

Region Construction: The Dynamics of Cross-Level Networking in East Asia

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Abstract

This article seeks to explore the dynamics of region construction in East Asia, through both formal regional institutions and informal regionalization processes. Regionalism, particularly in Southeast and East Asia, is often explained as a formal regionalist project. ASEAN serves as a prime example but many other intra-regional processes, such as the ASEAN plus Three, the East Asia Summit and the ASEAN Regional Forum, are also cases in point. These processes, representing state actors, do not necessarily work in autonomous spaces and discrete spheres, but rather interact with non-state entities through multi-level networking. This networking provides opportunities for the development of either 'positive' or 'negative' regionalism. As such, this article looks at the interplay of cross-level actor-networks and how they affect the direction and scope of regionalization in East Asia. It aims to show the dynamic interplay of multiple regional actors that can consciously or unconsciously contribute to the strengthening or weakening of region construction.

Keywords: ASEAN, East Asian regionalism, actor-networks, informal regionalization, regional cooperation

Introduction

Regionalism is often explained as a formal regionalist project led by a group of state actors who share certain common norms, values and goals. In Southeast Asia, the Association of Southeast Asian Nations (ASEAN) serves as a good example of a progressive regional cooperation structure, while various other frameworks such as the ASEAN plus Three (APT), the ASEAN Regional Forum (ARF) and the East Asia Summit (EAS) exist at the larger East Asia level.¹

Although these projects are intergovernmental and therefore mainly led by state actors, there is a dynamic interaction between state and non-state actors that may well determine the depth and speed of regional activities in fostering closer integration. In this article, the various levels of state and non-state structures are transcended in order to provide a

fuller explanation of the region's dynamics. This is based on the premise that states and societies do not act in autonomous spaces and discrete spheres but are in constant interaction through social networks, where each can influence the others, both constructively and unsupportively. In other words, regionalism and regionalization can be mutually reinforcing (positive) but also contradictory (negative). Positive regionalism contributes to region construction while negative regionalism could lead to deconstruction.

In order to analyse the interactive dynamics of regionalism and regionalization,² the 'formal' (political) region, as represented by state-led initiatives, and the 'informal' (economic) region, involving the role of non-state actors in region building, are carefully considered. The purpose of connecting the formal sphere to the informal domain is to enable the various issues pertaining to region construction and their effects on the level of 'region-ness' to be identified and observed (Hettne 1999).

This article looks at the interplay of cross-level actor-networks and how they affect the direction and scope of East Asian regionalism. Following constructivist thinking, it assumes that a region cannot be taken as *a priori* but is socially constructed and would therefore involve intersubjective interactions and understandings among regional actors (Wendt 1992; Wendt 1999). The article is divided into four sections. The first section provides an explanation of cross-level actor-networks. The second section discusses and analyses the policies of political actors and the industrial preferences of the business sector. The evolving structure of free trade agreements in the region and the interests of corporate/firm actors are then examined in the third section, and the final section deliberates the role of regional epistemic communities in influencing the formation of policies pertaining to regionalist projects.

Cross-level Actor-networks

The process of region building involves multiple levels of actors coming together in networks, anchored in various historical settings. In East Asia, states, markets and epistemic groups constitute the three levels of government, business and academia that engage in activities of regional content. Business firms that are transnational or multinational in nature have regional concerns and often lobby governments through their trade associations to affect more favourable economic policies. Epistemic communities consist of close working relationships between scholars or researchers and policymakers (see Haas 1992). They are often referred to

as 'track 1.5' or more commonly as 'track 2', in contrast to governments representing the official diplomatic channel, which is 'track 1'. The close relationship between track 1 and track 2 is reflected in the work of track 2 practitioners that involves policy recommendations in specific areas, such as economy and security. It is not uncommon to find retired or ex-government officials taking up positions in universities and research institutions and becoming part of the track 2 setting.

External actors occupy an additional level where they may influence regional efforts directly or indirectly, such as the role of the United States in the European Union's history, and the US, international financial institutions and EU in the history of the APT. Non-governmental organizations (NGOs), private citizens and even terrorist groups form further levels. While civic groups play important roles in more advanced forms of regionalism like the EU, their role in East Asia is still limited due to the weak development of civil societies. For the purpose of this study, the discussion focuses on three core actors – state, business and epistemic communities.

Industrial Preferences and ASEAN Policy

ASEAN was originally established as a security organization, where members sought to work together to build mutual trust and to calm regional discontent. Prior to the early 1990s, when the ASEAN Free Trade Area (AFTA) and the Common Effective Preferential Tariff (CEPT) were proposed and economic integration was taken more seriously, economic cooperation between member countries was fairly minimal. Although member countries did propose and form a number of cooperative schemes, such as the Preferential Trade Arrangement (PTA) and the ASEAN Industrial Projects (AIPs) in 1977, ASEAN Industrial Complementarity (AIC) in 1981, ASEAN Industrial Joint Venture (AIJV) in 1983 and the Brand-to-Brand Complementarity (BBC) in 1988, they all produced poor results with the exception of the BBC.

These schemes were designed to increase intra-trade and utilize the PTA. The problem with the PTA was that it included a long list of products that had little effect on the nature of regional trade. Not only did it contain items like snowploughs and nuclear power plants that were insignificant to trade, it also covered less than one per cent of intra-trade out of almost 16,000 products listed by 1990 (Narine 2002: 28). Projects under the AIPs, AIC and AIJV either failed and became inconsequential or yielded only partial effects due to factors ranging from lack of commit-

ment from some member states and/or private sectors, to difficulties in approving and implementing them (Narine 2002: 28-29; Tongzon 1998: 58-64). As then Malaysian Finance Minister Anwar Ibrahim mentioned in a 1992 speech: 'various mechanisms including preferential trading arrangements and the ASEAN industrial complementation scheme have not been successful... Tariff concessions on thousands of items were made but this did not contribute significantly to the growth in intra-regional trade' (Anwar 1992). Obviously, there was still a lack of regional economic awareness as the organization continued to function largely for security purposes. National interest, namely prioritizing national projects over regional ones, and outward-oriented economic systems such as the 'look east' policies of Malaysia and Singapore buttressed by massive foreign direct investment (FDI) inflow from outside the region beginning in the mid-1980s had, one way or another, kept intra-ASEAN trade small. Intra-trade as a percentage of total exports in 1980 was 17.4 per cent and by 1990 it had only managed a 1.6 per cent increase (UNCTAD 2004: 34-35).

Japanese FDI inflow into Southeast Asia, particularly since mid-1980s due to the effect of *endaka* (high value Yen), contributed greatly to the industrialization process of ASEAN countries (especially the ASEAN-5). More liberalized FDI regime policies adopted or enacted by ASEAN countries after the 1985 recession provided incentives to foreign firms and investors, although certain conditions or restrictions were applied. Malaysia, for example, allowed majority foreign ownership in manufacturing under the 1986 Promotion of Investments Act if more than half of production was exported. The Philippines's 1987 Omnibus Investment Code and the 1991 Foreign Investment Act liberalized the FDI regime while imposing certain requirements (see Nesadurai 2003: 101-105). Such liberalization efforts, though imperfect, enabled foreign investors to enter or further consolidate their presence in the region.

In the automotive industry, for example, Japanese automakers had established their presence as early as the 1960s by setting up manufacturing or assembly plants in the ASEAN-4 as part of the fulfilment of local content regulations. Their activities were further expanded in the 1980s. For instance, Mitsubishi's first assembly plant was established in the Philippines in 1963 and later expanded into Malaysia (joint venture with Proton in 1982), Indonesia (1985) and Thailand (joint venture, 1987).³ Japanese automakers' early adventure into the ASEAN region explains their substantial market share in the region. However, their ability to do so by achieving economies of scale was related to an important ASEAN

policy, namely the BBC scheme. The scheme illustrates the cross-level interaction between state and business actors.

The Brand-to-Brand Complementation and ASEAN Industrial Cooperation Schemes

Prior to the Brand-to-Brand Complementation (BBC), the ASEAN Automotive Federation (AAF) had in 1976 proposed projects involving the production and distribution of automotive parts in Southeast Asia (Narine 2002: 28). When the ASEAN Industrial Complementation was established, the plan was to produce an 'ASEAN car' by complementing parts among member states. It was meant to be a government-led initiative whereby the ASEAN governments would negotiate amongst themselves to decide which processes should be placed in which country. Confirming the problem of relative gain, this approach failed miserably due to conflicts over who would receive higher value-added processes (Akrasanee and Stifel 1993). The existence and dominance of foreign automakers further complicated matters and became a source of conflict. More notably, Japanese automakers were not enthusiastic at all. There was trepidation that local production of auto parts could 'cut into the profits the Japanese firms derived from the export of CKD [Complete Knock Down] kits' (Machado 1992: 190).

However, the situation began to change in the second half of the 1980s. Rapid appreciation of the Yen naturally increased the costs of imported CKD kits. At the same time, ASEAN was becoming more assertive in demanding accelerated localization. Mitsubishi was the first automaker to broach the idea of a BBC with ASEAN (through the Committee on Industry, Minerals and Energy, or COIME) in 1987.⁴ The BBC would allow Mitsubishi to further consolidate its operations in the ASEAN-4 with the complementary production of parts and components. To produce components cheaply, they had to be made in sufficient volumes and, considering the small domestic market size of individual countries, the BBC would be useful in achieving economies of scale and reducing costs through tariff reduction (a minimum of 50 per cent margin of tariff preference). Moreover, local content accreditation was to be granted under the scheme, which would allow auto firms to export vehicles produced in ASEAN to Western markets under the Generalised System of Preference (GSP) quotas (Machado 1992: 190-191). Once established, Mitsubishi was the first to be granted approval in March 1989; other automakers later followed suit, Toyota in November 1989 and Nissan

in May 1990. Participation by various auto multinational corporations (MNCs) made the scheme relatively successful when compared to previous schemes.

The BBC was a reconstituted version of the AIC and thus exhibited similarities such as concern with the production and exchange of auto parts and components. One difference is that, unlike the AIC that required at least four member countries' participation, the BBC only required two.⁵ There were also other clear differences between the two. The AIC was meant to be a regionalist initiative by state actors aimed at increasing intra-trade through the production of a regional 'car' concept. The BBC, on the other hand, was a non-state initiative where the process of regionalization through brand complementation rested in the hands of business actors. Although the application for BBC still required approval from the participating countries, the organization and control of regional production rested squarely with individual firms. Thus, the BBC serves to facilitate economic regionalization.

While automakers from Japan weren't the only ones to utilize the scheme, their early participation benefited them in reducing costs and consolidating operations ahead of their rivals. Therefore, it was unwelcome news when ASEAN decided to scrap the BBC plan in April 1995 on the grounds that the Common Effective Preferential Tariff (CEPT) would provide sufficient incentives for all investors (Yoshimatsu 2002: 131).⁶ They lobbied their own government and through the Japan Automobile Manufacturers Association (JAMA), opposed the scrapping of the scheme (Yoshimatsu 2002: 131-132). At the 27th ASEAN Economic Ministers (AEM) meeting in September 1995, it was agreed that the BBC scheme would continue to function until a new scheme was approved. The BBC and AIJV were replaced by the ASEAN Industrial Cooperation (AICO) scheme when it came into effect in November 1996.

Unlike the BBC, AICO is not limited to auto assemblers but open to any manufacturing firms that satisfies the agreement's criteria - to be operating in an ASEAN country, having a minimum 30 per cent national equity, and undertaking resource sharing, industrial complementation or industrial cooperation activities.⁷ Furthermore, it is based on the CEPT, where approved firms enjoy immediate preferential tariff rates of zero to five per cent ahead of the final CEPT rate. This bode well for foreign manufacturers eager to consolidate their ASEAN operations. However, the initial phase of the scheme was bogged down by problems in processing applications and other bureaucratic complexities

due to the different stances taken by participating countries. Some, like Thailand and the Philippines, were liberal while others, like Indonesia, were more cautious; since the scheme required approval from at least two participating members, the approval rate was low. Only 14 approvals were made over the first two years from 1996 to 1998 (ASEAN Secretariat 1998a).

The 30 per cent national equity clause also became a problem for foreign firms using the AICO scheme. As Yoshimatsu noted,

[a]lthough overall objectives of the AICO were to promote industrial complementation and to stimulate both intra-regional trade and inward investment, the ASEAN states sought to utilise the scheme as a means to promote the interest of their local enterprises and economies, and imposed regulations for this objective. (2002: 133)

This naturally impeded the participation of foreign MNCs, which had established themselves in the ASEAN region to take advantage of local governments' investment incentives that allowed for high foreign ownership shares. Since foreign firms' participation is central to the AICO, it was agreed that the national equity requirement could be waived, providing that the proposing firm meets other criteria imposed by the participating country. The criteria for waiver, which were to be decided by individual countries, and the lack of uniformity, no doubt complicated matters and slowed the application process.

The onslaught of the Asian financial crisis gave recognition to the need to accelerate the AICO as part of the regional economic integration process. Several changes were introduced, such as the relaxation of the eligibility criteria to allow for pre-investment AICO approval that would grant companies planning to invest in the region the right to apply for AICO status and unconditional waiver of the 30 per cent national equity requirement. These changes removed critical barriers and served as incentives to foreign firms' participation. Furthermore, intra-firm AICO arrangement has been permitted since 1999 in response to private sector demands. In 2004, an amendment was made to the AICO agreement to set the tariff rate at zero per cent for six countries – Brunei, Cambodia, Indonesia, Laos, Malaysia and Singapore – and tariff bands for the remaining four at zero to five per cent (Myanmar and Vietnam), zero to one per cent (the Philippines) and zero to three per cent (Thailand). The main objective was to maintain the relevance of AICO ahead of the CEPT. This is in light of the 2003 amendment to the CEPT agreement that set the final CEPT rate of 0 per cent by 2010 for the original six members and 2015 for the Indochinese four.

Deregulation brought about by the crisis and greater awareness among member governments, coupled with the lobbying activities of the private sector through the Working Group on Industrial Cooperation (WGIC) and other informal channels, have led to an increase in applications and subsequent approvals.⁸ Japanese auto firms such as Toyota, Honda, Nissan, Mitsubishi and Denso made up the majority of approved applicants. The AICO generated greater attention in the automobile industry than the electronics sector (about four per cent). One reason for the lack of enthusiasm in the latter, according to Yoshimatsu (2002: 143), was the favourable policies of low import tariffs adopted by local governments and the perception that the CEPT would cover most electronic products – compared with the high tariffs endured by foreign auto firms because of the need for local governments to safeguard their national industries. Furthermore, the automotive sector is highly competitive and requires many more components for production than electronics. The manufacturing of a printer, for example, may require about 600 parts, but a car could require up to 25,000 parts. The outcome has been an increased concentration of automotive part exchanges and procurement within the ASEAN region, with Thailand turning into the 'Detroit of the East'.

The AICO scheme captures the process of cross-level actor interaction by demonstrating the elements of reinforcement and contradiction between state-led regionalism and informal economic regionalization. The ASEAN governments' decision to insert the 30 per cent equity clause and open the scheme to all manufacturing sectors reflected the contention between protecting national interests through the imposition of regulations and the need to enhance economic regionalization through the participation of foreign firms. In addition, perception differences existed between the intention of state actors to move beyond the BBC and involve other manufacturing sectors, and the utilization of AICO by mainly automotive firm actors that viewed it as a continued extension of the previous BBC. The unconditional waiver of the national equity requirement helped bridge the differences between formal regionalism and informal regionalization. The reinforcement element, therefore, lies in the former playing a facilitation role rather than affecting control of the latter.

The ASEAN Investment Area Plan

The ASEAN Investment Area (AIA) forms yet another regionalist initiative that is in close proximity to the AFTA and AICO. As the latter two

aim to create a business environment conducive to firms' activities, the former seeks to complement these by eliminating intra-regional barriers to investment and streamlining investment rules to increase the flow of investment from both ASEAN and non-ASEAN sources. It comes at a time when ASEAN faces stiff competition for foreign direct investment from neighbouring countries, particularly China, and the effects of the Asian crisis. The idea was to generate a favourable regional investment climate and to do so naturally requires cooperation and coordination between member countries in promoting the region as a lucrative investment area.

The agreement to set up an AIA was made at the 5th ASEAN Summit in Bangkok in 1995. It was then deliberated at the meetings of the ASEAN Heads of Investment Agencies (AHIA) for several years before a Framework Agreement on the AIA was agreed upon in October 1998. The framework stipulates that member economies would immediately open the manufacturing sector to ASEAN investors by granting them national treatment but would allow exemptions through a Temporary Exclusion List (TEL) and a Sensitive List (SL).⁹ The Framework also establishes a ministerial-level AIA Council to oversee the implementation and review of the agreement with support from the AHIA. The 1998 AIA agreement is a step up from the 1987 Agreement for the Promotion and Protection of Investments where the focus was solely on investment by ASEAN nationals.

Due to an investment slump caused by the Asian crisis, short-term measures were adopted at the 1998 ASEAN Summit in Hanoi as part of a collective effort to boost investment inflow. Six areas of privileges, covering everything from fiscal incentives to employment, were extended to all investors in the manufacturing sector for a period from January 1999 to December 2000. The two most significant privileges were the 100 per cent foreign equity ownership and domestic market access.¹⁰ Based on the decision of the first AIA Council meeting in March 1999 to widen the AIA coverage, a new protocol was established in 2001 to cover agriculture, fisheries, forestry and mining and quarrying sectors. The AIA Council at their fourth meeting agreed to accelerate full AIA realisation for foreign investors from 2020 to 2010.¹¹ This meant that ASEAN and non-ASEAN investors would enjoy the full benefits of the AIA simultaneously in 2010 for all sectors covered by the AIA, except manufacturing where ASEAN investors maintain the upper hand.¹²

The AIA's development provides an interesting picture of the relationship between formal and informal processes of regionalism. Unlike the

BBC and AICO, which involved active private sector participation, the AIA is mainly a government initiative with implications for the private sector. Since one of the main purposes of the AIA is to increase investment inflow and intra-regional trade, thus aimed at prioritizing ASEAN stakeholders over external investors, the initial plan appeared to run contrary to the industrialization structure of member countries that are export-led and highly dependent on foreign sources of investment for economic recovery and growth. The AIA had not been beneficial due to the ASEAN-foreign distinction and should instead open up by giving national treatment to all investors, irrespective of nationality if the intention is to increase investment flow in the region.¹³ The reason for the distinction, however, is to protect the interest of local industries.

Helen Nesadurai, on the other hand, argues that state actors have the intention of using the AIA as a 'developmental tool' to 'nurture domestic capital' and catalyse the formation of ASEAN-based MNCs within the grace period before fully opening up to foreign capital (2003: 112-115). It was to be a two-pronged approach, with the AIA centring on ASEAN investors and AFTA (including AICO) attracting foreign investors. Unfortunately, the intention of state actors to use the AIA to nurture and develop ASEAN conglomerates has not been backed up by concrete plans. This is because the AIA was never meant to be a collective state-driven mission. Important initiatives, such as increasing the transparency of investment rules and policies, simplifying procedures for applications and approvals, eliminating restrictive investment measures like rules on licensing conditions and access to domestic finance, and procedures to open up industries and extend national treatment are to be undertaken unilaterally at the discretion of the individual countries, while collective efforts cover less important matters such as establishing databases on investment information and organizing investment seminars, fora and workshops for the business sector.

The AIA framework also made clear that 'the business sector has a larger role in the cooperation efforts in relation to investments and related activities in ASEAN' (ASEAN Secretariat 1998c: 4). Thus, even though there is a collective conscious desire among state actors to affect the regionalisation process in a particular way, the AIA agreement is ultimately designed to facilitate private sector activities. As Malaysia's former Prime Minister Abdullah Ahmad Badawi had emphasized at the 2004 ASEAN Business Investment Summit that:

[t]he governments can only create the enabling business environment but it is the private sector which should take the lead in translating them into

business opportunities... The governments will act as facilitators to minimise legal and procedural obstacles to enable more efficient movements of the factors of production. (Badawi 2004)

The rescheduling and subsequent removal of the ASEAN-foreign distinction in giving national treatment and domestic access reduces conflicting elements of state and non-state interests and signifies a change from negative to positive regionalism. Notably, the Asian crisis and the unsettling concerns of foreign investors contributed to the realisation of the need for foreign investments and the ensuing policy change. Investment data had clearly shown that only 12.2 per cent of foreign direct investments to ASEAN-10 was intra-ASEAN in 1998 and that figure had dropped to 10.2 per cent in 2003, while the latest 2013 data showed a slight increase, but still low at 17.4 per cent (ASEAN Secretariat 2004; ASEAN Secretariat 2014).¹⁴ Foreign investors have continued to play a major role in the region's economic development.

In conclusion, the BBC, AICO and AIA initiatives as part of the AFTA-plus programmes are similar to the CEPT, which aims to liberalize trade and investment policies and facilitate economic regionalization. They are not so much aimed at promoting intra-trade flow as enhancing the region's competitiveness and thus its attractiveness in luring foreign investments (Reyes 2005).¹⁵ These initiatives are part of the regionalist project of state actors intended to achieve the objective of creating a single production base and an integrated consumer market by the end of 2015. There is thus a mutual reinforcement between ASEAN's goal of creating an open market and the consolidation of firms' activities into a complex web of regional production networks, as well as the embedding of the region into the wider global production chain. Contradictions between state notions of regionalism and firm interest of regionalization have not been injurious to region construction with member states acknowledging their roles as facilitators. However, this does not exempt the imposition of certain stopgap measures should the forces of globalization overwhelms national considerations.

Free Trade Agreement Policy and Business Interests

Free trade agreement (FTA) proliferation, which once sparked debates on its virtue with governments taking a precautious approach, has become such a common phenomenon that there is now less debate about the pros and cons of FTAs among governments than about how fast they are concluded and put into force. There is a sense of urgency,

as if state actors are engaged in a competitive race to see who will garner the most number of FTAs. Calling them 'do-it-quick' agreements, the late Nordin Sopiee pointed out that states are wrapping up bilateral agreements in as little as two or three years (2004: 29). Some, like the Thailand-Australia FTA, only took a year to conclude.

Certain ASEAN states, like Malaysia and Thailand, were strong proponents of AFTA but began to change their policy stances in favour of bilateral trade agreements due to domestic and global changes generally and the fear of being left out by Singapore's unilateral decision to pursue bilateralism in particular (Sopiee 2004: 30). This shift in approach soon saw other member states, such as Brunei, Philippines and Indonesia, joining the race. Although FTA negotiations mainly involve state actors, consultations with non-state actors are deemed important and necessary. The purpose of FTA is, after all, to facilitate trade, reduce transaction costs and augment business operations for firms. A survey of Japanese firms, mostly in the manufacturing sector, conducted by JETRO indeed found that companies in general are supportive of FTAs, with 69 per cent of those with overseas bases thinking that trade agreements will help to expand their business opportunities and increase sales or improve profits (Kajita 2004: 8).

In reality, however, FTAs affect economic sectors in various ways. Trade liberalization brings in new market players that could easily overwhelm unprepared domestic firms. Extensive planning and intensive coordination between the various governmental departments and agencies, and with various business organizations, interest groups, civic bodies and the general public are indispensable in order to maximise the net gain or to minimize the net loss associated with free trade. Such processes are undertaken to varying degrees in most developed nations but less so in developing countries. As Tommy Koh, the chief negotiator for the US-Singapore FTA (USSFTA), observed:

[W]hen you negotiate with the US, you have no choice but to negotiate not only with the administration but also with the United States Congress, US business and industry and the civil society... [a] top-down approach can work in Singapore but it cannot work in the US. Prime Minister Goh had the power to conclude an FTA with the US without having to consult Parliament, business and industry and the civil society. President Clinton did not have such power (2004: 10-11).

Koh's informed opinion resonates well for most ASEAN governments, whereby the negotiation process not only rests in the hands of trade negotiators alone, but is largely carried out without sufficient

input from the business and civil sectors. Even if feedback is solicited, it is often not pervasive, but limited to feedback from selected government-linked companies or certain leading sectors of the economy. The Board of Trade and the Federation of Thai Industries that represent private business operators in Thailand have expressed their discontent over their government's FTA approach, which fails to include wider public participation in the negotiation process (Bangkok Post 2005).¹⁶ FTA Watch Group (2004),¹⁷ a Thai NGO, wrote an open letter in late 2004 alleging that the Thailand-Australia FTA (TAFTA) was not transparent and violated the Thai Constitution for not involving civic groups in the decision-making process and for failing to produce the official agreement in the Thai language. The TAFTA was also strongly protested by the local dairy producers association for fear of Australian dairy products flooding the Thai market (Na Thalang 2004).¹⁸ In the Philippines, the Stop the New Round (SNR) Coalition and the Fair Trade Alliance group have been vocal in their opposition to the government's pursuit of bilateral free trade agreements, arguing that they lack transparency and civic participation (Cahiles-Magkilat 2005).¹⁹ The on-going Trans-Pacific Partnership (TPP) negotiation process involving several ASEAN countries has likewise been harshly criticized for being opaque and keeping civic groups and small and medium enterprises (SMEs) in the dark (see Kelsey 2010).

The lack of manpower and resources, the need to maintain secrecy and being pressed for time to conclude trade pacts drastically reduces states' ability to engage in proper in-depth sectoral analysis and rigorous consultations with diverse layers of actors prior to and during the negotiation period. Not wanting to cease the opportunity to use FTAs as a means to generate economic growth, states are seen to take the approach of concluding an agreement first and solving whatever problems arise later. This would be acceptable if governments had the capacity and political will to anticipate in advance and put up safety nets, which has unfortunately been made considerably more difficult by the 'noodle bowl' effect and the absence of impact studies. Whether deliberate or otherwise, the lack of cross-actor level interaction may cost certain industrial players and professionals such as architects, lawyers, accountants and engineers to brace for impact as free competition and the crowding out of certain industries or sectors become inevitable (Siripunyawit 2005).²⁰ In the USSFTA, for example, Singapore's textile and garment industry will have to restructure by sourcing yarn from the US as part of the rules of origins, in order to capitalize on the FTA,

which would add costs compared with sourcing from China or other neighbouring countries.

The discrepancy between state-promoted bilateralism and economic regionalization based on division of labour and regional production networks demonstrates negative regionalism that needs to be ratified through region-wide FTA consolidation and overcoming the noodle-bowl effect. Economic bilateralism has the potential to create complications and affect region-building, since it is highly nationalistic and has the potential to go against the notion of natural economic zones or 'region states' (see Ohmae 1995). It stands to disrupt the distribution of manufacturing activities in the region, add cumbersome administrative costs to firms and alter the complimentary pattern of intra-regional trade due to uneven competition. Examples, such as the decision of the USSFTA to extend the juridical reach to include two Indonesian islands, Batam and Bintan, where parts and components are extensively sourced in order for Singapore to fulfil the local content rules and take advantage of the FTA, and the role of the Ministry of Economy, Trade and Industry of Japan to promote the concept of *accumulative origin* in the case of Japan and ASEAN, as part of the effort to create an East Asian business zone, highlight efforts to bridge the gap and foster positive regionalism (METI 2003: 302-305).

In conclusion, states' pursuit of bilateral trade pacts and the interests of corporate firms produce mixed effects. There are elements of reinforcement and contradiction between the formal and the informal spheres. It is reinforcing when state efforts to reduce tariffs and non-tariff barriers, improve investment criteria and enhance the movement of people contribute to smoother business operations. Here, FTA policy takes on the role of effective facilitator. However, it is contradictory when the policy runs counter to the structure and trend of integrated cross-border production and regional division of labour. If FTAs are designed to benefit trade, then it cannot be the sole responsibility of governments without the active participation of and input from those who stand to be affected. It is when FTAs serve political or strategic considerations, such as boosting security alliances or regulating the pace of market liberalization, that contradiction arises.

Epistemic Communities' Role and Policy Formation

Epistemic communities, or 'epistemic policy actors' as Cesar de Prado Yepes (2003) calls them, are professional groups largely made up of

academic experts who are closely involved in policy-related works within a certain issue or spatial area (see also Higgott 1994). Some take on global issues in areas such as security or economics and some, if not most, are involved in multiple issues. They are represented by various think tanks that form networks through interaction at the local, regional and international echelons. Interestingly, think tank networks are more noticeable at the regional than the international level. This is because regional networks have a smaller number of actors and the ability to engineer collective action and common identity makes them relatively efficient, compared with international networks that are more diffuse in nature (Stone 2000: 35-36).

In the East Asian context, two broad regional networks that are dedicated to regional developmental issues are the ASEAN Institutes of Strategic and International Studies (ASEAN-ISIS) and the Network of East Asian Think-Tanks (NEAT).²¹ The ASEAN-ISIS (hereafter referred to as AI) is a network made up of a limited group of institutions in ASEAN countries, which was officially launched in June 1988. Since then, the membership of AI has expanded along with the enlargement of ASEAN. At present, there are ten institutions, one from each member country.²² The AI is categorized as an NGO, with a secretariat based in the Centre for Strategic and International Studies (CSIS), Indonesia, which has been instrumental in establishing the AI. Although considered an NGO with independent research mechanisms, members of the AI have strong informal linkages with their respective governments. The linkage allows the AI to influence ASEAN's decision-making processes through policy recommendations. Much of the AI's agenda is centred on regional security issues and crisis prevention. Despite its name, its activities are not limited to the Southeast Asian region, but cover a wider area that spans the Asia Pacific, although its concerns are primarily focused on ASEAN's wellbeing.

In the 1980s, the AI worked to foster a common identity on regional security cooperation inspired by the successful process of the Conference for Security and Cooperation in Europe (CSCE). The initiation of an annual conference called the Asia-Pacific Roundtable (APR) in 1987 by ISIS Malaysia became the main vehicle for discussions and exchanges of views among policymakers, defence and intelligence experts, diplomats, research institute representatives and academics from some twenty countries in the Asia-Pacific region.²³ In the first APR conference, ISIS Malaysia had called for the establishment of a forum for multilateral security dialogue. It was considered to be a prerequisite to conflict re-

duction, arms control and confidence building measures, which were issues of concern.

As the momentum built up, AI issued a memorandum in 1991 containing a proposal on the establishment of an Asia Pacific Political Dialogue for the consideration of the 4th ASEAN Summit in Singapore in 1992 (ASEAN-ISIS 1991). The discourse would follow the annual ASEAN PMC meetings so that ASEAN could take the leading role in the proposed security dialogue.²⁴ This was agreed by the summit leaders, as they noted the need to intensify 'external dialogues in political and security matters by using the ASEAN Post Ministerial Conferences (PMC)' (ASEAN Secretariat 1992). The leaders' approval paved the way for a decision made at the 26th AMM in July 1993 to establish an 'ASEAN Regional Forum (ARF)' and acknowledged AI's relentless efforts in promoting a multilateral security framework (ASEAN Secretariat 1993). Thus, the first ARF took place in Bangkok in 1994 as part of the annual AMM-PMC and has since become an annual event. AI continues to play a role by feeding ideas to the ASEAN Senior Official Meeting (SOM) that was created to prepare and implement ARF decisions (Yepes 2003: 6).²⁵

Apart from its influential role in the ARF, AI has also made great efforts in lobbying Asian governments to accede to the TAC and in pushing for the realization of a Southeast Asian Nuclear Weapons Free Zone (SEANWFZ) which was finally launched at the 5th ASEAN Summit in 1995. The close relationship and significance of AI in cooperation with ASEAN has been clearly acknowledged in the joint communiqués of the AMM. Nevertheless, there have been issues and cases where AI has not been successful in pushing its agenda, such as Myanmar's accession, nuclear power states' participation in SEANWFZ, Indonesian forest fires and finding solutions to managing potential conflicts in the South China Sea (Ruland 2002).

While AI is often discussed in a political and security context in the literature, it also contributes on economic matters pertaining to ASEAN's economic integration agenda. In line with former Prime Minister Goh Chok Tong's proposal for an ASEAN Economic Community (AEC) at the 1992 ASEAN Summit, AI under the leadership of the late Hadi Soeastro came up with a proposal on the AEC, titled 'Towards an ASEAN Economic Community'. The AI paper recommended a 'common market minus' approach that calls for the harmonization of external tariffs and free mobility of labour and capital (ASEAN-ISIS 2003). Meanwhile, the Singapore-based Institute of Southeast Asian Studies (ISEAS), headed

by Denis Hew, made their own concept paper on the AEC that differs from AI's proposal in recommending an 'FTA-plus' approach consisting of a zero-tariff AFTA and some elements of a common market (free movement of capital and labour) (ISEAS 2003). ISEAS rightfully argues that a customs union requiring the setting up of common external tariffs would be extremely difficult and highly unlikely due to member countries' differing economic levels (Hew and Soesastro 2003; Hew and Sen 2004). The two papers, meant to provide ideas on the character of the AEC, were taken into consideration by the High Level Task Force (HLTF) on ASEAN Economic Integration.²⁶ According to Denis Hew, the ISEAS paper focuses on achieving an AEC by 2020 as the end goal, while the AI paper seeks to declare the AEC as a common market by 2020 – but with a big negative list that would eventually stretch beyond 2020 and is therefore considered more ambitious.²⁷ The HLTF's own recommendations, annexed to the Bali Concord II, did not clearly state their stance on the two papers but mentioned that the AEC should be the end goal of economic integration by 2020 (ASEAN Secretariat 2003a; see also ASEAN Secretariat 2003b). They appear to favour an incremental approach that builds on existing schemes as recommended by ISEAS.

However, ASEAN integration is not the only area of concern. ISIS Malaysia has been instrumental in promoting the East Asia Economic Caucus concept through various seminars and conferences. It is supportive of Malaysia's intention to host the APT Secretariat. In 2003, as a 'farewell gift' to Mahathir who was stepping down from office, ISIS Malaysia initiated the setting up of an East Asia Economic Centre to serve as a regional focal point for research on East Asia and became the organiser of the East Asia Congress (EAC), an annual conference that lasted from 2003 to 2009 and saw the gathering of participants from the public and private sectors, academic institutions and the media engaged in issues related to community building in the region. Apart from the EAC, AI collaborated with the Global Forum of Japan (GFJ) as co-sponsor of the annual Japan-ASEAN Dialogue that lasted from 2002 to 2009. It served as a platform for scholars and research institute representatives to hold talks on issues that affect ASEAN-Japan relations.

NEAT, on the other hand, was endorsed by the APT leaders and established in fulfilment of one of the short-term measures in the East Asia Study Group (EASG) report. As such, it is officially recognized, which allows it to function as an important platform for track 2 diplomacy in support of the APT regionalist project. Anchored at the East Asian Studies Centre, China Foreign Affairs University, NEAT is co-

ordinated by China. A country coordinator is assigned to the other 12 member countries responsible for the coordination of their respective domestic think tanks/institutions. NEAT serves a significant purpose not only by providing intellectual support to the APT framework, but to ultimately pool academic resources to ensure that the disparate think tanks and institutions that have until recently been focused on separate research agendas come together in unison and contemplate issues of concern in reaching a common regional objective. This helps to instill a sense of direction and belonging and reshape research focus from a narrow state interest to a wider regional perspective, inevitably giving rise to an epistemic community. Unnecessary overlap and duplication of work can be avoided through information exchanges and working groups, which should make policy research contributions (as a group effort) much more streamlined, credible and acceptable by the East Asian governments.

NEAT's founding and first annual conference was held in Beijing in September 2003. Attended by some 100 scholars, issues such as the establishment of a separate secretariat for the APT, the holding of the first EAS, the upgrading of financial cooperation and the structure of NEAT were discussed (NEAT 2003). At the second conference in Bangkok in August 2004, the participating members adopted a policy recommendations paper that was submitted to the APT Senior Official Meeting; it contained proposals on the idea of creating an East Asian Community (EAnC) based on the concept of the three pillars of the ASEAN Community, the setting up of EAFTA as a high priority, the doubling of the swap arrangements, the setting up of an expert group to study the feasibility of a regional monetary fund, the strengthening of institutionalization by convening the EAS and giving a greater role to the three Northeast Asian countries, and the offering of expertise to prepare a roadmap for the EAnC (NEAT 2004).

Since then, NEAT has stepped up cooperation with country coordinators gathered for a meeting in Kuala Lumpur in December 2004 and decided to set up six Working Groups (WGs) to carry out practical research.²⁸ The reports of the WGs were submitted for deliberations to the third conference held in Tokyo in August 2005. At the end of the conference session, a list of policy recommendations was adopted for submission to the APT Senior Official Meeting before the 9th APT Summit in December calling for the APT, among others, to continue to play a major role in region building, to institutionalize energy policy cooperation along the lines of the International Energy Agency and to

narrow the development gap between countries as a prerequisite to promoting regional identity (NEAT 2005).

The formation of NEAT has had an impact on the epistemic community in Japan, leading, for example, to the creation of the Council on East Asian Community (CEAC) in May 2004, eight months after the inauguration of NEAT. NEAT's significance in influencing the reshaping of Japan's epistemic community is reflected in the CEAC President Kenichi Ito's remarks:

It is true that until recently we, Japanese, tended to be more passive, if not indifferent, to the concept of an East Asian community... This passiveness of Japan's attitude toward the concept of an East Asian community until the recent past might have been explained partly by her reluctance to take an initiative in anything that might be associated with the memory of 'The Great East Asia Co-prosperity Sphere' which was advocated by Japan during the Second World War.

Having said that, however, I can say that such was the case only until yesterday. Today, joining with you in the 2nd Conference of NEAT, we are more determined to go along with you in the direction of the creation of an East Asian community... What has brought about the change of our attitude? Or, better to say, what has enlightened us? In my personal case, it was my experience to attend the 1st NEAT Conference held in Beijing last September. I saw there for the first time in my life Asians coming from different countries speaking in one voice and working for one purpose. I was touched by the aspiration of the people assembled in that NEAT conference.

After returning home from Beijing, we, those who attended the conference, called on our countrymen to organise an all-Japan intellectual platform where we can deepen our understanding of the concept of an East Asian community by way of conducting research and promoting policy debates among ourselves (2004: 1-2).²⁹

Apart from heading the CEAC and GFJ, Kenichi Ito is also the president and CEO of the Japan Forum on International Relations (JFIR) which served as the country coordinator of NEAT and the secretariat for the CEAC. Understood in this respect, the CEAC was established as a focal point for coordinating the various domestic think tanks, with the JFIR at the forefront of this development. The establishment of the CEAC would naturally require member think tanks to streamline their work by focusing on the promotion of East Asian-related policy research in line with the objectives of the CEAC. JFIR (2003), which is for the most part concerned with security issues including Japan's alliance with the US and Japan's position in world politics, came out with a policy

recommendation through its Policy Council titled 'Japan's Initiative for Economic Community in East Asia' after a year-long deliberation, listing 15 bold measures – among them the drafting of an Economic Community in East Asia (ECEA) Treaty in 2005 to be effective in 2007 with a permanent executive body called the Organisation for East Asia to be set up, establishing a free trade area in East Asia centred on Japan, South Korea and Singapore, forming a customs union by 2015, and setting up a common currency in 2025.³⁰

Eager to take a collective stance on what Japan's response to the idea of an EAnC should be, the CEAC came out with their first policy report titled 'The State of the Concept of East Asian Community and Japan's Strategic Response thereto' in August 2005. More down to earth than JFIR's policy recommendations, the CEAC report noted that the formation of an EAnC should be related to three aspects of Japan's national interest – the improvement in the international security environment, the expansion of the global economy and respect for equality, freedom, democracy, human rights and the rule of law (CEAC 2005).³¹ Without setting deadlines, the report called for a step-by-step evolutionary approach, consisting of three phases to collectively promote economic integration. The first phase would be to liberalize the movement of goods, people and capital through FTAs; the second phase to create a customs union with common external tariff system; and the third phase to integrate the different economic systems and adopt a single currency. Interestingly, the report also included a section on domestic measures such as the need to set up a Cabinet Ministerial Meeting on East Asian Policy and open up agricultural markets. The collective effort of Japan's epistemic policy actors to identify and state what Japan's stance should be is commendable and helpful, especially when the official response appears less than clear.

AI and NEAT are the two most significant track 2 regional networks in East Asia, primarily because of their close links with official bodies.³² They play a role in promoting and influencing regionalist projects pursued by state actors. Through robust policy recommendations, adaptations and the ability to analyze and foresee various effects and implications, they seek to collectively influence the direction and depth of state regionalism. There is, thus, a dynamic interaction between epistemic policy actors on one level and state actors on the other.

The cross-level interaction has at times been constructive and led to positive regionalism but at other times been contradicting and non-influential. AI's role in influencing the formation of ARF exemplifies

positive regionalism. The fact that the East Asia Vision Group (EAVG) consists largely of track 2 epistemic policy actors is another example of constructive influence, in which their report provided the blueprint for East Asian cooperation with many of the recommendations adopted by the track 1 EASG. Apart from the direct approach of producing policy recommendation reports, the idea of organizing conferences and forums such as the APR, EAC and the East Asia Forum (EAF) allowed epistemic policy actors to constructively engage state actors and push forward certain policy agendas. These are venues to enlighten policymakers on how epistemic communities view region-building, and what some of the enduring problems are that need to be tackled, as well as to receive feedback to gauge the ongoing progress of the regionalist project. However, contradictions do arise, an example of which is AI's concerns going unheeded when ASEAN insisted on the accession of Myanmar. At times, policy recommendations can be non-influential when they are vague, wide-ranging or impractical. NEAT has submitted their policy recommendations to the APT Senior Official Meeting on several occasions but they have not produced any tangible results. Nonetheless, this has not created negative effects strong enough to cause region deconstruction because the epistemic communities in general take on the role as supporters or advisers rather than challengers. This is due in part to their loose structure, close relationship with state actors and, in varying degrees, the self-imposition of track 1 sacred principles such as non-interference in internal affairs, which makes it harder to touch upon sensitive issues like institutionalization and areas of 'high politics' (Ruland 2002:90).

Conclusion

This article was primarily concerned with explaining the process of cross-level actor interaction. It aimed to show the dynamic interplay of multiple regional actors that can consciously or unconsciously contribute to the strengthening or weakening of region construction. It stressed the multifaceted nature and complex processes that often transcend the formal and informal boundaries of regionalization.

Since the conclusion for each section has already been provided at the end of each section, they will not be repeated here. Suffice to note that the various schemes and issues discussed above provide an understanding of the challenges and concurrences accompanying cross-level interaction.

Largely, such interactions are contributing to higher levels of region-ness. Despite certain clauses that secure state interests, the BBC, AICO and AIA (including AFTA) are geared towards the facilitation and entrenchment of a wider East Asian production chain. This further strengthens economic regionalization, as the schemes provide incentives to Japanese, South Korean, Taiwanese and Chinese firms (though not necessarily exclusively) to increase their investments across the region. FTA proliferation is also a contributing factor. If only a few countries were interested in FTAs prior to the crisis, more and more countries in East Asia today are proactively engaging each other in FTAs. This has the effect of tying the region together and benefiting business operations by removing tariffs and non-tariff barriers, but only if it is done in a concerted manner, since bilateral FTAs could also have a negative effect by causing fragmentation, instead of integration.

Equally, epistemic communities such as AI, NEAT and CEAC are, through their close cooperation with state actors, playing a crucial role in helping to create and promote greater awareness of East Asia as a connected and integrated region. The shaping and reshaping of the region are reflective of the constant interactions of, and idea sharing between, the multiple levels of actors. Policymakers look to scholars and researchers for ideas that do not only benefit the region but are beneficial in promoting the national interests of the member countries involved. In East Asia, policy recommendations from the academic community that are adopted by policymakers are often those that promote both national and regional collective interests or which are at least not adverse to the former.

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NOTES

- 1 The term 'East Asia' encompasses both Southeast Asia and Northeast Asia.
- 2 See Pempel (2005) for a more detailed discussion on the concept of regionalism and regionalisation in the context of East Asia.
- 3 For a historical timeline of Japanese automakers in ASEAN, see JAMA, 2005.
- 4 A similar idea was proposed by Ford in early 1970s to assemble a Ford 'Asian car' but was rejected at that time.
- 5 The participating states under the BBC were Malaysia, the Philippines and Thailand. Due to domestic concerns, Indonesia joined the scheme only in 1994.

- 6 Since the CEPT implementation would take time, the automakers could not enjoy immediate tariff reduction benefits.
- 7 At the 31st AEM meeting in Singapore in 1999, trading companies involving SMEs only were allowed to participate in AICO.
- 8 By April 2005, 129 applications had been approved, with nearly 90 per cent from the automotive sector (ASEAN Secretariat 2005).
- 9 It was agreed that the TEL will be phased out by 2010 for all members, except Vietnam (by 2013) and Laos and Myanmar (by 2015). The AIA is to be realised by 2010 for ASEAN investors and ten years later for foreign investors. Since joint ventures blur the lines between an ASEAN investor and a foreign investor in terms of equity share, the definition of an 'ASEAN investor' in this respect rests on the individual host country's domestic laws and investment policies.
- 10 Slight variations exist between countries in the privileges offered (See ASEAN Secretariat 1998b). The 100 per cent foreign equity ownership privilege helps to explain the need to waive the 30 per cent equity in AICO.
- 11 This only applies to the ASEAN-6 countries. For the newer members, it will be 2015.
- 12 However, having an upper hand may not be of much relevance considering the liberalisation efforts that member countries have made for the manufacturing sector, resulting in strong foreign investor presence.
- 13 Personal communication with Denis Hew, 27 April 2004.
- 14 Figures for 1998 and 2003 exclude investment data on Cambodia.
- 15 Reyes, Romeo A. 2005. 'Are Jobs Being Created or Lost in AFTA?'. *The Jakarta Post*, 31 May.
- 16 *Bangkok Post* 2005. 'Open up FTA Talks to Wider Participation', 10 May.
- 17 FTA Watch Group 2004. 'Open Letter to the Government and the People of Australia', 12 December. <http://www.bilaterals.org/?open-letter-to-the-government-and> Accessed 16 October 2014.
- 18 Na Thalang, Jeerawat 2004. 'Thai-Australia FTA: 1,500 Dairy Farmers to Protest'. *The Nation*. Bangkok, 18 June.
- 19 Cahiles-Magkilat, Bernie 2005. 'Trade Alliance Seeks Transparency on Japan-RP FTA Negotiations'. *Manila Bulletin*, 15 June.
- 20 Siripunyawit, Sriwipa 2005. 'Professions Brace for FTA Impact'. *Bangkok Post*, 13 June.
- 21 There are obviously many other private, semi-private and smaller research institutes in East Asia and the Asia Pacific, which are involved in various research issues, but considering the focus on policy influence and limitation of the paper, discussions are centred on these two.
- 22 The ten institutes, of which the first five are founding members, are: Centre for Strategic and International Studies (CSIS), Indonesia; Institute of Strategic and International Studies (ISIS), Malaysia; Singapore Institute of International Affairs (SIIA); Institute of Security and International Studies (ISIS), Thailand; Institute for Strategic and Development Studies (ISDS), the Philippines; Brunei Darussalam Institute of Policy and Strategic Studies (BDIPSS); Diplomatic Academy of Vietnam (DAV), Vietnam; Cambodian Institute for Cooperation and Peace (CICP); and Institute of Foreign Affairs (IFA), Laos.
- 23 ISIS Malaysia continues to host the APR as an annual event, but has done so on behalf of the AI since 1993.
- 24 AI was not the only body pushing for multilateral security cooperation. Gorbachev was already broaching the idea of a regional security conference for the Asia Pacific area similar to the CSCE in July 1986 and again in 1988. Other governments followed

- suit, with Australia proposing an Asian version of the CSCE in 1990, followed by Canada and Japan. ASEAN, fearful of marginalisation and outside interference, resisted attempts to base any security framework on the European experience and instead pressed for a forum based on the norms/principles of the organisation (Buszynski 1999).
- 25 Since the ARF includes other countries from the Asia Pacific area apart from ASEAN, it was deemed necessary to establish a wider track 2 network known as the Council for Security Cooperation in the Asia Pacific (CSCAP) to provide a structured process on Asia Pacific security matters. Set up in 1993 with AI as one of the founding members and a secretariat located in ISIS Malaysia, CSCAP serves as the main track 2 process for the ARF.
 - 26 The HLTF is made up of permanent secretaries and Directors-General of Ministries of Trade and Industry and was set up by the ASEAN Economic Ministers at their 34th meeting in September 2002.
 - 27 Personal communication, 27 April 2004.
 - 28 The six WGs are: Promoting East Asian Economic Integration by Solving the New Global Imbalance and The Overall Architecture of Community Building in East Asia hosted by Japan; Concepts, Ideas and Empowering Guidelines for East Asia hosted by Malaysia; Energy Security Cooperation in East Asia hosted by Singapore; and East Asian Financial Cooperation and East Asian Investment Cooperation hosted by China.
 - 29 The CEAC consists of representatives from government agencies, 12 think tanks, 14 corporate members and 63 individual members.
 - 30 JFIR's policy recommendations are based on an elite-democratic system that requires majority approval before it becomes official and is presented to the Prime Minister of Japan.
 - 31 The CEAC policy report was approved by 58 members and represents the Japanese epistemic community's position for consideration at the 3rd NEAT conference.
 - 32 There are also other regional networks such as the East Asian Development Network (EADN) and Global Development Network (GDN) Japan, which are part of an international network – the GDN – but their aim is to promote research capacity building and knowledge dissemination.

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