

## Neorealism and ASEAN States' Cooperation in ASEAN Free Trade Area (AFTA): An Empirical Critique

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### *Abstrak*

Pembentukan *ASEAN Free Trade Area (AFTA)* merepresentasikan bentuk lain dari *Preferential Trading Agreement (PTA)*. Melalui logika Neorealisme, para peneliti menjelaskan hal tersebut sebagai upaya negara-negara ASEAN untuk menanggapi kekuatan Uni Eropa, *North America Free Trade Agreement (NAFTA)* dan pertumbuhan pesat negara China. Tulisan ini secara kritis melihat kembali logika Neorealisme untuk menjelaskan mengapa negara-negara ASEAN bergabung dalam AFTA dan mengapa mereka bersetuju untuk mengadopsi kerangka kerjasama perdagangan bebas, yang bersifat selektif dan gradual. Pembentukan AFTA tidak secara konsisten merefleksikan kerjasama tersebut dan Neorealisme tidak bisa menjelaskan kerangka kerjasama tersebut. Alih-alih menempatkan kekuatan (*power*) sebagai satu-satunya variabel independen yang relevan dan penjelasan atas sebab-akibat terbentuknya *states-regime*, gabungan kepentingan dan kekuatan (*power*) menyediakan satu set variabel yang bisa menjelaskan kerjasama antarnegara dan kerangkanya. Dari situ, kerjasama negara-negara ASEAN dalam bidang ekonomi dan perdagangan tidak hanya menjelaskan mengapa negara-negara tersebut membentuk AFTA pada tahun 1992, namun tulisan ini akan mengklarifikasi mengapa mereka bersetuju untuk mengadopsi liberalisasi perdagangan yang bersifat selektif dan gradual.

**Kata kunci:** Neorealisme, kerjasama negara, kerangka kerjasama, AFTA, liberalisasi selektif dan gradual, *state-regime*.

### **Introduction**

Preferential Trading Arrangements (PTA) have become an ubiquitous phenomenon in the last two decades; states are increasingly cooperating in liberalizing trade. Widening and deepening relatively inefficiacious their previous PTA agreements, ASEAN states established an ASEAN Free Trade Area (AFTA) in 1992.

Similar to other PTAs (Ravenhill 1995, 2003, 2008), ASEAN states selectively excluded some trade items and put them in Temporary Exclusion List (TEL), General Exception List (GEL), and Sensitive List (SL). ASEAN states also adopted a gradual trade liberalization approach. They agreed to reduce and eliminate import tariffs, quantitative restrictions, and other non-

tariff barriers within a period of 15 years beginning January 1, 1993.

Many scholars explain ASEAN states as a reaction to external dynamics. The formation of AFTA was intended to maintain and improve their strategic position after the establishment of the European Union (EU), the North American Free Trade Agreement (NAFTA) and the Asia-Pacific Economic Cooperation (APEC); the rise of China; and the collapse of USSR (Ariff 1994: 226-229; Ravenhill 1995: 853). Lower trade barriers increased intra-ASEAN trade, fostered the ASEAN region as a production base, and attracted investment to the participating states (Ravenhill 1995: 854; Bowles and MacLean 1996: 332-340; Athukorala and Menon 1996: 87-90; Buszynski 1997/98: 566-568; Chia 1998: 218; Ethier 1998: 1150, 1156-1159).

This paper critically discusses the Neorealist explanation of ASEAN states' cooperation in AFTA, and their agreement to gradual and selective liberal trade cooperation-design. The AFTA case represents the problems of state cooperation and cooperation design which color PTA around the world. In the beginning, this paper describes Neorealism's theoretical explanation of state cooperation and cooperation design. It then empirically argues that Neorealism does not provide an adequate explanation of ASEAN states' cooperation, their gradual and selective trade liberalization. This paper then proposes state-regimes as another independent variable that can explain ASEAN states' cooperation in AFTA.

### **Neorealism and State Cooperation: A Balancing and Bandwagoning Cooperation**

Inheriting the Realist tradition, Neorealism considers interactions between states as a reflection of the relative power distribution between them. A stronger state dominates smaller states, and smaller states tend to bandwagon with the stronger state. States who have relatively equal power balance and deter each other. Conflicts are inherent in the Neorealist world, while peace and cooperation are merely considered temporary.

In Neorealism the international state system is anarchic. This does not mean that the system is chaotic, but only that it lacks a centralized authority that is capable of governing states' behavior and interactions. A strong power, even if a hegemonic power, cannot function as a centralized authority because the logic of anarchy conditions other states to balance against it. International organizations also cannot play this role because their authority is limited and subject to states' agreement. States are still the key actors in international politics. Anarchy does not subject states to perpetual war, it merely curses them with "relentless security competition" with inherent possibility of war (Mearsheimer 1994/95: 9).

The logic of anarchy leaves states as scattered self-interested actors and to be able only to expect help from themselves. Uncertainty over the true

intentions of others conditions, states prepare for the worst case scenario. States are persistently fearful of engulfment and troubled by threats, both real and imagined. Without a centralized authority who can ensure peaceful relations, each state has to rely on its own capabilities to protect itself. There is no guarantee of help from others because other states potentially stand to profit from others weakness. Today's friends can be tomorrow's enemies. In anarchy, "there is no overarching authority to prevent others from using violence, or the threat of violence, to destroy or enslave them" (Grieco 1988: 497-498, emphasis is original). "Self-help is necessarily the principle of action in an anarchic order" (Waltz 1979: 111). Those who are incapable of helping themselves live in constant danger; states become self-interested. They are always concerned with their own survival first and consider other states only in relation to the fulfillment of their own interests. An anarchic system and uncertainty over others' true intentions keeps states from thinking of helping each other and hinder cooperation between states (Waltz 1979: 105-118).

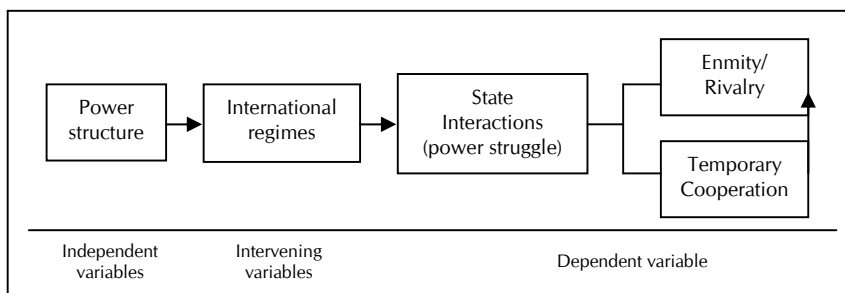
Anarchy makes survival becomes the "the highest end" for states (Waltz 1979: 126). Without survival, all other goals will be meaningless. For that reason security concerns subordinates other goals (Waltz 1979: 93, 107, 126), including the four basic state interests: political power, aggregate national income, economic growth, and social stability (Krasner 1976: 317-9). States basically accumulate and use capabilities – size of population and territory, resource endowment, military capability, economic strength, political stability and competence (Waltz 1979: 131) – to assure their survival.

Building up military capabilities to the degree which deters foreign threats and attacks, consequently becomes the best choice for states to survive autonomously. Power or "force serve[s], not only as the *ultima ratio*, but indeed as the first and constant one" (Waltz 1959: 232). Relative power and power distribution are critical in a threatening world. Relative capabilities determine states' position in the international power structure. To ensure their security, states are forced to cautiously and constantly observe other's capabilities (Waltz 1979: 131). Becoming a greater power relative to others does not only reduce potential threats and assure security, but also opens the opportunity to dominate or weaker states. In contrast, having weaker powers means having lower positions and a more dangerous life. The relative power in the international power structure determines the probability that states will fear engulfment and destruction. Only in a stable balance of power situation, when the world becomes much less threatening, will concern over relative power relax and absolute power become more significant (Waltz 1979: 195). Since power solely affects what states can and cannot do, it is the strongest powers that shape the world order and direct the weaker states' behaviors.

Nevertheless, the importance of power does not make it an end unto to itself. Unlike Realism which considers power as "the immediate aim"

and interest (Morgenthau 1954: 5, 25), for Neorealists in general, power is “a means” to ensure survival and “not an end” (Waltz 1979: 126). In a balance of power structure, power maximization, rather than creating a safer situation, creates more dangers. Increased power is perceived to be an intensified threat, which subsequently stimulates other states to strengthen themselves (Waltz 1979: 126-7). States rationally restrain themselves from power maximization to deal with the balance of power dilemma. For Neorealism (except for offensive realism), balancing capabilities, not the maximization of power, is necessary for survival.

Figure 1. Neorealism and State Interactions



Two kinds of cooperative alignment may occur in power-based interactions. The first is a balancing coalition to deter external threats; the second is bandwagoning, a hegemonic coalition between a hegemon and weaker states.

The reluctance of lose autonomy under a hegemon encourages states to balance, rather than to bandwagon, a stronger state. If possible, weaker states choose not to bandwagon with the stronger state “for it is the stronger side that threatens them” (Waltz 1979: 127). States may cooperate to mobilize their own combined capabilities to deter threats and meet their self-interests (Walt 2005: 114). However, as uncertainty of other states’ true intention never evaporates, states prefer to rely on their own capabilities and undertake internal balancing rather than externally balance or form balancing alliances (Waltz 1979: 168).

Nevertheless, states may not sufficient internal capabilities to balance others with internal adjustments. A lack of individual balancing capabilities forces weaker states to make balancing coalitions against threatening stronger states or coalitions. A common interest in deterring prevailing threats encourages weaker states to ally. A balancing coalition provides a safer environment for weaker states firstly because the weaker states can pool enough defensive capabilities to deter potential threats from a stronger state (Waltz 1979: 127), and secondly, because the coalition members are relatively

weak and do not have the offensive capabilities to betray other members. Aligning with weaker allies even enables a state to relatively maintain its autonomy and play some roles in the coalition. Risk of being attacked by a threatening stronger state reduces the temptation of the coalition members to defect. Concern over relative gains distribution necessitates states to constantly prevent each other from free riding.

Power imbalance, in other circumstances, allows a hegemonic power to create a hegemonic or bandwagoning coalition in order "to promote its own interests" (Gilpin 2001: 99; see also Mearsheimer 1995: 83-4). Without enough internal power or allies to build a balancing coalition, persistent balancing behaviors will invite coercive measures from the hegemon. Weaker states have no other choice except to bandwagon with the greater state and hope for benevolence. In this case, the costs of opposing or balancing exceed the benefits. Despite the fewer relative gains they get from a bandwagoning coalition due to the greater state's concern over relative gains, bandwagoning allows a weaker state to survive. The probability of trickle down benefits from hegemony also helps to make bandwagoning a rational option (Waltz 1979: 126).

In a bandwagoning coalition, risks of being punished or engulfed by the hegemon discourage weaker states from defecting or free riding. A greater state can prevent defection by maintaining power imbalance, maintaining potential threats to the bandwagoning states, and taking relatively greater gains from the alignment. The weaker states are continuously forced to bandwagon and appease the stronger state, despite the potential danger of the hegemon's aggressive actions.

A hegemon, the Hegemonic Stability Theory (HTS) argues, can shape the bandwagoning states' interests and nurture their commitments by constructing an international regime. Here, an international regime functions merely as an instrument that the hegemon uses to legitimate its hegemony, and thus reduces the probability of defection and free riding. This international regime nevertheless does not replace the critical function of power in enforcing compliance and creating governance. Even though hegemonic power is "a necessary but not a sufficient condition" for cooperation and compliance, the continuation of a hegemonic coalition that the regime legitimates still depends on powers (Gilpin 2001: 94, 97, emphasis is original).

Both balancing and bandwagoning cooperation above derive from negative interests. As self-help actors, states do not have a given interest in cooperation. States collaborate not because they have positive common interests and seeing potential benefits of cooperation, as Neoliberals argue, but because of their negative common interests: fear of being engulfed by stronger states and avoiding harmful consequences from external threats. While a balancing coalition continues as long as there is a threatening greater

power (Waltz 1979: 166), a bandwagoning coalition endures as long as a power imbalance persists. In other words, cooperation is merely a temporary instrument in states pursuit of self-interest, survival and security.

In a balancing coalition, despite some compromises, differences in alliance strategies caused by divergent positive interests cause states to compete over leadership of the alliance. Being the stronger ally is a prerequisite to claiming leadership; by influencing the weaker partners the stronger state can create their relative dependence (Waltz 1979: 126, 166). States are also aware that today’s friends can be tomorrow’s enemies. This precludes them from overcoming their concern over relative gains and involve states in a game of battle of the sexes (Table 1). In this game, states are aware of the benefits of cooperation but fight over the relative gains (Mearsheimer 1994/95: 12-3). Because “the fundamental goal of states in any relationship is to prevent others from achieving advances in their relative capabilities” (Grieco 1988: 498, emphasis is original), “in a condition of anarchy, ...relative gain is more important than absolute gain” (Waltz 1959: 198). Hence, there is not a structural reason for states to nurture common positive interests and be unconditionally loyal and trustable partners. Internal frictions continuously color the alignment. Even in balancing cooperation, states are still potential enemies and self-interested actors who have to rely on their own powers to survive.

**Table 1.** Distribution of Gains from International Cooperation, in a 2x2 Matrix of Battle of the Sexes Game

		State B	
		Industrial cooperation	Trade cooperation
State A	Industrial cooperation	(4, 3) *	1, 2
	Trade cooperation	2, 1	(3, 4) *

**Notes:**

- This scenario envisages two states that plan to make economic cooperation. Being constrained with different and limited resources, state A prefers an industrial cooperation and state B wants trade cooperation. Two stable equilibrium and Pareto optimum outcomes (\*) emerge in this scenario.
- The numbers represent ordinarily ranked benefits: 1 is worst, 4 is best. The numbers in each cell represent state A’s gain and state B’s gain, respectively. A bracket denotes equilibrium, and an asterisk denotes the Pareto optimum outcome.

Gilpin (2001: 79-80), nevertheless, takes a bit different position regarding the distribution of relative gains. He argues that even though states cannot

completely discard relative-gains consideration, when dealing with political economic issues, states often “ignore this concern” for security reasons. After the World War II, the capitalist United States (US) economically helped Western Europe and Japan in order to balance the communist Soviet Union. As a liberal hegemon, the US “must satisfy the interests of all the major economic powers to at least some degree” to make the coalition functioned. The partners even gained economic benefits “more than” the US (Gilpin 2001: 88). This explanation is inconsistent with the Neorealism’s basic argument of power competition. If states are really individually egoist actors, allowing more relative gains to accrue to hegemonized states for a long period time will enable the states to escape the hegemon’s influence. Since economic gains can be transformed into military power (Waltz 1979: 187), sacrificing economic relative-gains for security-loyalty endangers the sustainability of hegemonic relations. Frankly speaking, what does power hegemony means if the hegemon benefits less than the hegemonized states.

In a bandwagoning or hegemonic coalition, “it is the stronger side that threatens” the weaker states (Waltz 1979: 127) and because the hegemon creates a coalition for “its own interests” (Gilpin 2001: 99), there is no motivation for the weaker states to be loyal to the hegemon. Concern over limited autonomy and perpetual hegemony cause the weaker states to retain the temptation to defect and free-ride. Internal friction is inherent in a bandwagoning alignment because, in anarchy, states are destined to be potential enemies without given positive interests in cooperation.

Neorealism thus predicts limited cooperation between states; cooperation merely reflects power distribution and state’s own interests. States want to maximize their gains relative to their partners. Cooperation among states is fragile because it occurs in a world that is inherently competitive (Mearsheimer 1994/95: 12-13). Uncertainty over other states’ intentions, concerns over relative-gains, possibilities of free-riding, defection and betrayal, and leadership competition work “against their cooperation” (Waltz 1979: 105). Cooperation in a Neorealist world cannot overcome insecurity and the fear of engulfment. Neorealist states prefer to act selfishly despite the potential negative consequence on cooperation. Consequently, cooperation tends to be short-lived rather than long-lived. Power distribution and power struggle, Neorealists claim, determine interactions between states.

### **Neorealism and Cooperation Design**

Pessimism over cooperation leads Neorealism to be less concerned with cooperation design. The HST only focuses on liberal international cooperation and does not concern itself with non-liberal cooperation built by the Soviet Union, Nazi Germany or militarized Japan. Since power is the sole independent variable, Neorealism claims that it is power alone that determines cooperation

design in an alliance. Even though free market regimes contribute to the construction of liberal state cooperation, it is the hegemonic state that enforces the liberal governance and ensures the weaker states' compliance (Gilpin 2001: 94).

Power indeed is crucial in determining cooperation design. However, as the HST admits that "a hegemon is a *necessary* but *not a sufficient condition*" for the formation and maintenance of a liberal international economy, power does not manifest as the only independent factor that determine cooperation design. Despite its hegemonic power, the Soviet Union built a communist international alliance. Another independent factor thus affects cooperation design.

Neorealism argues that stronger states' interests can be another factor that explain cooperation design. Based on "basic state interests" (Krasner 1976: 317) states instrumentally calculate, act and interact. These interests include survival (Waltz 1979: 126), political power, aggregate national income, economic growth, and social stability (Krasner 1976: 317-318). To support its interests in a market economy, the United States built liberal alliances; whereas the Soviet Union constructed communist cooperation to promote its command economy. In this way, while power determines who designs the cooperation, interests explain to what what even cooperation design is applied.

Nevertheless, such basic state interests are "nonoperational" (George & Keohane 1980: 226). To increase aggregate national income, for example, states may utilize liberal or protectionist policies. As Krasner (1976: 339-340) shows, despite becoming the strongest state in the world, the US adopted a protectionist policy during the period of 1918-1939 and applied a liberal policy during 1945-1960. During the Cold War, the US and the Soviet Union applied different political economic regimes: while the US promoted the market economy and the Soviet Union fostered communist command economy. The greater state may even sacrifice relative gains in order to design cooperation to support other goals. Neorealism and HST cannot answer the question of why liberal cooperation continued, and even deepened, despite the collapse of communist regime and the decline of US economic hegemony. In other words, the conception of basic state interests cannot explain what kind of cooperation design the greater state may support.

This underspecification problem of basic state interests creates methodological problems as well. Considering interests as given and objective, Neorealism does not explain "how and why their descriptions" of state interests correspond to objective reality (Rosenau 1968: 35). There is no clear instrumental reason why during the period of 1945-1960, the US preferred promoting liberal economic policies and did not continue its pre-war protectionist policies to increase aggregate income. Inferring specific state interests from actions and interactions means imposing an "evaluative



framework of the describer" (Rosenau 1968: 37-39) and committing in a *post hoc ergo propter hoc* logical fallacy. In other words, it is Neorealists' own "values" that "serve as the basis for ranking some values as preferable to others" (Rosenau 1968: 37) and explain why the greater state prefers certain cooperation designs to others.

Leaving the definition of subgoals or "the policies of state" (Krasner 1976: 343) to state leaders does not also solve Neorealist problems in explaining cooperation design. First, such solution deviates from Neorealist structural explanation (Waltz 1979: 79) and undermines Realists' unit-based arguments. Second, rather than reflecting objective reality, the policies represent the leaders' subjective interpretation of reality (Rosenau 1968: 34; George & Keohane 1980: 219). This departs from Neorealism assumption of the objectivity power structure. Third, value-laden criteria are necessary to assess the legitimacy of policies the state leaders make (Kratochwil 1982: 13). In summary, Neorealism does not adequately explain why and what make states agree to have a certain cooperation design.

### **ASEAN States' Cooperation in AFTA: a Balancing Cooperation?**

For Neorealism, the establishment of ASEAN in 1967 was considered a response to the external threats of Communist in Vietnam. Five ASEAN states (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) agreed to align despite their previous animosity. ASEAN states' agreements on the Zone of Peace, Freedom and Neutrality (ZOPFAN) in 1971 and the Treaty of Amity and Cooperation (TAC) in 1976 were reactionary responses to the Vietnam War and the US defeat, respectively (Frost 1990: 4-8). In Neorealism's logic, ASEAN security alignment and its deepening would not have taken place without such an external threat.

Similarly, Neorealists consider ASEAN states' cooperation in AFTA a response to external threats and a reflection of power competition (see Hurrell 1995: 49). In 1986 European states enacted a Single European Act (SEA) and agreed to establish a single market by 1992. They further agreed in the Treaty of Maastricht of 1993 to form the European Union. Subsequently, the US, Canada and Mexico also regionally integrated trade by implementing the North American Free Trade Agreement (NAFTA) in 1994. These integrations increased trade among members and diverted trade from non-members. Both the EU and NAFTA countries grew their economies, their share of global trade, and therefore their relative power.

In Neorealism's logic, the EU and NAFTA PTAs posed two threats to ASEAN states. The first threat is trade diversion that benefited member states and reduced ASEAN states' exports to Europe and the US. In 1990, ASEAN5's<sup>1</sup> exports to EU states and the US reached \$22.9 billion (or 16.4%

1 ASEAN5 represents Indonesia, Malaysia, Philippines, Singapore and Thailand.

of ASEAN5's total exports) and \$27.9 billion (20.1%), respectively. Those amounts were higher than ASEAN5 intra-regional trade, which amounted to \$25.2 billion (18.1%) in the same year (IMF *Directions of Trades* [DOTs] 1990, author's calculation). With relatively high trade dependence on the EU and the US, trade diversion threatened ASEAN states' economies. This, together with the potential deadlock of the Uruguay Round in 1991, there was anxiety over whether the EU and NAFTA would become regional trade blocs discriminating against non-members (Nesadurai 2003: 9).

The second threat would manifest itself as a smaller share of relative power distribution. The growing trade shares and welfare improvements that the integration brought, would increase the EU and NAFTA member states' economic power relative to the rest of the world. With their advanced development, they indeed already had relatively strong economic power. The establishment of EU and NAFTA consequently further deteriorated ASEAN states' economic position in global arena.

The formation of APEC in 1989 and the end of the Cold War in 1991 are seen as two events that undermined ASEAN states' strategic position. During the Cold War, ASEAN states were positioned as strategic allies to encircle and contain Communist in China and Vietnam, and limit the influence of the Soviet Union on a global level. Such position gave ASEAN states a better strategic position in the form of market access, foreign investment and foreign aids from capitalist US and Japan. The establishment of APEC shifted major economies' attention from ASEAN states to other Asia-Pacific states (Bowles & MacLean 1996: 340; Buszynski 1997/98: 566-568). The collapse of the communist alliance also ended major security threats and evaporated the *rationale* of ASEAN as a security alliance (Ariff 1994: 226-229; Ravenhill 1995: 853).

Besides those global developments, the establishment of AFTA is also interpreted as a response to the emerging regional dynamics. While Japan's advanced economy compelled ASEAN states to bandwagon with it, China's growing and increasingly competitive economy still allowed them to balance against Japan. China's rise diverted foreign investment away from ASEAN states. While in 1990 China shared 1.7% of world FDI inflows or about one fourth of ASEAN states' shares, in 2000 China's share reached 2.9% while ASEAN states' share decreased significantly to 1.7% (UNCTAD 2007, author's calculation; see also Chia 2006: 126-129). China also competed with ASEAN states' exports to develop states. Its cheap and relatively good products even threatened ASEAN states' producers by invading their domestic markets (Voon and Yue 2003: 164-165; Chia 2006: 110-126; Chia and Sussangkarn 2006: 109-114). While in 1990 China's share in ASEAN5's imports was 13.0%, it grew to 23.0% in 2000 and 47.7% in 2005 (IMF *DOTs* 1990, 2000, 2005, author's calculation). Moreover, with its latent economic potential China's relative

economic powers will continue to grow and weaken ASEAN states' relative position. For Neorealism, China's rise threatens ASEAN states.

The establishment of AFTA is then interpreted by Neorealists as a balancing response to the above dynamics. The establishment of AFTA would redefine the *rationale* of ASEAN from a security alliance to an economic alliance. AFTA would lower trade barriers, create and divert trade, and enlarge the intra-ASEAN market. This was to help construct ASEAN production network and attract foreign investment. Through AFTA, ASEAN states attempted to offset the trade diversion effects that the EU and the NAFTA brought, and the investment and trade diversions caused by China's rise (Ravenhill 1995: 854; Bowles & MacLean 1996: 336; Chia 1998: 218). AFTA was to maintain ASEAN states' bargaining position at global and regional levels.

The Malaysian Prime Minister's proposal to form an East Asian Economic Group (EAEG) in 1990 at first seems to support the balancing argument. Mahathir (1993) envisioned a region of "sustained cooperative peace and prosperity stretching from Jakarta to Tokyo". Even though he said that the EAEG was not intended to be a trading block or any kind of PTA, only "a loose consultative forum," Mahathir (1992) intended the EAEG to "provide a strong voice for the East Asian countries trade negotiation with the rest of the world, particularly the EC [European Community] and NAFTA [so that] East Asia will be one of the three main regional groups and will exert its influence on world trade."

Nevertheless, there are several problems with the balancing thesis. ASEAN5 states' relative power was far below the US and the EU. In 1990, the US and the EU's GDP were 20 and 25 times higher than ASEAN5's GDP, respectively (World Bank's *World dataBank*, author's calculation). In the same year, ASEAN5's total shares of the world imports were just 4.5%, whereas those of the EU and the US were 44.8% and 14.7%, respectively. Even though the creation of AFTA might increase ASEAN trade, ASEAN5's share of the world imports in 2000 only reached 5.3% and did not balance the EU and the US's shares which covered 37.5% and 18.8% of total world imports, respectively. ASEAN states' imports were too small to affect international prices and have a global strategic effect (see also De Simone 1996: 113-4). China also reduced its gap with ASEAN states by increasing its share of world imports from 1.5% in 1990 to 3.4% in 2000 (IMF DOTs 1990, 2000, author's calculation). ASEAN states are still relatively weak powers. Even aligning their economic and trade policies has not been enough to significantly balance the EU and the US.

ASEAN states are in fact relatively dependant on the US and EU markets. As mentioned before, in 1990 the EU and the US shared 16.4% and 20.1% of ASEAN5's total exports respectively. ASEAN5's shares in the EU and the US's total exports, however, were small, amounting to only 1.4% and 4.8%, respectively. Although the numbers declined in 2000, the EU still

shared 14.8% and the US 19.4% of ASEAN5's total exports (IMF DOTs 1990, 2000, author's calculation). Consequently, ASEAN states were in imbalanced position against the EU and the US. Balancing in case is risky and it invites retaliation—in the forms of trade protection or deepening regional trade integration—which may jeopardize dependent ASEAN states. Rather than balancing, bandwagoning is more instrumentally rational.

Although Mahathir's proposal to form an EAEG in 1990, can be interpreted as a response to the EU and NAFTA, it does not support the idea that ASEAN states' were balancing against China. Instead, Malaysia intended to engage China by incorporating it as a group member. Moreover, ASEAN states even accepted China's proposal to establish a PTA in 2000 and concluded a framework agreement of PTA in 2002. This engagement indeed may prevent China's adventurous and assertive moves. This trend obviously contradicts the idea of AFTA as an attempt by ASEAN states' to balance China.

ASEAN states are not internally cohesive and do not have a single voice due to their different levels of developments and trade regimes. Singapore, for example, had become relatively developed with \$14,658 per capita income by 1990, while other ASEAN states had per capita incomes below \$3,000 (World Bank, *World dataBank*). Singapore was disposed to adopt a free trade regime, while other ASEAN states only started to liberalize their economies in 1980s. After 2000, Singapore has also been very active in forming PTAs with non-ASEAN states, contrasting it with Indonesia and the Philippines relative passivity. Malaysia, which then ironically followed Singapore's steps in pursuing PTAs, believed that bilateral PTAs with non-ASEAN states would weaken ASEAN cohesion (Ravenhill 2003: 304). Such disparate strategies and uncoordinated policies undermine Neorealists' interpretation of the formation of AFTA as balancing move against the EU, the US and China.

The deepening of AFTA also creates problems for Neorealists' explanation. Neorealism argues that cooperation takes place as a manifestation of negative interests. The formation of AFTA is interpreted as a response to external threats from the potentially protective EU and NAFTA, the potentially binding APEC, the potential failure of Uruguay Round, and China's rise. China's economic growth still poses an external threat nowadays but the EU and NAFTA did not become protective fortresses, the Uruguay Round was concluded in the establishment of the WTO, and APEC worked on the base of voluntarism, used non-binding liberalization, and even lost much of its influence after the 1998 financial crisis (Nesadurai 2003: 10). If external threat is the *rationale* for states to undertake cooperation, there was no reason for ASEAN states to sustain and deepen AFTA after some of the potential external threats were failed to actualize.

AFTA did not even manage the clear cut distribution of gains needed to support Neorealists' argument of relative gains. Park's (1995: 118-122) CGE-macrosimulation describes (Table I.5), the benefits and costs of AFTA are

distributed unequally among ASEAN states. Indonesia, which had the highest GDP, and Singapore, which had the highest level of economic development, gained smaller percentage of welfare improvements. Including other factors – overall price, budget deficit, and trade deficit – makes the general distributive effects of AFTA become more confusing. Besides the benefits, Malaysia suffered a strong negative effect on budget deficit; Indonesia lost in its overall price and trade balance; and Thailand experienced a negative effect on trade and budget deficits. These indefinite distributive gains and losses undermine Neorealists' argument of relative gains. It is not clear "[w]ho will gain more" (Waltz 1979: 105) from the formation of AFTA. Consequently, it is also not really clear in the Neorealist view of the international system why ASEAN states agreed to cooperate in AFTA.

**Table 2.** CGE-Macrosimulation Results of the Effects of AFTA Reduction Policies

Effects on	Strongly Positive	Positive	Fair	Negative	Strongly negative
Welfare Level (%)	$\geq 1.6$	0.6 – 1.5	0.0 – 0.5	- 1.0 -- 0.0	$\leq - 1.1$
	Malaysia	Indonesia Philippines Thailand	Singapore		
Overall Price (%)	$\leq - 1.6$	- 1.5 -- 0.0	0.0 – 0.1	0.2 – 1.5	$\geq 1.6$
		Malaysia Thailand	Philippines	Indonesia Singapore	
Budget Deficit as a percent of Nominal Income (BD/Y)	$\leq - 0.6$	- 0.5 -- 0.0	0.0 – 0.1	0.2 – 0.5	$\geq 0.6$
		Singapore	Indonesia	Philippines Thailand	Malaysia
Trade Deficit as a percent of Nominal Income (TD/Y)	$\leq - 0.6$	- 0.5 -- 0.0	0.0 – 0.1	0.2 – 0.5	$\geq 0.6$
		Malaysia Singapore		Indonesia Philippines	Thailand

Notes: CGE-Macrosimulation of a mutual 50%-reduction of tariff rate.

Source: Adapted from Park (1995: 118-122).

Therefore, the formation of AFTA cannot be fully interpreted as a balancing move. The balancing thesis does not clarify the target of ASEAN states balancing, how ASEAN states dealt with the distributive costs and benefits, and why they chose to balance and not to bandwagon.

### **ASEAN States' Cooperation in AFTA: Bandwagoning Cooperation?**

If the formation of AFTA does not reflect balancing driven cooperation, for Neorealists, a bandwagoning cooperation is the only remaining explanation.

While ASEAN5 states shared 4.9% of global trade in 1992, the EU states and NAFTA states shared 43.1% and 18.1% of global trade, respectively (IMF DOTS 1992, author's calculation). The imbalanced trade shares put pressure on weaker states. The formation of AFTA conforms to the liberal assumption that great economic powers imitate the pattern of regional trade integration that the EU and the US set up. As EU states deepened their economic integration and many states pushed PTAs, ASEAN states followed them by accelerating, widening and deepening AFTA. The AFTA rules also conformed to the General Agreement for Tariffs and Trade (GATT). AFTA covers "substantially all the trade" by including more than 92% products into Inclusion List; did not set "higher or more restrictive" tariffs than the MFN to non-ASEAN states; and scheduled tariff reduction "within a reasonable length of time" (GATT 1947, Art.XXIV, pr.5 & 8). ASEAN states' regional liberalization projects are categorized as a WTO-plus liberalization, which covers other economic sectors. ASEAN states signed an ASEAN Framework Agreement on Services in 1995, launched an ASEAN Industrial Cooperation scheme in April 1996, and concluded a Framework Agreement on the ASEAN Investment Area in 1998.

Neorealism could argue that AFTA conforms to HST's regime argument; hegemonic powers construct a liberal regime to shape weaker states' interests and guarantee their commitment. The US and the EU promote liberal regimes through regional trade integration and the establishment of the WTO. In this way, the formation of AFTA seems to represent ASEAN states' bandwagoning—even though there was no longer a communist alliance to be balanced against. They adopted, reproduced and strengthened the liberal regime which hegemonic powers promoted.

Nevertheless, this bandwagoning argument is not without problems. ASEAN states' decision to build AFTA reflects competitive regionalism rather than emulative regionalism (Solís and Katada 2009: 12-22). Even though ASEAN states embraced a liberal trade regime, they did not formally join into the existing coalitions. As the US and the EU established their own liberal coalitions at regional level, ASEAN states followed by setting up a competitive liberal group *vis-à-vis* them. This competitive move weakens the supposed bandwagoning coalition. It also implies unrealistically that ASEAN states, despite their weaker power and trade dependence, have bargaining positions against the US and EU.

**Table 3.** ASEAN5 States' Shares in ASEAN5 (%) and Their GDP Per capita (US\$), 1992

	Indonesia	Malaysia	Philippines	Singapore	Thailand
<b>Population</b>	55.7	5.8	19.9	1.0	17.7
<b>Surface Area</b>	62.5	10.8	9.8	0.0	16.8
<b>GDP</b>	33.7	14.3	12.8	12.1	27.0
<b>GDP, in terms of PPP</b>	40.4	13.4	13.9	7.7	24.6
<b>Foreign trades</b>	16.3	21.5	6.5	36.2	19.5
<b>Intra-ASEAN5 trades</b>	10.0	28.9	2.6	45.3	13.1
<b>FDI, net inflows</b>	15.4	45.1	2.0	19.2	18.4
<b>Military personnel</b>	33.0	14.9	12.5	6.5	33.0
<b>Military expenditure<sup>b</sup></b>	24.0	17.5	6.7	23.0	28.8
<b>GDP per capita</b>	760	3,099	810	15,388	1,915

Sources: For population, area, GDP, FDI dan military data, see the World Bank's World dataBank; for trade data, see IMF Directions of Trades.

ASEAN itself cannot be considered as a hegemonic coalition. Contrary to the HST which argues about the necessity of hegemonic power in international cooperation (Mattli 1999: 42-43; Gilpin 2001: 94), there was not a hegemon among ASEAN states. Despite Indonesia's leading position in terms of population, surface area, and GDP, Indonesia lagged behind some other ASEAN states in terms of trades, FDI inflows, and level of development. In 1992, Indonesia's GDP per capita was the smallest (US\$760) compared with other ASEAN5 states, and 20 times smaller than Singapore's (US\$15,388). Even though Singapore conducted significant trade with Malaysia and Indonesia, it left Indonesia's global and intra-regional trade far behind. Thailand's military power was also relatively equal to Indonesia's. ASEAN states' unequal level of development and relatively equal size also made trade openness among the states likely to be low to moderate (Krasner 1976: 323). Contrary to Neorealists arguments, even without a hegemon, ASEAN states' regional cooperation in AFTA continued and was even strengthened gradually.

### **ASEAN States' Gradual and Selective Liberal Trade Cooperation: a Rational Move?**

ASEAN states agreed to have gradual and selective liberal trade cooperation in AFTA. AFTA included 92% items intra-regionally traded between ASEAN states excluding only sensitive and unprocessed agricultural products. The

CEPT Product Lists categorized a total of 44,991 tariff lines of six ASEAN states into Inclusion List (IL), Temporary Exclusion List (TEL), and General Exception List (GEL). The IL and TEL covered 91.4% and 7.38%, respectively. While the tariff rates of products in IL were reduced to 0%-5% within the reduction period, products in TEL only enjoyed the concession until being included into IL. At the time of agreement, Indonesia temporarily excluded the most with 1,654 tariff lines and the least Singapore with no products in TEL. The TEL was reviewed in 2000 and it included in the final Exclusion List. Based on the protocol of TEL agreed to in 2000, states were allowed to deal with their domestic problems by temporarily delaying the transfer of TEL products into IL or suspending the concession they give to the transferred products (ASEAN Secretariat, 2000). The GEL covered 1.22% of the total tariff lines in 1993 and permanently excluded products for various reasons such as national security, human protection, health, and so forth. An AEM meeting in 1995 made an amendment and set a new Sensitive List (SL). This list comprised 287 tariff lines of sensitive unprocessed agricultural goods, which were under special liberalization measure (ASEAN Secretariat 1995, 1996). Even in 2005, ASEAN states still maintained various trade measures that inhibited trade flows among them (Lloyd 2007: 23).

Based on the 1992 CEPT-AFTA, the initial existing tariff rates were to be reduced to 20% within the first phase of 5 to 8 years beginning 1 January 1993, and to 0-5% within the second phase of 7 years. Goods with existing tariff rates of 20% or below automatically enjoyed the concessions and were also to be reduced gradually. ASEAN states also gradually eliminated quantitative restrictions and other non-tariff barriers within 5 years after goods enjoyed concessions (ASEAN Secretariat 1992).

As argued above, Neorealism does not clarify what cooperation design states should undertake. Waltz (1979: 79) argues that a structural theory “must leave aside... the characteristics of units, their behavior, and their interactions” and “how units relate with one another”. However, although Waltz (1979: 118; see also Mearsheimer 2009: 241) rejects the rationality assumption, considering the characteristics of state interactions is definitely necessary to assess whether the available policy choices instrumentally promote state interests and represent the most optimum strategic policy (Mearsheimer 2006: 112, 2009: 246).

In this way, Neorealists would argue that ASEAN states’ mutual trade liberalization should be considered as a product of states’ instrumentally rational calculation. They consider regional trade liberalization as a rational option, while deepening protectionism or creating a communist bloc is less beneficial or even counterproductive. AFTA offset potential trade and FDI diversions caused by the establishment of the EU and NAFTA and the rise of China, and increased intra-ASEAN trades (Ravenhill 1995: 854; Bowles &



MacLean 1996: 336; Chia 1998: 218). Lower trade barriers indirectly fostered the ASEAN region as a production base and subsequently attracted investment (Ethier 1998: 1150, 1156-1159; Bowles & MacLean 1996: 332-337; Athukorala & Menon 1996: 87-90). AFTA was also to “enhance the competitiveness of the [ASEAN] region for production through tariff reduction and elimination of NTBs” (*ASEAN Economic Into-View* 1994: 10, as cited in Chirathivat 1996: 36).

However, ASEAN states’ decision to use gradual and selective liberal trade cooperation-design cannot be definitively considered instrumentally rational. According to the Neoclassical economic theory of trade, partial liberalization decreases distorted import prices, but does not return them to free trade levels. It reduces the net negative welfare effects of protection, but does not eliminate them. Hence, full liberalization generates more immediate overall benefits than partial liberalization (Krugman & Obstfeld 2003: ch.2-5; Suranovic 2007: ch.2-5). A partial equilibrium analytical simulation conducted by Imada, Montes and Naya (1991: 17-21, Table 8) showed that a 50% tariff reduction would have grown intra-ASEAN trade by US\$538 million to account for a 0.99% import and a 1.48% export increase, whereas complete tariff elimination would have grown intra-ASEAN trade by US\$1.3 billion to account for a 2.31% import and a 3.40% export increase. These results are indications that full liberalization would have generated larger overall welfare improvements than partial liberalization.

If national “economic growth” is really one of states’ “basic state interests” (Krasner 1976: 317-8), it was instrumentally irrational for ASEAN states to take a gradual and selective liberalization approach when forming AFTA. This leaves the question of why ASEAN states did not choose the Pareto optimum option of full trade liberalization. This irrationality is indeed inconsistent with Neorealism’s assumption of states as instrumentally rational actors.

Arguing that such gradual and selective liberalization reflect the strategic trade policy of ASEAN states also confound Neorealism. Even though infant industry protection and gradual liberalization may result in greater and long-term benefits than full liberalization. Neoclassical economists criticize that such interventionist policies do not work as intended. Without having sufficient information, governments cannot accurately predict the response of industries and ensure the efficacy of protections. Without calculating the secondary effects of protections on other industries, the actual benefits may be smaller or even turn out to be negative. The failure of import substitution is one examples of this problem. There is also no guarantee that government policies will continue and make the protections efficacious as previously expected. The protections distort resource allocation and income distribution. In short, even though a strategic trade policy may alter the pattern of comparative advantage and could improve welfare in the long term, these criticisms suggest that it is in fact more costly because it requires complicated calculation, effective

management, and may also not be efficacious (Honda *et al.* 1994: 27-36, 74-6; Krugman & Obsfeld 2003: 261-2, 281-2; Suranovic 2007: ch.11).

Such theoretical dispute creates uncertainties which perplex states' instrumental calculation. It imposes a risk-uncertainty situation (Blyth 2002: 9) whether to (1) take an easy path by fully liberalizing trade barriers and having a larger probability of reaping the positive benefits of full liberalization, or to (2) take a difficult and risky path by developing infant industries and gradually and selectively liberalizing trade barriers that may, if successful, generate larger and long-term benefits. It can also entrap ASEAN states in a Knightian-uncertainty situation, within which states are unsure of what the best interests to pursue are and how to then pursue undefined interests (Blyth 2002: 31-32). ASEAN states faced two different specific interests or subgoals in relation to trade liberalization: (1) overall allocative efficiency and comparative advantage achieved immediately though fully liberalized trade barriers at the risk of deindustrialization, and (2) industrialization that could be realized through gradually and selectively liberalized trade barriers at the cost of immediate overall allocative efficiency. Without formulating specific interests, the choice will be a "shot in the dark" (Blyth 2002: 36). Instrumentally rational calculation does not solve this problem by providing states with a unique optimum choice.

Neorealism under-conceptualizes its conception of national interests, it consequently is unclear why ASEAN states agreed to have a gradual and selective liberal trade cooperation. Such cooperation design cannot be explained only by referring to nonoperational "basic states interests" (Krasner 1976: 317). As Gilpin (2001: 94, emphasis is original) admits, power is "a necessary but not a sufficient condition" for a liberal cooperation.

This consequently muddles Neorealists' explanation of AFTA. It is not clear whether ASEAN states were bandwagoning with or balancing major economic powers. They bandwagon with global economic powers by adopting a liberal regime, but balance them by establishing a competitive liberal group. What actions of ASEAN states to deal with external threats is not clear at all in Neorealist perspective. The Neorealist explanation, which merely relies on power distribution as its independent variable, is inadequate to understand why ASEAN states formed AFTA and why ASEAN states chose to take a gradual and selective liberalization approach in AFTA.

### **Bringing State-Regime Back In**

The inadequacy of Neorealism does not necessarily falsify the independent effect of power distribution on state interaction, as power is a necessary condition for state action. The failure of Neorealism in explaining ASEAN states' cooperation in AFTA indicates that power distribution and power struggle are not the only things that affect international interactions. Accepting

the significance of other variables in affecting state interactions does not necessarily mean that, as Mearsheimer (1995: 86) says, "everything matters". On the other hand, doggedly arguing that power distribution is the sole independent variable in explaining state interaction is an over-simplification which lacks explanatory power for significant aspects of reality.

State's regimes and interests, also determine state cooperation. Both clarify "how" power is utilized in state interaction, what interactions are made, and what cooperation design is established. However, rather than being taken as given, state interests are defined according to "sets of implicit or explicit principles, norms [and] rules" (Krasner 1983: 2) which states institutionalize in regimes. Regimes are not treated as an intervening or residual factor (Blyth 1997: 230), but as independently affecting state action. They set a corridor of actions and determine which interests and actions are normatively legitimate and illegitimate. Even though states have the capabilities to act illegitimately, states are disposed to avoid such actions due to its illegitimacy. Since power and interests are value dependent (Lukes 2005: 30; Rosenau 1968: 36; George and Keohane 1980: 217, 220, 224; Wendt 1999: 398), states' instrumental rationality is always based on value-rationality (Weber 1978: 24). Based on their regimes, states can specify their "nonoperational" national interests.

Nevertheless, unlike Waltz' (1979: 79) claim, state-regime identity does not merely represent "the characteristics of units" irrelevant to structural analysis. Like state power, state-regimes are also distributed at structural level. While states are distributed vertically according to their powers, they are distributed horizontally according to their state-regime typicalities. Interactions between states do not only reflect power distribution, but also state-regimes distributions.

International system is thus a place for struggle over regime types and a struggle over power. While different types of state-regimes may create horizontal conflicts as well as vertical conflicts, typical state-regimes may only create vertical conflicts. For states with the same type of state-regime, vertical conflicts represent their self-orientation and competition for a top position. Since power is "a capacity" which enable state to act (Lukes 2005: 12, 60), becoming the most powerful allows the state have the highest probability of manifesting its state-regimes internationally.

State-regime typicalities represent the extension of state identity across state boundaries. States thus share not only state-regime identity, but also interests. These state-regime and interest typicalities are the permissive factors for state cooperation, and even integration. State-regime typicalities reduce the probability of regime struggle and consequently, since power is utilized to implement state-regimes, reduce the likelihood of power struggles. The more similar their regimes, the less likely regime and power struggles are in interactions between states.

In this framework, the formation of AFTA was permissively allowed because of the similarity of the export-oriented industrialization regime which all ASEAN states started to share in the latter half of 1980s. Even though this export-oriented industrialization regime did not represent a regime supportive of free market economies and derived from strategic development and trade, it shifted some ASEAN states' disposition from trade protection to trade liberalization. ASEAN states, particularly Indonesia and Philippines, unilaterally liberalized their economies, including their trade (Chintayarangan, Thongpakdee, and Nakornchai 1992: 356-371). This regime gradually replaced the import-substitution industrialization regime adopted by some ASEAN states prior to 1990s and had impeded the prior establishment of wider and deeper liberal trade cooperation in AFTA (Pangestu, Soesastro, and Ahmad 1992: 335). Based on the regimes' value-rationality, ASEAN states specified their nonoperational basic state interest to be economic growth and redefined their trade interests to match in the 1990s. This explains why ASEAN states generally changed their attitudes toward trade liberalization in the 1990s and agreed to establish AFTA in 1992.

ASEAN states more or less shared the "principles, norms and rules" of market economy and trade liberalization with the EU and US, and even China. They did not engage in regime struggle against those states. ASEAN states were merely involved in a power struggle. In this way, ASEAN states' cooperation in AFTA cannot simply be interpreted as balancing or bandwagoning. As ASEAN states are much weaker than the US, EU, and China, the formation of AFTA reflects ASEAN states' defensive strategy (Ravenhill 2001: 15, Mattli 1999: 59-64). ASEAN states could not balance those greater powers, and instead compensated for the potential negative effects of the EU and NAFTA creation and China's rise, by enhancing the competitiveness of ASEAN (*ASEAN Economic Into-View* 1994: 10, as cited in Chirathivat 1996: 36). This interpretation is also consistent with some other facts, such as the inclusion of China in Mahathir's EAEG proposal and China-ASEAN PTA agreement in 2002. This also explains why ASEAN states followed the EU and NAFTA by adopting a more liberal trade without necessarily joining those two big regional trade institutions.

The general regime of strategic development and trade defined the legitimate set of actions. ASEAN states could have taken and shielded them from Knightian uncertainty and risk-uncertainty. Based on their common regime, ASEAN states consider the full trade liberalization choice illegitimate. Although full trade liberalization may have instrumentally lead to overall welfare improvement, it would have disrupted the long-term industrial development and severely threatened some ASEAN states's economies. Based on a general regime of strategic development and trade, ASEAN states preferred to take the difficult and risky path of gradual and selective trade

liberalization that may, if successful, generate larger long-term benefits. Rather than achieving overall allocative efficiency and comparative advantage at the risks of deindustrialization and other negative effects, ASEAN states preferred to gradually and selectively liberalizing trade barriers at the cost of overall allocative efficiency.

### **Conclusion**

Arguing for power as the sole independent variable for understanding the international system, forces Neorealism to inadequately analyze ASEAN states' cooperation in AFTA and their gradual and selective liberal trade cooperation. The formation of AFTA does not fit as either balancing and bandwagoning cooperation. ASEAN states were not internally cohesive and had no hegemon among them. ASEAN states followed the US and EU by adopting a more liberal trade regimes, but competitively set their own regional group. They were also too dependent and too weak to cooperatively balance the EU and US. ASEAN states did not consistently compete with China, and even invited it to cooperate in building an East Asian-wide regional group. The cooperation did not show a clear cut of relative gain distribution. The deepening of AFTA proceeded through the 1990s and beyond despite the fact that the potential external threats failed to actualize, which Neorealism's thesis of negative interested cooperation is unable to explain.

The under-conceptualization of state interests precludes Neorealism from explaining ASEAN states cooperation design. Arguing that states are interested in improving aggregate national income and sustaining economic growth does not adequately clarify why ASEAN states agreed to gradual and selective liberal trade cooperation, and not to choose the pursue the more beneficial full liberalization. Moreover, without a clear description of states' subgoals, states appear to be trapped in risk-uncertainty and Knightian-uncertainty situations.

Including ASEAN states' economic and trade regimes as variables not only explains why ASEAN states agreed to have a much more liberal cooperation in AFTA in 1990s, but also clarifies why they agreed to gradual and selective liberalization. The formation of a free trade area was only allowed by the export-oriented industrialization regimes which ASEAN states started to share in the latter half of 1980s. ASEAN states' strategic development and trade regimes prescribed such cooperation design and consider full liberalization option to be an illegitimate choice. Gradual and selective liberalization meet the value-rationality and instrumental-rationality test of that strategic development and trade regime.

Rather than doggedly arguing for power as the sole independent variable, understanding a causal nexus of state-regimes, interests and power provides a better explanation of state cooperation and cooperation design. ●

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