMF) and World Bank and partly by the dynamics of comparative advantage have wide-ranging implications. The role of the state as in industrial policy, developmental state and state-business relationship has to be recast with resonating issues of moral hazard and political business.

Fourth, paradoxically, as the backlash of globalisation, ICT and KBE grows with income inequity and insecurity, the state is needed more to take care of both rural and urban poor. It has to rethink social welfare protection and social security as job security and employability are threatened by rapidly changing ICT, digital divide and mismatch of skills. These issues are compounded by labour migration as workers are repatriated home during the regional recession.

Fifth, as direct foreign investment (DFI) increasingly takes the form of mergers and acquisitions (M&As) since the Asian crisis, there are serious implications for local entrepreneurship as domestic firms are merged or bought up by foreign corporates. Local small and medium-sized enterprises (SMEs) need some nurturing and encouragement even if not overt protection, nationalism notwithstanding. Budding ASEAN multinational corporations (MNCs) and SMEs need time and space to find their place and groom entrepreneurship. They benefit from expertise, standards and benchmarks as subcontractors and suppliers of MNCs without being taken over in M&As which would kill them. If they are state-owned enterprises (SOEs), bailouts may retain national ownership, not the needed restructuring to leverage to international standards if they continue under overly and prolonged sheltered conditions.
Sixth, strategic alliances, partnerships and networks have evolved. Technocapitalism is not a mere extension of industrial capitalism which was grounded in material resources. Technocapitalism is more intensive in knowledge and intellectual capital as inputs, spawns innovations, creations, and inventions to become the intangible wealth of nations (Suarez-Villa, 2000) based on capability of national firms, supported by states. In contrast, technoglobalism is the globalisation of technology in three senses: global exploitation of technology as in patents or intellectual property rights (IPR); global technological cooperation in resource pooling, complementarities or strategic alliances; and global generation of technology within a single MNC in laboratories s situated abroad. In this respect, East Asia may consider the new found information technology (IT) competitive advantage of South Asia, especially India, as part of the Asian network of strategic alliances which have much to do with global production networks (GPNs) as in next point.

Finally, these observations are all reflected in the evolution of GPNs as in garments, automobiles, electronics and hard disk drives. GPNs involve inter- and intra-firm relationships of MNCs in collaboration with local enterprises creating a virtuous circle also because of the relative dynamism and openness of East Asia. With ICT, virtual states increasingly relocate part of their production abroad to specialise in higher value-added goods and intangible services, research and development (R&D), product design, finance, marketing, transport, insurance and legal services, (Rosecrance, 1999 and Everard, 2000). As both productive and international relationships are reshaped, such virtualisation and regionalisation facilitate globalisation.

Tying these trends together, Asian regionalism can be the economic, socio-political and technological glue to revitalise the region as well as help transition economies adapt to globalisation, ICT and KBE. Growth triangles and GPNs as regionalisation is market-driven based on concentration of trade, proximity, scale economies and efficiency. Driven by such economic processes, regionalisation is distinguished from regionalism which is arranged by state and policy in a formal trade pact toward an institutionalised integrative process. Regionalisation is economics, regionalism, politics. Logically, regionalism follows regionalisation to provide the appropriate institutions and processes to gel state and non-state participants as in Asia but not necessarily as witnessed in the European Union (EU). Be it a cause or an effect, regionalism has gone cross-regional like regionalisation in the form of GPNs. All are responses to globalisation, ICT and KBE. But the political economy dimensions and issues of new regionalism are more complex and complicated.

The purpose of this paper is to study, explore and offer policy directions if not specific policies and strategies to put such networks up to speed in a larger context of both regionalisation and regionalism. As outcomes of DFI activities in the first instance, GPNs are new only in sense that local participation by local enterprises and state supporting facilities have latched on in partnership with lead MNCs. They may increasingly influence the nature and scope of regionalism from the institutional and policy perspectives. The multilateral system will ultimately matter most for GPNs and MNCs. Thus, we try to balance GPNs/regionalisation and regionalism on one hand, and square off new regionalism with multilateralism on the other. There are exciting possibilities of going cross-regional and global. Even within Asia, South Asia is yet to tie up with East and Southeast Asia. Beside manufacturing, services as in new ICT-mediated services are obvious new pillars of growth and cooperation. Diversifying and promoting intra-Asian trade and other factor movements including human resources and technology would be accompany positive outcomes.
As Asian regionalism gathers momentum, it would challenge European and American regionalism as a trilateral configuration nested within the multilateral framework of the World Trade Organisation (WTO). How Asian regionalism is defined at the subregional ASEAN level or go cross regional based on open regionalism as in Asia Pacific Economic Cooperation (APEC) reinforced by GPNs and crossborder strategic and technological alliances, is still unfolding.

Following this introduction, brief political economy overviews of GPNs in Section 2 and regionalism in Section 3 respectively lay out their relative places in the cooperation spectrum as shown in Table. Empirical evidence of Asian regionalisation and regionalism identified in Table 1 will be detailed in Section 4. Section 5 raises policy issues and directions for ASEAN and East Asia in the first instance, tying up with South Asia as a prospective agenda. The concluding section summarises the findings and policy suggestions together with some prospects of networks and regionalism.

Table 1 Political economy of economic cooperation and groupings

<table>
<thead>
<tr>
<th>Modality</th>
<th>Drivers</th>
<th>Groupings, networks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regionalisation</td>
<td>Activity-based</td>
<td>ASEAN growth triangles</td>
</tr>
<tr>
<td></td>
<td>Market-driven</td>
<td>GPNs, CPNs, TPNs</td>
</tr>
<tr>
<td>Regionalism</td>
<td>Rule-based</td>
<td>ASEAN/AFTA</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bilateral FTAs</td>
</tr>
<tr>
<td></td>
<td>State-driven</td>
<td>APEC (non-FTA)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ASEM (non-FTA)</td>
</tr>
<tr>
<td></td>
<td>Institutionlised integrative process</td>
<td>EALAF (non-FTA)</td>
</tr>
</tbody>
</table>

Source: Author.

Table 1 distinguishes regionalisation as activity-based and market-driven in ASEAN growth triangles and GPNs. It is regionalisation if economics dominate, based on trade concentration and informal cohesion arising from geographical proximity, natural trading partners in a natural trading block. Regionalism is rule-based, state-driven and institutionalised integrative process as in ASEAN Free Trade Area (AFTA) and bilateral free trade areas (FTAs) sanctioned under multilateralism. APEC, Asia-Europe Meeting (ASEM), East Asia-Latin America Forum (EALAF) and ASEAN-Plus-Three (APT) are cross regional state-mediated mix of public-private partnerships (PPPs). More state than market-driven, they are still categorised as loose informal cooperation rather than formal integration or regionalism. A rich mix and menu of policy options will be portrayed to suit the diversity and relative speeds of Asian economies.

2 Political economy of GPNs

Three key themes are identified. One is to understand the political economy of GPNs, two, how Asian economies responded to these networks in conjunction with industrial restructuring and three, how Asian competition and competitiveness are affected as a consequence. First, a conceptualisation of GPNs under new globalisation and other types of networks and alliances. Neither globalisation nor regionalisation are state projects. But parallel institution-building which inevitably involves politics result in globalism and regionalism to manage economic integration.
Old globalisation is internationalisation of firms in DFI, trade and other factor flows for cost and efficiency considerations in production, sourcing, marketing and product development, increasing economic interdependencies of countries. The scale, complexity and rapidity of new globalisation as the democratisation of information, finance and technology (Friedman, 1999) has made a distinction. A globalisation backlash has been incited. Labour and social groups and other international non-government organisations (NGOs) blamed free trade as a conduit for globalisation and global capitalism, both lacking a human face. Globalisation has transformed more than production as ideas, technology, finance, people move with the politics, social relations and ecology of the global process (Worthington, 2000 and Lawton, et al, eds, 2000).

The distinction between new and old globalisation, new KBE and old industrial economy respectively, has implicated GPNs as part of the new set. New ideas opened up such as in global paradox (Naisbitt, 1994), dispersive revolution (de la Mothe and Paquet, 1994), new rules for wealth building (Thurow, 1999) and great disruption and reconstruction of the social order (Fukuyama, 1999) inevitably spell painful changes. Globalisation may have broken down local regional economic identities though it does not necessarily mean economic homogenisation with path-dependent local development. Balkanisation may have occurred with global competitiveness and specialisation in subnational geographical agglomerations and regional product-based technological learning systems. Tribalism may be reinforced in region-states like greater China as sources of entrepreneurial culture and competitive advantage given a corresponding dysfunctionality of nation-states (Ohmae, 1993). Region-states may provide support for subnational development through nurturing complementarities, interdependence and externalities via infrastructure, networking of economic and business competence, business and cultural idiosyncrasies. They respond to GPNs in an interactive two-way process just as GPNs take advantage of some regional specialisation.

The political economy of GPNs distinguishes them from traditional economies of scale and scope which concentrate on external agglomeration associated with co-location of producers. Spatial proximity provide organisational "boundary spanners" (Staber, et al, eds, 1996, p 8). In high-technology industries such as electronics and high disk drives, state agencies have redesigned the domestic architecture of supply infrastructure in critical technologies to enable domestic firms and MNCs to compete effectively (Mathews, et al, eds 2000, Gray and Dunning, 2000 and McKendrick, et al, 2000). The defining feature of GPNs is local participation. Domestic firms ratchet up and leverage themselves more competitively and securely to partner MNCs. The entire range of business activities occurs interfirm intrafirm, from R&D, product definition and design, to supply inputs, manufacturing (or production of a service), distribution and support services (Borrus, et al, eds, 2000, p 1). With ICT, both highly mobile knowledge-intensive inputs and proprietary assets create a virtuous circle of regional dynamics for enterprise diversity, technological diversion and open systems (Best, 2000, p 462).

With the state nurturing high-technology regionalisation and GPNs, technonationalism arises. The spirit of technonationalism believes that technological capabilities of national firms are a key source of competitive prowess and should involve national action. Through policies and institutions, the state can nurture a national innovation system as a network of agents to affect the introduction of new technology. In pursuit of catch-up and systematic revitalisation, governments fund scientific R&D to breed commercial inventions over and above profit motivated
corporate R&D expenditure. In practice, mixed funding is the best of both worlds (Suarez-Villa, 2000, pp 89-90). The pursuit of national innovation systems may lead to intense competition for lead MNCs in GPNs. Instead of cross regional development collaborations in technology districts and subnational techno-economic systems, rivalrous national efforts in prestigious mega projects would duplicate resources and energy. MNCs and GPNs may be economic drivers but political competition prevails.

What distinguishes networks depend on how network boundaries and composition are defined, what are the critical ingredients or factors for their development and success, how to manage public-private interface and how to evaluate network performance. They can be artificially induced by states as part of industrial policy. GPNs also influence factor market relationships as in technology transfer, workforce quality, skills, work attitudes, institutional relations, industrial relations, civic capacity, civil society, even ecosystems over and above government-to-government interactions.

A more evolutionary process may start with an industrial cluster as a set of industries related through Porter-like (1990) buyer-supplier, supplier-buyer relationships or common technologies, common buyers or distribution channels or labour pools. Concentrations of firms involved in interdependent production processes often in same industry or segment are embedded in the local community, delimited by commuting to work.

A regional cluster is an industrial cluster with member firms in geographic proximity. Regional clusters are subsets of industrial clusters. They are distinguished by the focal point of an industrial district often as an industry or even single industry segment whereas regional clusters generally involve a range of related industries. Regional clusters include districts of SME craft firms, concentrations of high-technology firms related through development and use of common technologies and production systems which contain hub firms and local suppliers and spinoffs. They can incorporate innovative complexes and lean, flexible production which is reduction of waste to enhance productivity by integrating thinking and doing at all levels of operation in organisation.

Paradoxically, regional clusters entail both cooperation and competition and a debate of their relative value contributing to international competitiveness. Cooperation is extended to include a notion of rough local consensus on appropriate competitive variables and a rough agreement on rules of the game without precluding competition within these rules. It is necessary to distinguish between undesirable horizontal relationships (those with direct competitors) and cooperative vertical relationships (those with buyers and suppliers). Sharing information with buyers and suppliers can contribute to new product and process development or to gains through better coordination of activities.

A strategic network has similar characteristics of SMEs and MNCs in complex, reciprocal, cooperative and relatively stable relations, except proximity and it is led by a focal or hub firm. It is an outcome of a cooperation rather than merger philosophy with relatively open network boundaries. Regional and strategic networks may be interrelated, not mutually exclusive. Strategic networks grow from industrial districts and firms embedded in regional networks may quasi-integrate into strategic networks. Even spatially distant networks may be inter-linked to networks of SMEs within a particular region through a strategic network. The precondition is the understanding of the processes of network building, inter-firm division of labour and balancing of autonomy and dependence within the network to create and sustain trusting relationships.
Business networks consist of several firms which have ongoing communication and interaction. They might have a certain level of interdependence but need not operate in related industries or be geographically concentrated in space.

Table 2 combines various aspects of inter-organisational control and spatial aggregation showing permutations which are not necessarily empirically correct but facilitates an understanding of content, formality of relations, structural aspects and nature of actors involved. Science parks are centrally administered and driven by preselected core firms in a centralised, localised network. Asian growth triangles are globalised, centralised networks despite private sector activities based on profit motives. Small firm industrial districts indicate decentralised local networks. International business networks are global and decentralised such as strategic alliances networks in the semiconductor industry.

Table 2 Typology of business networks

<table>
<thead>
<tr>
<th>Aggregation</th>
<th>Interorganisational control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local</td>
<td>Centralised</td>
</tr>
<tr>
<td></td>
<td>Decentralised</td>
</tr>
<tr>
<td>Global</td>
<td>Science park</td>
</tr>
<tr>
<td></td>
<td>Small firm industrial district</td>
</tr>
<tr>
<td></td>
<td>Asian growth triangle</td>
</tr>
<tr>
<td></td>
<td>International business network</td>
</tr>
</tbody>
</table>

Source: Staber, et al, eds, 1996, Figure 1.1, p 11.

3 Political economy of regionalism

Regionalism as countries desiring preferentially to promote trade with countries of the same region can be for a variety of reasons including political, security, cultural, defensive and last, but not least, economic. Regionalism is more a political movement toward the creation or expansion of preferential regional trade agreements (RTAs) and preferential is the definitive motivation. Table 3 shows regionalism as formal trade agreement broken down by integration stages.

Table 3 Stages of economic integration leading to political union

<table>
<thead>
<tr>
<th>Item-by-item preferential tariff reduction</th>
<th>PTA</th>
<th>FTA</th>
<th>CU</th>
<th>CM</th>
<th>EU</th>
<th>PU</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Removal of all tariffs among members</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Common external tariff</td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Free factor movement (labour &amp; capital)</td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Harmonise econ policies (fiscal/ monetary)</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Political unification</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

PTA = preferential trading area, FTA = free trade area, CU = customs union, CM = common market, EU = economic union, PU = political union.

Source: Author.

Although territoriality is a basic presumption, region-building requires a prior sense of belonging if actors make a set of strategic calculations about regionalism as a conscious institutionalised policy arrangement (Grugel and Hout, eds, 1999, pp 9-11). Regionalism may still fail to coalesce if no common agreement can be reached for a conscious package with policy capacity and political commitment to implement the deal. As even state development strategies emerge by default, trial-and-error and compromise, taking years to crystallise and often plagued by internal inconsistency (Haggard, 1990, p 23), drawing a consensus for regionalism is more complex and difficult among newly independent, sovereign developing states.
Just like old and new globalisation, a distinction exists between old and new regionalism. It is new in several ways (Hettne, et al, eds, 1999, pp 7-8, see also Hettne, et al, eds, 2000 and 2001). One is it occurs in a multipolar, not bipolar cold war context. Two, it is created “from below” by constituent participating states rather than “from above” by superpowers. Three, it is more “open” and compatible with an interdependent world economy. Finally, it is more comprehensive and multidimensional as a process involving non-state actors.

New regionalism reflects the synergy of globalisation, ICT and KBE and its growing political economy is in commensurate with the politicisation of trade policy and issues. It recognises that sector specific regimes for steel, electronics, aircraft and other products are beginning to dominate the trading system as permutations and combinations of, sectoralism, regionalism and globalism continue to coexist and no form dominant as yet (Aggarwal, 2000, p 186-7). It implies deep integration beyond the traditional static effects of trade liberalisation via tariff reduction into time-dynamic path and political economy benefits. Deep economic integration as suggested in Table 3 involves political economy issues like factor movements of labour, capital and technology, IPR, mutual recognition agreements (MRAs), environment, social and other supranational concerns which requires collective resolution.

Both the political economy of GPNs and new regionalism have to be reconciled with the multilateral trading system (MTS). Disenchantment with multilateralism and WTO has given rise to a spate of regional trade blocks. Of the 194 agreements notified to the General Agreement on Tariffs and Trade (GATT) at the beginning of 1994, 87 were notified since 1990 (World Bank, 2000, p 1). Even WTO seems overwhelmed and bewildered as it formed the Committee on Regional Trade Agreements (CRTA) in 1996 to report to WTO’s General Council to increase transparency, efficiency and consistency of WTO treatment of RTAs. The CRTA is yet to cast judgement on the consistency of these RTAs vis-à-vis WTO rules or implications on WTO. There are 240 RTAs in force or under negotiation as of July 2000, notified or not yet to notified (WTO, CRTA, WT/REG/W/41, 11 October 2000). If every GATT member were to enter a bilateral arrangement with every other, there would be close to 8,000 (Sampson, ed, 2001, p 1).

Given the multilateral disarray at WTO, regionalism as an alternative or supplement looks appealing especially when going back to the role of the state collectively constitutes enhancing political bargaining with a regional focus (Low, 2001a). Individual nation states faced with the globalisation, ICT and KBE challenges find themselves dancing to the tune of MNCs and global capitalism. If state and sovereignty are threatened, regionalism as a political construct is deemed an appropriate response. More states club together pooling sovereignty may be better than going it alone. Multilateralism would be threatened if regionalism is insular, permanent rather than ad hoc to fill the vacuum until WTO gets its act together, if RTAs are not WTO-consistent causing a divergence in trade liberalisation modalities and disciplines. The design and architecture of RTAs ultimately set the resulting form of regionalism as benign or aggressive. Both state and non-state motivations need to be synchronised to extent possible and in commensurate with policy capacity and political commitment for implementation.

Empirical evidence of Asian regionalisation and regionalism
The empirical review follows the typology in Table 1, amplified in Tables 4 and 5. Table 4 distinguishes between public-private, rule or activity-based groupings in East and Southeast Asia while Table 5 offers some comparative typologies.

Table 4 Intra- and extraregional Asian regionalism

<table>
<thead>
<tr>
<th>Level/Modalitry</th>
<th>Type of action</th>
<th>Groupings BLOCKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subregional growth</td>
<td>Pub-pte, activity-based</td>
<td>Indonesia-Malaysia-Singapore Growth Triangle</td>
</tr>
<tr>
<td>triangles</td>
<td></td>
<td>Indonesia-Malaysia-Thailand Growth Triangle</td>
</tr>
<tr>
<td></td>
<td></td>
<td>East ASEAN Growth Triangle, Brunei-Indonesia-Malaysia-Philippines</td>
</tr>
<tr>
<td>Subregional Mekong</td>
<td>Pub-pte, activity-based</td>
<td>Mekong River Commission (Cambodia, Laos, Vietnam, Thailand)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Greater Mekong Subregion (Cambodia, Laos, Vietnam, Thailand, Myanmar, China)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ASEAN Mekong Basin Development Programme (ASEAN10, China)</td>
</tr>
<tr>
<td>Interregional</td>
<td>Pte CPNs</td>
<td>Asia Pacific, American, European networks</td>
</tr>
<tr>
<td>Regional</td>
<td>G-to-G, rule-based</td>
<td>AFTA, ASEAN10</td>
</tr>
<tr>
<td></td>
<td>Pending</td>
<td>ASEAN+3/APT (ASEAN10, Japan, China, South Korea)</td>
</tr>
<tr>
<td>Interregional</td>
<td>G-to-G</td>
<td>ASEAN + 10 dialogue partners (EU, Japan, US, Canada, Australia, New Zealand, China, South Korea, Russia, UNDP) in post-ministerial meetings (PMCs)</td>
</tr>
<tr>
<td></td>
<td>G-to-G</td>
<td>ARF (ASEAN10, US, Canada, EU, Japan, Russia, China, Taiwan, North Korea, South Korea, India, Mongolia, Papua New Guinea)</td>
</tr>
<tr>
<td></td>
<td>G-to-G, business councils</td>
<td>APEC (ASEAN7, US, Canada, EU, Japan, Russia, China, Taiwan, Hong Kong, South Korea, Mexico, Chile, Peru, Argentina, Papua New Guinea)</td>
</tr>
<tr>
<td></td>
<td>Rapprochement</td>
<td>ASEM (ASEAN7, Japan, China, South Korea, EU15)</td>
</tr>
<tr>
<td>Multilateral</td>
<td>G-to-G, rule-based</td>
<td>WTO</td>
</tr>
</tbody>
</table>

Source: Author.

Between micro and macro regionalism, meso is in middle while mega is cross regional (Table 5). Regionalisation may have occurred without regionalism if there were no aspiration by East Asia for macro regionalism (see Table 5). ASEAN may be economically suited to micro regionalism. Unlike the European Union (EU) which "pooled" sovereignty in supranational institutions, East Asia is "seeking" to enhance sovereignty through market-led regional cooperation (Coleman and Underhill, eds, 1998, p 11). Thus, ASEAN pools territory in resources and market sharing in its growth triangles. Hydropolitics may emerge as the Mekong River is developed for regional cooperation among the raparian Indochinese states, to avoid conflicts over limited water resources and further contribute to regional security and international
river basin management (Ojendal, 2000). With a distinct political caucus, ASEAN also exhibits meso regionalism as well as encompassed by mega regionalism under APEC membership.

Table 5 Types of regionalism

<table>
<thead>
<tr>
<th>Factor</th>
<th>Micro-regionalism (growth triangles)</th>
<th>Meso-regionalism (ASEAN)</th>
<th>Macro-regionalism (EU)</th>
<th>Mega-regionalism (APEC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actor</td>
<td>Few adjacent members</td>
<td>Several states</td>
<td>Several states</td>
<td>Great number of states</td>
</tr>
<tr>
<td>Leadership</td>
<td>One, two advanced countries</td>
<td>Shared equally</td>
<td>Some countries</td>
<td>Centre countries</td>
</tr>
<tr>
<td>Level econ dev</td>
<td>Heterogeneous</td>
<td>Homogeneous</td>
<td>Homogeneous</td>
<td>Heterogeneous</td>
</tr>
<tr>
<td>Production relationships</td>
<td>Vertical</td>
<td>Outward, vertical</td>
<td>Horizontal</td>
<td>Horizontal, vertical</td>
</tr>
<tr>
<td>Cultural identity</td>
<td>Homogeneous</td>
<td>Heterogeneous</td>
<td>Homogeneous</td>
<td>Heterogeneous</td>
</tr>
<tr>
<td>Regionalisation /integration</td>
<td>Specified spheres</td>
<td>Political, economic caucus</td>
<td>Several spheres</td>
<td>Open, flexible</td>
</tr>
<tr>
<td>Institutional formality</td>
<td>Informal</td>
<td>Less institutionalised</td>
<td>Formal</td>
<td>Various types</td>
</tr>
<tr>
<td>Regional slogan, idea, ideology</td>
<td>Slogan</td>
<td>Idea short of ideology</td>
<td>Ideology needed</td>
<td>Slogan without political implications</td>
</tr>
</tbody>
</table>

Source: Adapted from Hatsuse, 1999, Table 1, p109.

We present the empirical evidence starting with activity/project-based cooperation (Table 4) or micro regionalism (Table 5) before progressing to rule-based, government-led trade pacts.

ASEAN growth triangles

ASEAN growth triangles need not imply three partners. A collaboration of the three factors of labour, land and capital responding to markets is more definitive as Singapore-Johor-Riau Islands (SIJORI) was at one such end of the growth triangle spectrum. Subregional economic zones based on division of labour, flying geese pattern of trade and DFI and "aerobatics" or technological leapfrogging (Chen, et al, eds, 1997, pp 8-9) have widened frontiers beyond ASEAN (Peachy, et al, eds, 1998. and Thant, et al, eds, 1998). The nature and pace of these development have been varied. There are some national projects, however defined, picked as in Malaysia with ethnic priorities. Malaysia offers an interesting case study in industrial restructuring and diversification even if it started technology development after its high-technology exports took off, with little innovation activity (Jomo and Felker, eds, 1999).

The virtuous circles of global outward orientation and regional integration seemed satisfactory even without a robust theory of growth triangles. They work if cooperation is pursued through the line of least resistance, namely, participating
parties are committed on a basis of self-selection with mutuality of interests and aims as in SIJORI. As open structures for trade and investment, growth triangles do not contribute to interregional trade block frictions. Subregional experiments test out new economic policies and modalities in cooperation especially those with some political risk before nationwide, regionwide implementation.

The appropriateness of growth triangles included arguments of low cost within a short time frame and as protection against trade blocks (Thant, et al, eds, 1998). A necessary requirement is economic complementarity with contiguity as sufficient to reduce transport and transaction costs. Economics aside, political commitment is imperative to drive the cooperation process beside providing infrastructure, fiscal and monetary incentives. State involvement is critical to clear administrative barriers and regulations. There is no substitute for strong public policy to create the growth momentum and synergy which have ultimately to be self-sustaining.

No two growth triangles are the same even if they are all private sector-driven. It takes innovation and spirit to put the necessary and sufficient conditions to work, strengthen them when required and move with the dynamics imposed by external competition. The usual political economy difficulties lie in the distribution of benefits equitably among constituent members and sustaining cooperation with changing competitive advantage. A structure comprising a mutually acceptable incentive system to periodically monitor and evaluate cooperation activities with some dispute settlement mechanism has evolved in ASEAN.

SIJORI/IMS-GT

Until it was designated Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT), SIJORI exemplified a leadership by Singapore's Economic Development Board (EDB) to champion or broker the deal. The right chemistry of Lee Kuan Yew and Suharto as an interpersonal network cemented the economic logic of inter-firm collaboration with political economy undersides. Singapore as the driver can be interpreted as calculative and self-interested to disperse activities to proximate sites, retain higher value-added functions and attain regional or overseas headquarters (RHQ’s, OHQs). Singapore was the virtual state needing regional economic space. Indonesia in particular, benefited from the infrastructural momentum. Batam Indo Industrial Park, Bintan Industrial Park, Bintan Beach International and Karimun marine and industrial complex represented fast track development by creating enclaves. Johor was relatively developed and tied to federal politics.

With more states added by Malaysia and Indonesia in 1996, the fluidity of network boundary has implications for institutional governance even if vague, dynamic boundaries theoretically added flexibility. IMS-GT officially expanded to West Sumatra, Malacca, Negri Sembilan and South Pahang with 13 memoranda of understanding (MOU) signed. Realistically, the transition of SIJORI to IMS-GT diluted the economics and complicated the politics with ill-defined capacity to mobilise resources and synergise widened interests. The character of SIJORI has changed, Singapore as prime mover was defused even if it was already hard enough to quantify development within the three original partners.

The political economy of more balanced regional growth may be one reason to extend the SIJORI. Following Habibie's "balloon theory" of the Riau Islands as a safety valve to draw off some of excess growth in Singapore which would otherwise burst with limited capacity (Peachy, et al, 1998, p 1), it could perhaps carry more partners. Economic rationale notwithstanding, widening diluted deepening and
synergy. More political bargaining with more diversity muddied business considerations. Most pointedly, it was one thing for Singapore to deal with Johor, quite another with Kuala Lumpur. Business interests may view enforced partnerships as illogical and inefficient, tantamount to political tinkering and interference. Changing from bottom-up, private sector-driven activity-based to the political economy of top-down cooperation has altered the dynamics and relationships. The state acted best as a facilitator, not dictate political fiat. Commitment and participation by local authorities, communities and business groups got thinner and more indirect the more federal politics weighed in.

Singapore-Riau subregionalism in specific was an exception rather than the rule as the reduced form reflected two parties’ interests more patently. But it was a limited model of transboundary cooperation relying solely on Singapore's vibrancy and level of personal political contact. It was also a test of the Indonesian development model which is top-down based on five-year Repelita prepared by Bappenas and multiplicity of agencies but generally lacking in planning details and coordination efforts. Lee Kuan Yew had personally intervened to ask Suharto to make foreign land ownership possible in Batam. Even then, legal, juridical, political and institutional constraints were not easy to resolve given Singapore's contrasting culture in these respects. Singapore exploited a small window of opportunity until political fiat by "bigger brothers" took over. Interestingly, any incipient closer cooperation across the Strait of Malacca was perhaps as disrupted by the Asian crisis as foreign confidence not as fully underwritten by Singapore was the implicit understanding in Riau.

IMT-GT

It is dubious if the northern or Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) benefited from lessons from other growth triangles. In one sense, it was relatively more homogenous in level of development by participating countries which should bode well for public-private sector partnership with a broader range of financial resources available. Penang was designated as the prime-mover like Singapore in SIJORI to create the multiplier and spillover effects. Asian Development Bank (ADB) financed a master plan as a backbone to implement projects, programmes and policies. Practical cooperation issues at all levels including critical skills and expertise of officials and consultants remain. Economic complementarity was not as clear cut as in SIJORI. IMT-GT has its political economy difficulties ranging from separatist and secessionist fears in both Aceh in Indonesia and southern Thailand which has its own southern seaboard project. Even Penang under the federal structure did not have the leeway Singapore has as a sovereign state in terms of policy capacity and capability.

BIMP-EAGA

Brunei-Indonesia-Malaysia-Philippines (BIMP) or East ASEAN Growth Area (EAGA) seemed even more delimited in economic complementarity at first glance. Possibilities may exist in labour export and tourism. Agriculture, fisheries, forestry and industry are productive activities which require supportive ones in trade, investment, human resources development (HRD), energy, communication and financial services. BIMP may be just another ASEAN growth triangles to spread development incentives regionally and except for Brunei, to gain political resources
from respective federal capitals. The lack of a prime-mover to coordinate, manage and finance crucial hard and soft infrastructure even with well-intended ADB project studies as in IMT-GT, reflect the importance of PPPs, which were not as developed as in the IMS-GT or IMT-GT.

GMS

Japanese interest in the Mekong region has been longstanding since the 1950s. The ADB-sponsored Greater Mekong Scheme (GMS) started around the same time as the IMT-GT but it offered revealing contrasts. Apart from differences in projects and income levels in the two subregional economic zones, the GMS is more project focused on infrastructure and energy development in particular. ADB interest has expanded beyond trade facilitation, customs, HRD and environment into social areas as curbing human trafficking and diseases. Being so capital-intensive with limited possibilities of private sector financing, GMS has a higher dependence on public sector, international community donors and external private financiers. The private sector is relatively more dynamic and mature in IMT-GT with a higher level of overall development. Distribution of projects, institutional and policy initiatives may be more balanced than in GMS.

By far, GMS is the biggest project extended beyond ASEAN. The political economy of relations among the four riparian states and Myanmar in ASEAN is fraught with historical and current frictions. The sixth partner, Yunnan in China apart from Japanese and ADB funding makes GMS extra-ASEAN. With resource mobilisation daunting and financing requirements far exceeding fiscal capacity of participating governments and official sources of funding, a GMS corridor across the five ASEAN states to focus multisectoral linkages was launched. If successful, more of such corridors to connect viable partners and investor interests would demonstrate how creative and flexible ASEAN triangular projects are responding to needs.

GPNs

Growth triangles foreshadow GPNs, moving into high-technology activities with deeper indigenous participation, particularly in electronics and hard disk drives. Their scope and spread are limited to economies in that ready state to partner with lead MNCs in a globalised setting. GPNs can theoretically be extended to high-technology services as in finance and banking, transport, communication and logistics, tourism and other HRD consultancy and training activities. Franchises as in retailing and fast food, other joint ventures (JVs) and venture capital may be offshoots of GPNs.

A few pointers from somewhat less successful Suzhou Industrial Park (SIP) launched in February 1994 may be edifying. Brokered at the highest level in 1992 between Lee Kuan Yew and Deng Xiaoping who admired Singapore’s experience of economic prosperity with centralise socio-political order and management, SIP was part regionalising growth triangle to GPN, part bilateral Singapore-China government cooperation. Modelled along Singapore-Riau growth triangle, SIP was a flagship project in the 1993 regionalisation policy. Implicitly, Singapore may have marshalled its cultural identity with China. Any self-serving "cloning" of its excellent best practices in Suzhou was counterveiled as its experiences were helpful to China. Singapore Inc brought its finest government-linked companies (GLCs), including Temasek Holdings, Development Bank of Singapore (DBS), EDB Investments,
Keppel Corporation, Pidemco Land, Sembawang Corporation and Singapore Technologies Industrial Corporation (SITC) (before merger of Sembawang and STIC in 1998 into SembCorp Industries (SCI)).

Problems in SIP reflected both China's own reform difficulties and some arrogance that the city-state's model can be transplanted with refinements into a most complex case. Singapore's unhappiness was officially verbalised in the conflict between SIP and rival Suzhou New District (SND) industrial park set up in 1990, owned and favoured by Suzhou municipal government. The cultural gap between the two countries was not Chinese ethnicity but Singapore's bureaucratic mode and a lack of understanding of items in implementing the documents exchanged. Singapore's “kiasu” (afraid to lose) culture was not helpful to rise to challenges in China which implies risk-taking and possible failures. This begs the question if Singapore businessmen were sufficiently savvy in lesser sheltered and “sanitised” terrain.

Chinese rules and regulations were not transparent and orderly.

A redefinition of SIP objective focused on completing the first eight (original 70) square kilometre as a reference model under Chinese management (Business Times, 10 and 26 June 1999, Straits Times, 10 March, 14 May, 11 and 30 June 1999). Accordingly, Singapore cut its stake from 65% to 35%, wounded pride all round (Far Eastern Economic Review, 8 July 1999 and The Economist 3 January 1999). More serious damage was cast on Singapore’s credibility to intermediate, broker and form partnerships with other foreign investors interested in China under its regionalisation policy. Lee Hsien Loong conceded that Suzhou was more ambitious than thought and if SND was a “manageable” rival and Singapore partners did not have to inject more capital, SIP has a “reasonable” chance of becoming profitable in the medium term (Straits Times, 10 July 1999).

In other ASEAN states, beside Singapore, Malaysia and Thailand have participated in GPNs in electronics and hard disk drives with the Philippines and Vietnam as possible parts of the value chain. Both have skilled and literate manpower potential. Their linkage in GPNs may bridge the ASEAN digital divide and make electronic-ASEAN more feasible sooner on the backs of private sector initiatives in conjunction with public.

ASEAN/AFTA

AFTA is ersatz involving trade liberalisation only for 15 commodities in the first instance. There were inherent difficulties of low level of intra-ASEAN trade and higher extra-regional affinities. Its regional identity or ideology in the original ASEAN6 may have diluted as ASEAN10 comprises six relatively more developed and rich states and four poorer transition economies forged by politics and security first, scale economies and efficiency, second. Identity and ideology became harder to grasp in policy terms. The same economic and political diversity proved both a bane and boon.

The 6th ASEAN Summit in Hanoi in 1998 enunciated bold measures including completing AFTA by 2002 instead of 2003, enhance the investment climate in both ASEAN Investment Area (AIA) and ASEAN Industrial Cooperation (AICO) and liberalise trade in services in ASEAN Framework Agreement in Services (AFAS), particularly to make ASEAN technologically competent as in e-ASEAN. But credibility about ASEAN6 completing AFTA has waned with Malaysia as the first to backtrack, claimed its automobile industry needed up to 2005 before liberalisation.
Neither AIA nor AICO moved forward as enunciated. The AIA scheme was to make ASEAN a competitive, open and liberal investment area through a binding agreement promoting free flow of capital, skilled labour and professionals and technology which was more progressive than APEC's non-binding scheme. The AICO scheme implemented in November 1996 replaced the brand-to-brand complementation and ASEAN Industrial Joint Venture (AIJV) schemes. AICO waived the 30% national equity requirement during the period 1999-2000.

Despite these bold measures, investor confidence remained impaired with Indonesia unstable and doubts cast about corporate and financial restructuring in the rest of ASEAN. In contrast, brighter Northeast Asia enjoyed a diversion of DFI from ASEAN. China's potential accession into WTO, its lessened cross strait pressure and Korea's "sunshine" policy may have accounted for ASEAN's drop in DFI from $16.8 billion in 1998 and US$13.1 billion in 1999 according to one ASEAN secretariat report (International Herald Tribune, 27 July 2000, p 1). Only Singapore within ASEAN10 showed a substantial rise in DFI in 1999.

The Asian crisis resurrected an ASEAN Monetary Union (AMU) which was still premature. Logically and sequentially, trade liberalisation with AFTA should complete before free movement of labour and capital (Table 3). Instead, the Chiang Mai initiative under APT resulted in currency swap arrangements led by Japan's deals with Korea, Thailand and Malaysia allowing them to borrow in US dollar to defend their currencies when speculators attack (Asian Wall Street Journal, 4-5 May 2001, p 9).

Oddly, it was after the cold war that Asian states came together on their own volition in the ASEAN Regional Forum (ARF) in 1994. This is a security dialogue parallel to the ASEAN economic post-ministerial meeting (PMC) framework involving the same dialogue partners (Table 4) with the objective of evolutionary confidence building as opposed to defence cooperation. It aimed to enhance ASEAN diplomatic standing and implicitly limit China's influence by a subtle way of a regional umbrella. The second meeting in 1995 produced a concept paper with three stages in confidence building measures, preventive diplomacy, conflict resolution.

Another source of security threats arose since the Asian crisis as political legitimacy became at risk despite or because democratisation have progressed somewhat before the crisis in Thailand, Korea and Indonesia. Both growth with equity and democratisation have become fragile threatening internal security. The ethnic dimension of any redistributive policies cannot be underscored. That president Wahid assailed Chinese-dominated Singapore in particular, and other Southeast Asian countries over growing regional ties with China at the expense of relations with smaller and poorer states, is indicative of such a legitimacy crisis (International Herald Tribune, 28 November 2000). Beside reopening a dangerous ethnic wound in Indonesia and rivalry with China, Wahid’s remarks, his dubious political future notwithstanding, mirrored a potential threat to split ASEAN along the Malay-Muslim majority in Indonesia and Malaysia and Chinese minority in Singapore and elsewhere.

Cross regional FTAs (CRFTAs) involving ASEAN have been mooted (see Table 6 in next subsection). WTO accession, fear of cheap Chinese exports flooding into weaker ASEAN states prompted Thailand’s then deputy prime minister and WTO director-designate Supachai Panitchpakdi to suggest a formalised system of tariff concessions or a regional mechanism for ASEAN and China to negotiate mutual tariff concessions (International Herald Tribune, 10 October 2000, p 1). This would allow special access to China by less developed ASEAN members or reduce tariffs to allow ASEAN products to be competitive with Chinese products. Supachai's personal
proposal is a realistic reflection of competition between weaker new ASEAN economies and China and potential trade tensions. He next made a more explicit proposal for an ASEAN customs union vis-à-vis China’s growing attractiveness (Bangkok Post and The Nation, 22 November 2000). Coincidentally, China proposed a FTA with ASEAN (The Nation, 22 November 2000 and The Economist, 2 December 2000, pp 19 and 30). Singapore’s prime minister Goh Chok Tong’s responded to Zhu Rongji’s proposal of ASEAN-China FTA as a “challenge, not a threat” but the rest in ASEAN may differ or defer.

Acknowledging Australian leadership in many Asia Pacific ideas, senior minister Lee Kuan Yew called for East Asia-Australasia block noting that APEC has lost its focus (Bangkok Post, 22 November 2000). AFTA-CER constituted a goal to advance free trade in general, matched with a specific aim to throw the momentum for a combined market for 560 million people and gross domestic product (GDP) of over US $1 trillion. For Singapore which is negotiating a bilateral FTA with Australia having forged one separately with New Zealand, AFTA-CER would deflect ASEAN criticism that its bilateral efforts would create a backdoor for CER into ASEAN. A task force appointed by AFTA and CER led by former Philippine prime minister Cesar Virata recommended that AFTA agree to phase in free trade with CER.

Australian trade minister Mark Vaile noted that several major trading partners of the US in Asia, including Japan, Singapore and Australia want to build an expanding “fast track” network of free trade agreements in the region (International Herald Tribune, 19 January 2001, p 19). It would then require no great leap to link these Pacific FTAs with the North American Free Trade Agreement (NAFTA).

Bilateral arrangements

If disenchantment with multilateralism and WTO was blamed for growing regionalism, equally disappointing regionalism as in stalled ASEAN and APEC may partly explain bilateral FTAs in Asia, led by Singapore, Japan and Korea (Table 6). With China courting ASEAN, Taiwan remains the only Asian economy without any bilateral FTA or CRFTA apart from being in informal APEC.

Japan has relented on strictly multilateralism to go for regionalism (Japan, Ministry of International Trade and Industry, 2000, White Paper on International Trade, September), after seeing detraction by the US into NAFTA and Free Trade Area of the Americas (FTAA). It was wooed by Korea, Mexico, Canada and Singapore. Japan is in full tilt as a nationalist, regionalist and globalist but has yet to demonstrate any leadership in Asian regionalism.

Korea's activism in CRFTAs is probably no different in rationale and logic. Japan was on top of its list. Like Singapore which initiated FTAs with Mexico and Chile with an eye to the US, Korea has similar bilateral FTA interests with suitable NAFTA/FTAA members, starting with Chile.

The APEC summit in Brunei in 2000 was unmemorable with these bilateral FTAs led by Japan and Singapore hijacking attention (The Economist, 18 November 2000, p 42). Singapore was the sprinter with a signed deal with New Zealand in 1999, negotiating simultaneously with Japan, the US, Australia and Mexico, starting with European Free Trade Area (EFTA) by August 2001, with India and European Union (EU) on the cards. New Zealand has floated ideas with Hong Kong and Chile and Chile hoped for a deal with EU by 2002 after Mercosur secured one with EU in July 2000.
American bilaterals constitute another trend to behold, US-Jordan, US-Chile, US-Singapore and FTAA pending the Bush administration getting "fast-track" authority or trade promotion authority (TPA) from Congress. Until now, the US never had the EU predilection of hub-and-spoke trade arrangements. The EU has signed 20 substantial pacts since 1990 with 15 more on the way. Over the same period, the US has ratified only two with four more in the works. Its new policy direction seemed to be multiple fronts, combining military and international political economy with competitive liberalisation to open markets globally in innovative models which also integrate developing countries into global system as in FTAA. US Trade Representative (USTR) Zoellick's toolkit measures to advance trade, labour, environment via technical assistance (TA), market incentives and finance have to be weighed with US-Jordan FTA as a possible template for trade-labour-environment.

Table 6 shows a growing list of RTAs and bilateral FTAs involving Asia Pacific economies. Many of them are beyond traditional FTAs, into the "new age" types covering HRD, science and technology, customs procedures, ICT-mediated exchanges in high-technology services as in media and broadcasting, high growth areas in financial and telecommunication services, e-commerce and management and promotion of SMEs. The Japan-Singapore Economic Partnership Agreement (JSEPA) is exemplary in this respect. In one fell swoop, Singapore appears to adopted former USTR Charlene Barshefsky's Project 5 proposed during the APEC Leaders’ Summit in November 1998, later dubbed Pacific Five (P5) (Far Eastern Economic Review, 9 September 1998, p 11). Including Japan in its plurilateral FTAs, Singapore has raised its version of P5 to P6.

Table 6 Bilateral FTAs involving Asia Pacific economies

<table>
<thead>
<tr>
<th>Stage</th>
<th>FTA</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under study/ proposed</td>
<td>TAFTA (Transatlantic FTA, EU-US)</td>
<td>1995</td>
</tr>
<tr>
<td></td>
<td>Japan-Korea</td>
<td>1998</td>
</tr>
<tr>
<td></td>
<td>Japan-Mexico</td>
<td>1998</td>
</tr>
<tr>
<td></td>
<td>Japan-Chile</td>
<td>1998</td>
</tr>
<tr>
<td></td>
<td>Japan-Canada</td>
<td>1999</td>
</tr>
<tr>
<td></td>
<td>P-5 (US, Singapore, New Zealand, Australia, Chile)</td>
<td>1998</td>
</tr>
<tr>
<td></td>
<td>Northeast Asia Research Initiative (China, Korea, Japan)</td>
<td>1998</td>
</tr>
<tr>
<td></td>
<td>APT</td>
<td>1998</td>
</tr>
<tr>
<td></td>
<td>New Zealand-Hong Kong</td>
<td>1999</td>
</tr>
<tr>
<td></td>
<td>New Zealand-Chile</td>
<td>1999</td>
</tr>
<tr>
<td></td>
<td>AFTA-CER</td>
<td>2000</td>
</tr>
<tr>
<td></td>
<td>ASEAN-China</td>
<td>2000</td>
</tr>
<tr>
<td></td>
<td>Singapore-Canada</td>
<td>2000</td>
</tr>
<tr>
<td></td>
<td>Singapore-EFTA</td>
<td>2000</td>
</tr>
<tr>
<td></td>
<td>Singapore-EU</td>
<td>2000</td>
</tr>
<tr>
<td></td>
<td>Singapore-India</td>
<td>2000</td>
</tr>
<tr>
<td></td>
<td>Korea-Chile</td>
<td>2000</td>
</tr>
<tr>
<td></td>
<td>EU-Chile</td>
<td>2000</td>
</tr>
<tr>
<td></td>
<td>US-Chile</td>
<td>2001</td>
</tr>
<tr>
<td>Negotiation</td>
<td>FTAA</td>
<td>1999</td>
</tr>
<tr>
<td></td>
<td>Singapore-Japan</td>
<td>1999</td>
</tr>
<tr>
<td></td>
<td>Singapore-US</td>
<td>2000</td>
</tr>
<tr>
<td></td>
<td>Singapore-Australia</td>
<td>2000</td>
</tr>
<tr>
<td>Signed</td>
<td>Implemented</td>
<td></td>
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<tr>
<td>-----------------</td>
<td>----------------------</td>
<td></td>
</tr>
<tr>
<td>Singapore-Mexico</td>
<td>NAFTA 1994</td>
<td></td>
</tr>
<tr>
<td>Singapore-New Zealand</td>
<td>1999</td>
<td></td>
</tr>
<tr>
<td>Mexico-EU</td>
<td>AFTA 1993</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Canada-Chile 1996</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author.

APEC, ASEM, EALAF, APT

The momentum for a multilateral round would come from APEC, G5 and rest of Organisation for Economic Cooperation and Development (OECD) at WTO's fourth ministerial in Qatar. On one hand, the spate of bilateral FTAs by individual APEC members is demonstrative of its glacier progress as a group. On the other, the bilaterals may be vindictive as APEC's open regionalism formula is put to practice. APEC modality is in between regionalisation and regionalism with "free trade within an area but not a FTA" as rule-based, institutionalised integration was desisted by developing countries. There are activity-based projects in sectors like transport, telecommunication, tourism and HRD involving business in APEC Business Councils (ABC).

Unlike strong economics and business focus in APEC, ASEM is more a rapprochement by ASEAN in particular, to court EU. ASEAN paid the price of its enlargement as EU took exception to human rights discord in Indochinese states. After obstructing and postponing a couple of ASEM meetings, EU has conceded to deal bilaterally with the new ASEAN members to let ASEM get on. If business interest has waned in APEC, it was even weaker in ASEM generally viewed as academic and esoteric in elitist pursuits of culture, arts and such. There are activity-based projects in HRD, transport and communication but that ASEM's pace in economic cooperation is lagging is clear even if intentional.

Singapore's prime minister Goh proposed both ASEM and EALAF. Engaging Latin America was as much oriented as a south-south dialogue as keeping a position with NAFTA/FTAA. Though Latin America was still a small market in overall terms, the trend was of rapidly increasing trade between Asia and Latin America in the 1990s (Tulloch, 2000). Asian exports to Latin America grew nearly as fast as intraAsian trade in the 1990s, reflecting prospects for Asia as mature markets and it can play a central role in intraregional trade and investment linkages. Latin American economies may be busy with FTAA but bilateral FTAs initiated mainly by Mexico and Chile with Asia show the interest is mutual. Neither Latin America nor ASEAN is putting their eggs in one basket, be it the US or WTO.

The East Asia Vision Group (EAVG) was tasked to study the modality and prospects of APT and its report before end 2001 would give a sense of a trilateral global order. ASEAN10 plus Japan, China and Korea seemed to be a resurrection of Mahathir's 1991 East Asian Economic Caucus except that the "three" are the prime-movers, not ASEAN and APT is politically more neutral than Mahathir's Asian only "megaphone" to counter the West. The potential agenda is ambitious focusing on trade, finance, early warning mechanisms and human security. Membership is still an issue, with Taiwan and rest of Asia around the Pacific and beyond held in abeyance.

The signed currency swap arrangements in Chiang Mai indicated that APT was prudent to proceed first with financial cooperation given the backdrop of the financial crisis. The combined financial resources of the "three" in APT should
include Hong Kong as well as Singapore. Unlike premature AMU before AFTA, APT monetary integration may parallel if not precede trade liberalisation if leadership by the three was forthcoming. The failed experimentation with Asian Monetary Fund (AMF) proposed by Japan in 1997, however, cautions that external pressures have to be considered. Another noteworthy feature is that Asian stock markets have becoming regionally integrated at a faster rate than globally reflecting growing cooperation between Asian countries (Bilson, et al, 2000). The twin financial city-states, Hong Kong and Singapore have a role in this regard.

Table 7 shows intra-Asia merchandise export share as sufficiently significant to diversify Asia's reliance on the American and European markets. If the political economy is acceptable, leadership from the "three" is APT's strength. Asia’s total trade growing at an average 12% between 1990 and 1997 was still the most rapid of all geographic regions (Tulloch, 2000). During the 1990s, Asia emerged as the largest single market for its own exports. That remained largely unchanged after the Asian crisis as intraregional trade spurred the recovery and took the slack for extraregional export.

<table>
<thead>
<tr>
<th>Shares of merchandise exports</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intra-Asia</td>
<td>46.6</td>
</tr>
<tr>
<td>North America</td>
<td>26.3</td>
</tr>
<tr>
<td>Latin America</td>
<td>2.5</td>
</tr>
<tr>
<td>EU</td>
<td>16.9</td>
</tr>
<tr>
<td>Other Europe</td>
<td>2.0</td>
</tr>
<tr>
<td>Rest of the World</td>
<td>5.6</td>
</tr>
</tbody>
</table>


5 Issues and policy directions

Two sets of linked issues are identified, how Asian regionalisation progressing into regionalism can be balanced with multilateralism in general and how specifically GPNs can influence modalities for regional integration under new regionalism. Regionalism in Asia Pacific is only more visible than initiatives in Eastern Europe and Central Asia or Sub-Saharan Africa which has no new RTA but a CRFTA is being negotiated between South African Development Community (SACU) and Mercosur (Piggott and Woodland, eds, 1999). Apart from those surveyed in Section 4 in Asia Pacific, the South Asian Association for Regional Cooperation (SAARC) and its South Asian Preferential Trading Arrangement (SAPTA) are still at their infancy.

With concerted unilateralism, Asia is still state-centric (Yamamoto, ed, 1999, p 3). Asianism is neither an economic nor a political model yet as East Asia is culturally and socially diverse. Asia may have approached globalisation without globalism or regionalisation without regionalism. Both demonstrate of Asia’s chary and demure attitude toward formal institution-building and institutionalised integrative frameworks. Neither EU's overarching European passion nor NAFTA's national economic strategy (Barry and Keith, eds, 1999, p 10-3) are useful models for Asian regionalism. The non-institutionalised Asian way combines neo-authoritarianism with the market. It underpins the Asian developmental state with industrial policy and state intervention as virtuous. Unsurprisingly, 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, p 36), some exclusively regulated, others decentralised or market-driven.

Ethnic considerations in ASEAN are perplexing political economy issues more than authoritarian-corporatist power collaboration in keiretsus or chaebols as nationalistic mobilisation for export-led growth to catch up. In contrast, considerable embedded indiscriminate crony capitalism in Southeast Asian economies lack the pilot agencies of first generation northern developmental states where national, across-the-board transformation were pursued, somewhat removed from sectional interests.

What suits East Asia appears to be open regionalism centred around WTO-style of non-discriminatory most-favoured nation (MFN) liberalisation with concessions automatically extended to all members (Panagariya, 1999 and Goto, 2001). The prognosis seems either for APEC to pick up the challenge as a CRFTA, tying up East Asia with the Americas or East Asia under APT to go it alone in the first instance. The latter will have APT a full-fledged trilateral partner vis-à-vis EU/European Economic Area (EEA) and NAFTA/FTAA, three trading blocks of similar size.

With an Asian trade block, the welfare of the Asian developing country would improve substantially though the favourable effect for Japan is relatively smaller because the rest of Asia’s developing countries gain market access into Japan (Goto, 2001). The welfare of the US under a countervailing Asian FTA is lower than that of pre-NAFTA, explaining its opposition to an East Asian block. If all APEC economies unite under one FTA, its impact on Asian developing countries as well as larger members like the US and Japan, is dramatic. Generally, a very much welfare-improving situation occurs for an APEC FTA though to the detriment of non-APEC economies. Finally, in a completely free world trade case, the welfare level of members of major FTAs substantially declines but dramatically improves for the rest-of-the-world (ROW). For the US and Japan, this free world trade case gives them the lowest welfare compared to all other FTA configurations, namely, cases of no FTAs like NAFTA or Asian FTA or APEC FTA. The free world trade case would thus be difficult to achieve with these vested interests of major countries which will oppose it.

APT may suit Asian nationalism, identity and ideology. But these attributes are still nebulous, ephemeral and complex with a potential power struggle between China and Japan on one hand, and ASEAN and Northeast Asia within the region on the other. Linking up with the Americas as in APEC is economically more sensible but what is common sense is usually lost to policy-makers in general, politicians in particular. The “three” in APT or at least Japan and Korea may be more comfortable and prepared to look into the required institutions, processes and political commitment. ASEAN is still not ready as it did not even like APEC as a FTA when the US proposed that.

What is more visible, immediate and promising are GPNs in electronics, hard disk drives and other high-technology manufacturing and service sectors which de facto tie Asia into the global economy. Private sector-driven, activity-based GPNs, including growth triangles are not like the pure rule-based, government-to-government trade pacts in terms of motivation by real economic efficiency, productivity and competition. They can, however, be enhanced by trade liberalising FTAs.

One possible and potentially divisive issue in Asian GPNs is should or need they be ASEAN-centred with the fulcrum in the much bigger market in China around East Asia. China’s reentry into the global capitalism economy has greatly altered the
traditional flying geese hypothesis which explained rather well the role and influence of Japan in ASEAN trade and DFI-driven industrialisation. Increasingly, China and Northeast Asia constitute a competitive resource and market base to ASEAN. This may explain why it is more in the interest of ASEAN to have APT just like the overture of ASEAN–China FTA should not be ignored.

South Asia remains kept out of Asia Pacific and Australasia seemed unacceptable in East Asia to most ASEAN states except Singapore. Both China and Japan are the important centres of new Asian regionalism (Katzenstein, et al, 2000, p 1 and Lloyd, eds, 2000). Which would be a possible regional hegemon has to be weighed even if ASEAN10 is a countervailing force. Incorporating South Asia may be economically sound, but it would alter this delicate balance of geopolitical power. Generally, ASEAN has longer and more experience dealing with Japan and there is a lingering mistrust of China as communist state.

Japanese capitalism and regionalism rest on its economic regionalisation which created an integrated Asian regional economy driven by Japanese DFI and MNCs. This flying geese trade and investment model was sanctioned implicitly by Ministry of International Trade and Industry (MITI). Chinese capitalism and regionalism is less tangible, formal and more in the bamboo network of overseas Chinese which has nationality sensitivities. Economically and even culturally, greater China encompassing the mainland, Hong Kong and Taiwan is more viable than a political construct. Overseas Chinese bonding seems potent as part of informal private sector activity-based initiatives. As long as Asian regionalism is defined in market terms and business networks, both Japanese keiretsus and Chinese family business are relevant in their own ways.

There are a few critical policy issues for ASEAN in particular from the regional perspectives. So far, ASEAN has progressed and in fact, became a caucus within APEC even before its enlargement. This was as due to its hard work as a group as fortuitous. There are other APEC developing countries joining ASEAN to counter any predatory influences from more developed APEC economies. ASEAN benefited from APEC as APEC was based on equality, equity, mutual benefits and not inward-looking. Still, ASEAN has drawn the line for regionalism at the APEC level.

The dynamics would change with the "three" at the helm of APT. The prognosis for ASEAN may not be as sanguine or easy as ASEAN dominated the scene pre-APT and APEC. The politics and political economy in APT are yet undefined though the cooperation mood has transcended throughout the Asian crisis and is unlikely to dissipate without good reasons. But if neither ASEAN nor AFTA pick up quickly and decisively, they run the risk of being marginalised or overtaken by APT. ASEAN thinking on trade liberalisation is too cautious, caught up with indigenous, ethnic and particularistic factors, seemingly safe but dubious in the ASEAN way. The “sins of commission or omission” and ASEAN states falling to “captured liberalisation” with poorly designed reforms and weakly regulated liberalisation inducing culpable self-serving rent-seeking and increased vulnerability (Haggard, 2000, pp 32-8) have not quite washed away three years after the crisis. 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 onset and depth of crisis (Haggard, 2000, p 2).

Singapore’s apparent breaking of ranks in its bilateral FTAs was indicative of its frustrations. It would not do to have ASEAN in collective paralysis concurrent with regional economic adversity and its enlargement, no longer commanding an international alignment relevant to Singapore’s interests (Leifer, 2000, p 131).
macroeconomics of the city-state have steadily departed and grown away from the rest of ASEAN in both substantive terms and in philosophy, hence divergent policies in trade liberalisation and market opening. As a member of ASEAN, Singapore bore the brunt of censure and displeasure of "big" brothers even as it remained resolute that free trade and open regionalism with any number of FTA partners is best. The "three" in APT may be less patient or stoic than Singapore implying “big” brother politics in ASEAN may have to alter.

Northeast Asia currently looks and fares better than ASEAN in both the economics and socio-political aspects since the crisis. Changing investor confidence and DFI trends are hard facts reflecting this even if ASEAN as a whole may be richer in natural resources and traditionally nimble in making the necessary changes. But the pragmatism and resilience appeared to have lost their way in ASEAN except Singapore. Even Singapore has to reinvent its Singapore Inc to get on with the new economy (Low, 2001c).

In reality, ASEAN represents small postcolonial states integrating for bargaining power and enhanced sovereignty. Unlike Mercosur, ASEAN did not use economic integration to lock-in reforms which may have enabled them to garner capacity and capability to deal with both globalisation and the Asian crisis more effectively. Indonesia, the Philippines, Thailand and Vietnam have been commended in taking first-order adjustments to globalisation by enhancing international competitiveness, driven by governments based on pragmatism (Morrison, et al, eds, 1998). Both the crisis and the half-hearted reforms since then showed they still lag in second-order adjustments involving economic market-based reforms which have domestic social and political impact. Mahathir has recanted, bemoaned fellow bumiputeras for not levelling up as quickly despite the three-decade long affirmative policy (Straits Times, 22 June 2001). The globalisation process can neither be reversed or slowed down because the more successful the first-order adjustments, the more they have led to deeper international integration and more complicated second-order adjustments. Implicit in the second-order regime is a political environment conducive to wider participatory processes.

Instead, the ASEAN way respects sovereignty and nationalism. Noninterference in the strictest sense is endorsed in principles of Zone of Peace, Freedom and Neutrality (ZOPFAN) and Treat of Amity and Cooperation (TAC). The ASEAN way is informality, consultative consensual decision-making. Any institutionalisation is more on process than adherence to goals and objectives and unstructured rules and structures are operationalised by interpersonal contacts to give a comfortable pace to all. This may be both an inside source of strength and resilience and a weakness equivalent to a lack of political commitment on the outside. In the aftermath of the Asian crisis, the importance of globalisation for China has become more evident than ever before (Lloyd and Zhang, eds, 2000). Translated in policy terms, if ASEAN economies do not wise up to globalisation and choose to demonise it instead, China will catch up even more and faster. ASEAN needs a compromise and the EU troika mechanism being considered may still be too little, too late.

Some policy directions identified at this stage include:

1) The best option for Asia in terms of modality or negotiation track for trade liberalisation, investment and economic cooperation remains multilateral but taking the regional track to complement and supplement is in keeping with regionalism occurring worldwide.

2) By the same argument, neither is bilateral FTAs ultra vires or sacrilegious as long as free trade and WTO-consistency remain the guiding principles.
3) ASEAN informal growth triangles or combinations as in GPNs have proven successful and provide a wide spectrum of technological levels and capabilities from which individual states can choose from. Its chief merit lies in market and private sector initiatives and not political fiat.

4) Neither ASEAN nor APEC should be "wasted" and new directions and synergy have to be culled to put them back on track.

5) APT led by the "three" will alter regional dynamics but should eclipse neither ASEAN nor APEC. Some space must be made for APT in the region and beyond.

6) Non-Asian elements in APEC, namely, North America and Latin America are still among Asia's largest trade and investment partners but they are integrating fast in FTAA. Further APEC-style CRFTA may be one way to keep ASEAN and APT competitive and inclusive.

7) Deep integration implying competition policy, trade-related investment measures (TRIMs), trade-related intellectual property rights (TRIPs), IPRs, MRAs, HRD, ICT, customs procedures, labour and environmental issues are currently Asia's vulnerable policy areas. They have to be addressed and a regional approach is wise.

8) Neither the EU nor NAFTA models is practical for ASEAN or APT. Regional leadership based on some power sharing deal may have to be devised. In this regard, not just big strong states like China or Japan but also small soft powers like Singapore based on capability and merit should be considered as well.

9) PPPs are useful in growth triangles and other non-state actors as part of Asia's growing civil society should be included and involved for both economic cooperation and democratisation.

10) Harnessing ICT and all forms of electronic-mediated networks, e-ASEAN, e-government, etc has to proceed and the digital divide seriously considered.

11) Virtualisation and the virtual states exemplified in Singapore and Hong Kong are emerging configurations which can expand both spatial, distance and time dimensions.

12) Foreign economic policy combining economics and trade with international relations and diplomacy is a growing art Asia policy makers should pay attention to.

13) Similarly, some lobby consensual politics and not stubborn non-interference to devise policies which have externality effects region-wide or to contain or avert contagion is the reality check of globalisation, ICT and KBE. Asian or ASEAN way cannot quarantine domestic politics from reality and some compromise has to be innovated for a multidimensional front.

14) The boundaries and composition of Asian regionalism anchored around Pacific states may have to be reconsidered given South Asia's rising presence and potential contribution especially in IT skills and products. Caution is noted on the geopolitical impact.

15) International economics and international relations are increasingly complex and sophisticated and it pays to have policy and decision-makers well schooled and trained in these disciplines and take a political economy perspective.

6) Findings, policy implications and prospects
The trends observed in the introduction of this paper constitute unfinished business and are still evolving. At the topmost level, multilateral WTO is still unresolved in a clear rigorous agenda for the next stage of trade liberalisation and beyond. The fourth WTO ministerial tactically placed in isolated Qatar in November 2001 is a sad but realistic admission that many global constituents are neither pleased nor appeased by the rapidity of changes and insecurity brought about via free trade and global capitalism. It becomes harder to argue for free unprotected liberalisation and regionalism has its instinctual appeals.

Issues in Qatar would include market access and agriculture, still relevant after MTS eight rounds. Significant trade barriers remain after Uruguay Round according to a WTO secretariat study, leaving plenty of unfinished business in market access conditions in industrial tariffs, agriculture and business (WTO, Press/222, 27 April 2001). Access to other developing countries’ markets has become increasingly important to developing country exporters. The rest of the list runs into TRIPs, antidumping measures, labour and environmental standards, WTO decision-making process, competition and investment policies and growing RTAs as WTO-consistent or MTS-threatening.

Sectoral trading arrangements like voluntary export restraints (VERs), multifibre arrangement (MFA) were on track to be phased out. Information technology agreements (ITAs), telecommunication accord and agreement on financial services under WTO with APEC support have liberalised these sectors. But protectionist pressures have resurfaced, begging the question if the US or EU would absorb the global repercussions of the Asian crisis. Asia in recession meant both a fall of OECD exports to Asia and an influx of Asian exports as Asia tried to export its way out. But neither the US nor EU wants to be Asia's "importer of only resort".

At the regional level, economic integration in EU/EEA and NAFTA/FTAA is proceeding regardless of the Asian crisis. In contrast, both AFTA and APEC seem to have lost their focus and trade liberalisation, stalled. Neither has ASEM's rapprochement and non-institutionalised cooperation in politics, security, society and economics come to much since its third meeting in Seoul in 2000. The piece de resistance seems to be APT. Whether APT would continue with the conservative, Asian way, ARF minimalist approach to order-keeping, non-interventionist and general acquiescence and support at the international level, remain to be seen. How APT may overwhelm, marginalise or neutralise ASEAN/AFTA depends on how much progress can ASEAN10 marshal together and regain its credibility and image. The ASEAN caucus presented to APEC may not be the same currency for APT.

Asian regionalism has started and there is no going back despite many issues remaining amidst the exciting prospects. Singapore's fast and furious pace of bilateral FTAs seen as detraction by other ASEAN partners has several messages which may be generally edifying for Asian regionalism. One is having recognised both the multilateral and regional trends as set out in this paper, it has taken a proactive catalytic strategy as free trade remains its best option. Two is its bilateral FTAs may be inevitably preferential, objectionable to some free traders like Bhagwati (2000). But as a small price-taker, it can only try to maintain WTO principles and disciplines so far as refusing to carve out agricultural sector in the JSEPA as Japan would have liked. Three is despite ASEAN partners' ire that its bilateral FTAs may be a backdoor into AFTA with differential rules of origin (ROOs), Singapore is not signalling it is no longer supportive or opting out of AFTA. Instead, it reiterated it cannot be a bystander while AFTA stalled and other partners reneged on commitments. Finally, Singapore is on a long and steep learning curve dealing with so many FTA partners.
and even the "tutorial" it started with New Zealand, a small relatively open economy like itself, was not as easy as thought. Its aggressive ventures into Australian and New Zealand airline and telecommunication industries may boomerang in respective FTAs. It has subjected itself to the rigours in regionalism as one way to attain international benchmarks and best practices found in its FTA partners.

What amazed in a hitherto ASEAN "small brother" must be the pace and number of simultaneous bilaterals which must have stressed manpower and expertise even in an efficient bureaucracy. Some ROO issues will come home to roost for Singapore with different FTA partners setting out different rules. There is no standardisation of ROOs even at WTO which is on a product basis. Singapore will face the "spaghetti bowl" phenomenon where trade barriers including duties vary depending on origin and complex protection-accommodating ROOs. It hosts many globalised MNCs, making identification of local content and origin of trade goods and services, difficult and arbitrary. This may force FTAs one big step backward as non-discriminatory trade agreements.

Another emerging and irrefutable trend is that of CRFTAs and the opportunity for cross fertilisation of ideas and interests to spark off as non-contiguous states are put together primarily through cyber technology and virtualisation. This makes Internet access and ICT diffusion imperative. The growing and widening digital divide is, however, depressing. Even basic electricity as not yet available in some rural areas of developing countries is itself a barrier.

It may be timely too to look at prospects outside Asia Pacific as in South Asia with the promise of IT skills and manpower. However, the tensions of ASEAN trying to balance itself with North East Asia are sufficiently complex, no less handling relations in APEC, ASEM or EALAF without adding South Asia. India and Pakistan are uneasy Asian constituents even at the current distance. Bringing them or all of SAARC members in may be even more divisive just like ASEAN10 had issues of widening and deepening and political economy consequences.

Formal regionalism has problems and subregional growth triangles do, at least, no harm, can do good. Trade blocks focus on supplying markets of members through exploiting inefficiencies removed with tariff reduction or trade creation. Growth triangles are export-oriented structures which are independent of size of regional markets and they are smaller in Asia. There is no issue of discriminatory liberalisation as in regionalism and market access comes with foreign investment allowed in line with WTO disciplines. However, MNCs may be multilaterally than regionally focused in trade and investment matters.

Growth triangles are not export-processing zones (EPZs) which are demarcated enclaves outside a country's normal custom barriers where foreign firms enjoy favoured treatment with respect to importation of intermediate inputs, taxation and access to infrastructure. Like EPZs, growth triangles exploit the international mobility of capital and labour involving more one country. Growth triangles can competitively go beyond manufacturing to services to exploit such scale and scope economies, integrate resource endowments and share markets.

Since the crisis, growth triangles and regionalisation have taken a hiatus. Heightened political risks and macroeconomic mismatch in ASEAN stand in sharp contrast to political fissures being tended to in North Asia in rapprochement between the Koreas and more conciliatory cross strait initiatives (Far Eastern Economic Review, 28 June 2000, pp 14-16). Foreign investment seemed to elude ASEAN even in fast recovering states such as Thailand as fundamental economic, corporate and financial restructuring remained glacial or stalled. Concerned and
signalling hard, Singapore is a good house taken hostage by a a bad volatile neighbourhood.

The prospects and future of ASEAN growth triangles is contingent on deeper economic integration and AFTA, AICO and AIA resuming their stated objectives and timeframe to underline investor confidence. This is an important prerequisite as growth triangle products enter AFTA and profit from more investment and projects pushed by AICO and AIA. Deep integration HRD, IPR, TRIPs, TRIMs, MRAs and competition policy cannot be averted for long. More strategic alliances and market-led growth will favour growth triangles. There may be lack of data and information to differentiate projects induced by growth triangles and overall DFI and MNC activities. But that they complement and supplement trade and investment efforts is quite indisputable.

Many combinations and permutations from simple growth triangles to high-technology GPNs are possible, depending on the readiness of private sector and levels of maturity and sophistication. Natural neighbourhood environment may be a necessary but not sufficient condition especially with ICT and globalisation. Coupled with the unique features of GPNs, a spectrum and range of modalities exist for economies at different levels of technology, capacity and capability. There is a wide menu to pick and choose from which also mean product differentiation would lessen intense competition among Asian economies. Prosperity across the region should energise demonstration effects in getting countries and regions started to emulate others in achievement and sufficient publicity to success and progress given would boost morale and confidence all round.

There is an inescapable and tremendous opportunity for multilateral development institutions such as ADB in growth triangles as they can be catalysts for studies, funding, training, mobilising resources and assistance for setting guidelines as an external party. But ownership in projects and political commitment cannot fully emerge without these multilateral development institutions gradually diminishing their catalytic role and influence and encouraging national institutions to take over as growth triangles mature. The prerequisites and conditions for a smooth transition need to be examined.

This paper concludes with prospects for Asian regionalism including informal private sector-driven, activity-based projects and contribution toward multilateralism as good, more than fair but there are kinks. The biggest hurdle is political commitment and institutional capacity and capability to put through what is in the works, including APT. APT needs space and assimilation into existing ASEAN/AFTA and APEC as well as ASEM and EALAF. South Asia could be kept as a future agenda or bilateral FTAs as side deals among those ready to do so may be best for the time being. A clear policy suggestion is that more of the same as in the Asian way or ASEAN way will put APT in the same conundrum when more rigorous action, not necessarily overtly intrusive nor interfering is called for. A troika as in EU for ASEAN may be a way out. But in the end, states needing help and support should know to ask for it as in the true ASEAN or Asian spirit of cooperation and mutuality.

Suggestions to follow open regionalism, to the extent possible, non-discriminatory based on MFN and embrace CRFTAs are strongly proposed. It may begin with rehabilitating and institutionalising the APEC integrative process more diligently, keeping APT and AFTA as viable autonomous RTAs in their own rights. AFTA in particular, should re-examine its traditional and conservative modality in trade liberalisation and go for deep integration including "new age" deals. Painful as that would be, it may enable them to achieve the second-tier adjustment to
globalisation, ICT and KBE. Small, soft powers like Singapore could be a resource others can tap rather than denigrate, denounce or put down as "small brother".

More directed efforts toward ICT, awareness of its and the downside of the digital divide in ASEAN in particular, is imperative. Many ASEAN policy-makers are still in the world of the old economy, industrial policy and strong states. The Asian crisis has not disabused them of their anachronism and ways. Learning together and sharing information and experiences should not just be part of advance warning or surveillance measures. Too many developments and new knowledge on all manners of international matters are evolving at speed and magnitude which defy tracking and monitoring by individual developing countries. Some consultative process including technical assistance and learning should be above the usual official development assistance (ODA) mode and more joint research and study would enable Asian economies to do their homework diligently and properly.

As Asian countries mature in foreign economic policy making and strategies, deeper understanding and cooperation among like-minded statesmen and bureaucrats should evolve. Such spillovers should not just be confined to the hallowed corridors at international, multilateral levels as in Geneva, New York or Washington DC. Asian and ASEAN statesmen and technocrats should not just participate but contribute and influence norms, standards, rules, regulations, processes and ideas at both the regional and multilateral levels. Second-track think tanks and resources of other NGOs should be incorporated as sharing information and consultations right at the beginning averts laying of blame of undesirable outcomes in the end. Managing a larger constituency of participants with inevitable conflict of interests is a price and chore. But in the Internet and ICT age, doing things together rather than at selective, elitist levels, is no longer an option. In the final analysis, it is not resources, riches or other physical constraints which limits cooperation. It is mindset, commitment and gumption mixing theory with eclectic and strategic pragmatism.
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Global or cross production networks and the political economy of regionalism

Executive summary

We see two dominant forces both crosscutting the post-crisis Asian political economy landscape. One is global production networks (GPNs) based on market-driven activities of multinational corporations (MNCs) and direct foreign investment (DFI) in the first instance, as regionalisation with more intense local participation of indigenous capital and entrepreneurs from both the public and private sectors. Two is the political economy of emerging Asian regionalism as a more state-driven, institutionalised integrative process in regional trading arrangements (RTAs). Whereas regionalisation is more economics and driven by economic processes, regionalism is more political and politicised. But the political economy of both GPNs and regionalism makes them neither mutually exclusive nor independent. Regionalism affects GPNs at the corporate and industry levels as well as at the broader context of trade and investment liberalisation and facilitation.

Each of these two forces has its own many characterisations with tremendous scope and implications for policy makers. Both are responses and products of globalisation, information communication technology (ICT) and the knowledge-based economy (KBE). Both are shaped by the global trading environment and may be important agents or complements rather than substitutes or rivals to multilateralism. A common denominator in both GPNs and regionalism is the role of the state. Policy makers and appropriate strategies do affect and can change the course of outcomes of these two developments. In both instances, cooperation and synergy across states is called for, whether in industrial policy to pool resources and markets or in seeking to enhance sovereignty as region states.

With complex aggregation dynamics of so many trends and forces in motion simultaneously in the political economy of GPNs and regionalism, this paper first tries to unravel and identify specific issues in both areas. We draw out evolving empirical modalities in Asia to see what and how the big picture adds up to. Regionalisation as in GPNs affects, responds to and interacts with regionalism as markets and states get together and grow intimate synergy and cooperation. All this takes place in the context of multilateral efforts at the World Trade Organisation (WTO) on trade and investment liberalisation. One task is to focus on how the political process of regionalism explains, to what extent responds to or supports GPNs. Certainly, the pressure and logic of new regionalism has something to do with the multilateral system and its slowdown. Another paper has outlined the logic of the underlying growth of GPNs; this paper will focus more on the dynamics of regionalism.

We identify two linked issues in the political economy of GPNs and regionalism. One set of issues arises from pressures toward both regionalisation and regionalism especially in the perceived failing or failure of multilateralism as in the paralysis of the WTO. As East Asia’s export-led industrialisation needs a liberalised and deregulated trade and investment environment, Asian regionalism has gathered momentum. It is either a signal to economies in the Organisation for Economic Cooperation (OECD) to push harder for the multilateral track or more retaliatory regionalism as a triad formation emerges. Asian regionalism, however defined, subregionally as under the Association of Southeast Asian Nations (ASEAN) and ASEAN Free Trade Area (AFTA) or East Asian as in ASEAN+Three (APT) has many interesting permutations and potential. South Asia is another constituent block which cannot be ignored for much longer. The concepts of open regionalism as in
Asia Pacific Economic Cooperation (APEC), plurilateral cross regional free trade arrangements (CRFTAs) which may also involve bilateral partners have further evolved. We would like to draw some statement of hypotheses about what is driving these developments to give conceptual rigour to policy.

A second set of issues bring back GPNs as new extended modalities for regional integration under new regionalism. GPNs have occurred without regionalism as conventional regionalisation was based on markets and proximity as MNCs relocated and DFI was unleashed with financial globalisation and integration of capital markets. Increasingly, GPNs can both affect and profit from various designs and architecture of regionalism, institutions and the overall integrative process. This is especially when regionalism will inevitably move into deep integration into trade-related investment measures (TRIMs), trade-related property rights (TRIPs) or intellectual property rights (IPRs), competition policy, mutual recognition agreements (MRAs), labour and environmental standards. We hypothesise that these two developments have not been linked in the minds of policy makers; how can regional institutions foster the development of GPNs. It seemed that the growth triangle concept was really explicitly trying to do this but it has perhaps faltered while larger efforts are driven by a political logic of the slowest integrators, not fastest.

We conclude that the emerging complexities and synergies of GPNs and regionalism on one hand and regionalism and multilateralism on the other have urgent tasks for policy makers especially in developing parts of Asia.

First, no one economy, developed or developing is any longer sanguine or passive as bystanders to globalisation, ICT, KBE and the backlash as in inequity, insecurity and digital divide.

Second, the post-Asian crisis experiences with reforms and remodeling the Asian growth model have induced some sense of greater Asian identity as seen in ASEAN and APT.

However, a third policy strand is that Asian regionalism and Asian GPNs may not yet be ready or even desirable given the Asian and ASEAN way of noninterference in domestic matters. Realistically, globalisation, ICT and GPNs is the overarching strata which dictate some understanding and tolerance of different approaches if not a total consensus in their macroeconomics and political economy. Asian states as every one else, have to think global even as they do act regionally.

Fourth is back to the fundamental political economy choice of markets or states, or combinations and permutations of markets and states. A rich menu and spectrum of options to suit needs and aspirations based on capabilities and capacities exist. These include growth triangles, GPNs, new regionalism as in new age economic partnership agreements rather than traditional free trade agreements (FTAs). Such economic partnerships and new age agreements go beyond traditional tariff and nontariff barriers to trade, into regulatory environments affecting trade, investment, HRD, customs procedures, IPRs and ICT-mediated exchanges as in e-commerce and e-government.

However, a sixth conclusion regarding how much progress is really being made in each modality, is not flattering. First on regionalism, from AFTA to APEC, nothing much has happened of not stalled and bilaterals appear more promising based on one-on-one interactions, the familiar two-level games, may have domestic politics prevailing over international politics. On the other hand, there may be better prospects yet for the different types of growth triangles, from the focused pioneer Singapore-Johor-Riau triangular complementation of land, labour and capital to both spatially and conceptually broader configurations as in the Greater Mekong Scheme (GMS).
The crucial point is that explicit, market-led growth triangle at the localised level may be more tangible, efficient and effective in delivering jobs and income than the rhetoric of political deals as in regionalism. Still, Asian states must be seen and perceived to be doing something for regionalism though the multilateral level remains most important for GPNs because they really do cut across countries and cannot be confined to a particular region.

Finally, we recognise that Asia is diverse and heterogeneous, in different phases and levels of growth and development. Some are economies in transition, some still in recovery from the crisis, some more predisposed to faster opening and liberalisation. The macroeconomics of big, more resource rich states which can afford to be somewhat more insular may further diverge from small, resource lacking, open economies. Possible policy conflicts arising from different macroeconomic stabilisation goals and directions due to different temporal needs or time horizons and capacity constraints must be rationally approached and innovatively resolved. There would be relative speeds to accepting or embracing GPNs and regionalism. The spirit of cooperation led by both market and states should be pragmatic and eclectic. There are indeed, many options and choices available for likeminded policy makers motivated by market forces and accommodating to social, political economy needs.

Growth triangles, Singapore-Riau version had been most successful because it was private-sector based, facilitated by Singapore which encouraged its MNCs and GLCs. Economic cooperation may need institutional facilitation and political commitment but enforced partnerships by political fiat would be antithetical.