

BIBLIOGRAPHIC INFORMATION

Title	ASEAN, AFTA and the "new regionalism".
Source	http://www.thefreelibrary.com/ASEAN%2c+AFTA+and+the+%22new+regionalism.%22+(Association+of+Southeast...-a020342851
Author 1	Bowles, Paul
Author 2	NA
Author 3	NA
Publication/Conference	Pacific Affairs, Jun 22, 1997
Edition	NA
Document Type	Article
CPI Primary Subject	Foreign Relations and Treaties
CPI Secondary Subject	ASEAN; ;
Geographic Terms	ASEAN;
Abstract	The wave of economic regionalism underway since the mid-late 1980s has been joined by the countries of the Association of Southeast Asian Nations (ASEAN) which formed the ASEAN Free Trade Area (AFTA) in January 1993 with the aim of creating a Free Trade Area in the region by the (revised) target date of 2003. This is a particularly significant event as it marks a qualitative change in direction both for the members of ASEAN and for the East/Southeast Asian region, a region where formal regional trading agreements met with less enthusiasm than in other areas of the world during previous waves of regionalism.

Centre for Policy Initiatives (CPI)

Pusat Iniatif Polisi

政策倡议中心

<http://www.cpiasia.org>

ASEAN, AFTA and the "new regionalism." (Association of Southeast Asian Nations; ASEAN Free Trade Area)

[Print](#)

Author: Bowles, Paul

Date: Jun 22, 1997

Words: 6230

Publication: Pacific Affairs

ISSN: 0030-851X

I. INTRODUCTION

The wave of economic regionalism underway since the mid-late 1980s has been joined by the countries of the Association of Southeast Asian Nations (ASEAN) which formed the ASEAN Free Trade Area (AFTA) in January 1993 with the aim of creating a Free Trade Area in the region by the (revised) target date of 2003. This is a particularly significant event as it marks a qualitative change in direction both for the members of ASEAN and for the East/Southeast Asian region, a region where formal regional trading agreements met with less enthusiasm than in other areas of the world during previous waves of regionalism.

This should not hide the fact that as AFTA moves further into the implementation stages, it confronts a significant number of problems including the expansion of ASEAN membership to include Vietnam, and possibly other members, as well as the desire to move beyond simply freeing trade and incorporating other issues, such as non-tariff barriers, macroeconomic coordination and investment policies, in an "AFTA-plus" framework. However, while these implementation problems are real, in this paper I will focus on AFTA's significance in aiding our analysis of the broader process of regionalization which the world is currently witnessing and which has attracted much attention in academic circles, and from international institutions and national governments alike?

Specifically, I will focus on two broad and related questions. The first question concerns the reasons for the formation of AFTA. ASEAN's decision to form a Free Trade Area marks an important point in the history of the organization. Initiatives aimed at greater regional economic integration have been part of ASEAN's activities since its formation, but such initiatives had been relatively modest and did not meet with much success. Furthermore, previous attempts to move towards more extensive forms of regional integration, such as a customs union, had been rejected. My first question, therefore, is, Why did ASEAN choose to move ahead with AFTA in 1993?

The second, and related, question considers how the formation of AFTA relates to the latest wave of regionalism. In particular, I consider whether the current round of regionalism differs significantly from previous rounds, what the characteristics of the "New Regionalism" might be, and what the implications of this are likely to be for the future evolution of AFTA and its relationship to other regional economic arrangements.

II. WHAT EXPLAINS THE FORMATION OF AFTA IN 1993?

The decision to move forward with an ASEAN Free Trade Area represented a qualitative change of direction for ASEAN; it was made relatively quickly, having been initiated at the

ASEAN Economic Summit in October 1991, with a framework agreement signed at the ASEAN Summit in January 1992, and made operational in January 1993. This change of direction requires explanation. As Imada and Naya write in respect of AFTA,

although ASEAN's accomplishments in the political arena have been significant, its achievements in the area of economic cooperation have been limited. Neither its preferential trading arrangements nor its attempt at industrial co-operation have done much to increase intraregional trade and investment. In fact, until a few years ago, open discussion of the possibility of a free trade area was discouraged by ASEAN leaders.(2)

The decision to form AFTA therefore requires explanation. In examining the reasons for trade bloc formation Whalley notes that "a wide range of considerations enter when countries seek to negotiate trade agreements. ... Regional trade arrangements around the world are thus different one from another, not the least because countries have different objectives when they negotiate them."(3) Certainly, it is the case with AFTA that traditional arguments which stress the importance of the welfare-enhancing benefits of trade creation as a reason for entering into a regional trading arrangement are of little relevance since intra-ASEAN trade is a relatively minor, and falling, proportion of total ASEAN trade.(4)

In considering ASEAN's objectives in forming AFTA, Bowles and MacLean identify three main factors.(5) These are (i) the changes in the international political economy during the 1980s; (ii) the rise in influence of business interests throughout the ASEAN region and their general predisposition towards regional trade liberalization measures; and (iii) ASEAN's desire to maintain its position as an important organization in a region experiencing change and a proliferation of new regional bodies, both proposed and actual.

For the purposes of the present discussion, I will simply note the role played by business organizations, most notably the ASEAN-CCI, in making AFTA acceptable to their members and promoting it to their governments. ASEAN's relationship with other regional organizations, such as APEC, will be discussed in the next section and here I will restrict my comments to a summary of the changes underway in the international political economy of the 1980s, and ASEAN's response to them, which made the formation of AFTA in 1993 an attractive proposition.(6)

As a background to the changes of the 1980s it is important to note that in most of the 1960s and 1970s the four largest ASEAN nations (Indonesia, Malaysia, the Philippines and Thailand) had pursued import substitution policies. The moves towards economic integration within ASEAN in this period must be seen against this background. Economic cooperation schemes and the Preferential Trading Agreement were attractive to ASEAN members because they offered the possibility of a larger market to support domestic industries but were problematic in that each nation jealously wished to guard its internal market for its own firms, and therefore cooperation schemes were often bogged down at the implementation stage as market-sharing compromises proved difficult to reach. The world economic slowdown in the early 1980s, the international debt crises and the associated reduction in North-South capital transfers, the rise of protectionist sentiment in the United States, and the continued recession of 1984-85 after a brief recovery in 1982-83 posed fundamental challenges for the ASEAN countries. At the same time, the international financial institutions became more powerful and able to gain greater influence in domestic policy-making circles as the price paid for continued borrowing privileges. All of the ASEAN-4 needed to find ways of boosting exports and maintaining foreign exchange earnings.

One possible route was to attempt, in the face of a stagnant world economy, to expand intra-ASEAN trade by further cooperation measures. This was formally proposed by the Philippines at the ASEAN Economic Ministers Meeting in Manila in 1986 with the proposal being for a phased reduction in intra-ASEAN tariffs and an external common tariff (i.e., a

customs union). The proposal was rejected by Indonesia on the grounds that no deadlines should be involved and Singapore objected to a customs union on the grounds that it did not want to raise its external tariffs. Undoubtedly, the low volume of intra-ASEAN trade, at around 20 percent, and the heavy reliance of ASEAN members on external markets played a role in making the customs union unacceptable to ASEAN members. Thus, in 1986 regional trading arrangements were still viewed, as they had been in the 1960s and 1970s, as ways for groups of developing countries to reduce their dependence on the world trading system, and trade with developed countries in particular. That is, regional trading arrangements were seen as alternatives to dependence on the world market, and the conditions for ASEAN to realize such an alternative were absent in the judgement of most ASEAN members.

A mere five years later, however, with intra-ASEAN trade even lower, Thailand's proposal for an ASEAN Free Trade Area was unanimously adopted. Changes to the international political economy in the latter half of the 1980s help to explain why this was the case. But before coming to these changes let us briefly note that the response of the ASEAN countries to the global economic conditions of the early- mid 1980s and to the policy advice of the international financial institutions was to engage in trade liberalization, albeit at their own pace rather than collectively, and to shift towards policies more conducive to export promotion. In addition, individual countries also adopted policies more favourable to Foreign Direct Investment (FDI) in an effort to attract the foreign capital needed to spur continued industrialization.

These policies were fortuitous in that Japanese firms were expanding overseas rapidly in response to the massive appreciation of the yen which followed the Plaza Accord in 1985, an accord which was to have major implications for the region. Japan's FDI grew at an annual average rate of 62 percent over the 1985-89 period, driven in large part by the yen's appreciation and by the fear (realized or not) of growing protectionism in U.S. and European markets. Simultaneously, the East Asian Newly Industrializing Countries (NICs) were also investing heavily overseas with the ASEAN-4 and China being the primary host countries for NICs' FDI. The result of these trends was a rapid increase in FDI's importance, in all ASEAN countries. For the ASEAN-4 between 1985 and 1990, FDI as a percentage of GDP quadrupled from 0.6 percent of GDP to 2.4 percent and FDI's contribution to gross domestic capital formation nearly tripled from 2.5 percent to 7.1 percent.

The increasing importance of FDI in the economies of the ASEAN countries, especially the ASEAN-4, reflected the reorganization of the (greater) East Asian economy in response to the currency appreciations which affected both Japan and the NICs as well as the changed development strategies of the ASEAN-4 themselves. Trade in the East Asian region is often characterized as following a "Flying Geese" pattern in which the most technologically advanced products are exported from Japan, skilled-labour-intensive products from the NICs and labour-intensive products from the ASEAN-4 and China. Such a pattern stresses the inter-industry specialization within the region. However, this misses the importance of intra-industry trade much of which is intra-firm trade (i.e., trade taking place within the multinational enterprises). In this case, the international division of labour is more a process, than a product, division. It is significant that intra-industry trade within the ASEAN-4 has increased considerably during the 1980s. Fukasaku estimates that an index of intra-industry trade increased by 91 percent for the Philippines, 90 percent for Indonesia, 85 percent for Thailand and 64 percent for Malaysia during the 1979-88 period.(7)

Furthermore, although the percentage of intra-ASEAN trade fell during the 1980s, its composition changed in significant ways. In 1980, 28.2 percent of intra-ASEAN trade was in manufactured goods; in 1990 this had risen to 61.3 percent.(8) Much of the increase in intra-ASEAN trade in manufactured goods undoubtedly resulted from the activities of multinational corporations. In such circumstances, with multinational corporations' production being spread around a number of countries, the logic of regional trading arrangement becomes more compelling in that, to quote Lim, "the ASEAN countries as a group can offer

investors ... a combination [of advantages] that no member individually possesses."(9)

Whilst this might indicate the logic of a regional trading arrangement, the need for one became evident as ASEAN faced increased competition for scarce global capital. Having shifted to a strategy of FDI-sponsored export-led growth, ASEAN states were keenly aware of the need to ensure that ASEAN as an investment site remained competitive. At the end of the 1980s there appeared to be a significant threat to this in the form of competition from (1) China, (2) the former Soviet bloc following the dramatic events of 1989-91, (3) the potential investment-diverting effects of greater European integration in 1992, and (4) the North American Free Trade area, particularly the threat of investment diversion to Mexico.

The increasing concern about possible investment diversion is clear from the joint communiques of the ASEAN ministerial meetings with the ASEAN foreign ministers responding to the "increasing competing demand for capital and investment resources from Eastern Europe, from the indebted countries of Asia, Latin America and Africa, as well as to meet the needs of reconstruction in the Gulf and in the Soviet Union" by supporting the call for an ASEAN free trade area in 1991.(10)

Thus, the formation of AFTA was in large part a response to the changing external environment, and in particular the fear of investment diversion. This is further confirmed by official pronouncements of the time. For example, Singapore's Prime Minister Goh Chok Tong commented that "unless ASEAN can match the other regions in attractiveness both as a base for investments and as a market for their products, investments by multinational companies are likely to flow away from our part of the world to the S[ingle] E[uropean] M[arket] and NAFTA."(12)

Thus, between 1985 and 1991, the whole rationale for a regional trading area had changed; the primary economic purpose was no longer trade creation but the avoidance of investment diversion to other parts of the world economy and in this the leaders of all of the ASEAN-4 countries were united not least because the legitimacy of governments in the region had increasingly relied on their ability to "modernize" their economies.

WHAT DOES THIS TELL US ABOUT THE "NEW REGIONALISM" AND AFTA's FUTURE?

The foregoing discussion sheds important light on the emergence of the "New Regionalism." This concept has received much attention, and several differences between previous regionalisms and the "New Regionalism" have been advanced as significant. One of the most predominant themes is the observation (or hope) that the latest wave of regionalism is/will be an open regionalism. Although this term is somewhat nebulous, to the extent that it is intended to capture the fact that the "New Regionalism" is premised on countries' continuing participation in the international trading system, it is a useful one.(12) As previously noted, this provides an interesting contrast to the rationale advanced by developing countries for the formation of preferential regional trading arrangements in the 1960s and 1970s during the last wave of regionalism. Then, the primary purpose of such arrangements was to enable developing countries to gain a measure of independence from the global economy and to reduce North-South economic linkages. By 1991 the purpose of forming a regional trading bloc was no longer premised on the need to be more independent of the global economy but rather was seen as a measure to ensure continued participation in it. The fear of developing countries was no longer one of dependence on the global economy but one of being excluded from it. As Oman has observed, there is a "sharp contrast between the logic of the largely unsuccessful regional integration schemes among developing countries during the period from the 1950s to the 1970s, when many Latin American and African countries sought to reduce their dependence on manufactured trade with the developed countries, and the logic of regional integration in developing countries today, which is one of strengthening their participation in that trade."(13) Certainly, this assessment is valid for ASEAN countries

although, as argued in section II, it is the critical role that AFTA played in strengthening ASEAN's participation in global capital flows, and not simply trade, that I have stressed and to which I will return.

The example of AFTA therefore confirms this characteristic of the "New Regionalism." However, important as this characteristic is there are two further characteristics of the "New Regionalism" which I wish to discuss in the rest of this paper. These two characteristics are the emergence of North-South regionalism and multiple regionalism.

AFTA informs our understanding of these characteristics and, furthermore, both characteristics have important implications for the future evolution of AFTA. North-South regionalism refers to the fact that many of the regional arrangements in the current wave of regionalism have members from the ranks of developed and developing countries. Traditionally, it has been argued that trading blocs were best suited to member countries with similar levels of per capita GNP.⁽¹⁴⁾ However, many of the new and proposed regional trading groupings now contain member countries with very different levels of per capita income. Certainly, AFTA fits this description with Singapore's per capita GNP being over twenty-five times greater than that of Indonesia, although whether Singapore qualifies as a "developed" country is still a matter of semantic debate. North American Free Trade Agreement (NAFTA), Asia Pacific Economic Cooperation (APEC), Western Hemisphere Free Trade Agreement (WHFTA), European Union (EU) negotiations with South America's new trading bloc, Mercosur, and with Turkey and the Baltic States, however, are clearly North-South arrangements. This aspect of the "New Regionalism" has attracted much attention in the literature. For example, de Melo and Panagariya note that "in a dramatic shift, developing countries are seeking partnerships with developed countries rather than solely with each other,"⁽¹⁵⁾ an assessment supported by Park who argues that "the current trend towards regionalism involves North-South regional arrangements rather than South-South arrangements which were characteristic of the first wave"⁽¹⁶⁾ while Robson regards this trend as "perhaps the single novel feature of the new regionalism in practice."⁽¹⁷⁾

The second characteristic of the "New Regionalism" which I wish to explore further here, namely, that of multiple regionalism, has received much less attention. By multiple regionalism, I mean that countries belong to different regional groupings and organizations (some of which have, in practice, overlapping memberships). For example, ASEAN members are not only members of AFTA, they are also members of the East Asian Economic Caucus (EAEC), of APEC and of the Asian group of countries which recently held a summit with the EU.⁽¹⁸⁾ Nor is this multiple regional membership unique to ASEAN. Canada, for example, belongs to NAFTA and APEC, has recently concluded bilateral free trade deals with Israel and with Chile, and the previous minister for international trade, Roy McLaren, raised the prospect of a NAFTA-EU bilateral treaty. ASEAN and Canada might both have some interest in promoting such alliances as part of what might loosely be called their "middle-power" status, but multiple regionalism is not confined to such states and also affects major powers such as the United States which is a signatory to NAFTA and APEC as well as engaging in discussions about a WHFTA. Thus, while Whalley notes that "despite the presence of multilateral rules and disciplines in the system, it is still the case that most GATT/WTO contracting parties are now parties to at least one regional trade arrangement,"⁽¹⁹⁾ the point that the concept of multiple regionalism highlights is that many countries are party to several regional trade arrangements.

For some, multiple regionalism is simply a manifestation of the fact that regionalism and multilateralism should not be viewed as alternatives; indeed, the concept of open regionalism is premised on that very notion. Whether regional trading arrangements are obstacles or not to global freer trade depends not so much on the existence of such arrangements but on their content. It is quite possible that countries might enter into regional trading arrangements but that such arrangements may be steps on the road to a more open international trading system

as different blocs themselves negotiate bilateral tariff reductions. In short, there are many roads to liberalizing trade, and the multilateral process of GATT and WTO is being supplemented by the process of regional tariff reductions. Indeed, the new wave of regionalism can be seen as being initially triggered by the stalled multilateral negotiations during the Uruguay Round; with this successfully concluded we are now witnessing ripple effects as AFTA joins the EAEC and APEC and as the EU is drawn into discussions as well. Multiple regionalism, therefore, in conjunction with open regionalism leads to global freer trade. This suggests that AFTA is important as a medium-term vehicle allowing ASEAN countries to participate in this process but that it might be expected to diminish in significance, as indeed will all regional arrangements, as the end point of liberalized global trade is reached.

This is not, however, the only possible interpretation of multiple regionalism. The interpretation that I will advance here ties together the two characteristics of the "New Regionalism" which I have focussed on above, namely, North-South regionalism and multiple regionalism. Both of these characteristics, I argue, can be explained when we realize that the "New Regionalism" is intimately linked to the current phase of global capitalism. In this analysis, the temporal significance of the mid-1980s is not so much the stalled multilateral trade negotiations but the increasing globalization of capital which dates from this period.

The significance of North-South regionalism then stems from the fact that capital flows are also increasingly eking a North-South dimension. As the UNCTC notes, FDI "flows into developing countries increased more than fourfold between 1986 (the beginning of the most important FDI upswing to date) and 1993.... This underlines the fact that developing countries as a group are becoming more attractive to TNCs because of improved growth performance, liberalized FDI policies and privatization programmes open to foreign participation. In fact, developing countries today receive twice as much as the value of world FDI flows was in 1986. (The share of developing countries in global flows increased from 18 percent in 1989 to 44 percent in 1993 if intra-European Union investments are excluded.)"(20)

Thus, we have witnessed a dramatic increase in the volume of FDI since the mid-1980s and a concomitant rise in the amount which is destined for developing countries as the data in table 1 indicate.

This increase in capital flows since the mid-1980s has led to the situation where capital importers and capital exporters are in need of institutional mechanisms to facilitate the continued flow of capital across their borders. As MITI states: "As the international activities of companies through FDI expand, developed countries have felt strongly the need to strengthen international cooperation from the point of view of decreasing the risks of FDI, securing international business activities, and establishing dispute settlement mechanisms, and are working to decrease the risks of FDI through measures such as opening negotiations at the Organisation for Economic Cooperation and Development (OECD) on Multilateral Agreements on Investment (MAI)."(21)

What this statement points to is that while transactions and communication costs may have been dramatically reduced over the postwar period the same cannot be said of enforcement costs.(22) That is, the security of investment has not been increased during the past several decades and new measures are required to ensure that the risks of overseas investment and enforcement costs are lowered. The OECD countries are addressing this through initiatives such as the MAI. However, this leaves open the question of how to reduce the risks of investing in developing countries where much of the new investment is taking place. European Trade Commissioner Leon Brittan recently noted that "developing countries have become very attractive hosts to FDI. The share of investment going to the OECD countries has been slashed in half during the past decade. Over half of world FDI now goes to developing countries, compared to less than one fifth as recently as 1989." As a result, he further argued

that developing countries' "contribution to this process of [investment] liberalisation will be essential." (23)

TABLE 1

FDI INFLOWS AND OUTFLOWS, 1982-94

(U.S. \$ BILLIONS)

	1982-86	1987-91	1989	1990	1991	1992	1993	1994
Inflows	43	142	172	176	115	111	129	135
Outflows	53	183	202	226	188	171	193	189
Developing Countries								
Inflows	19	31	29	35	41	55	73	84
Outflows	4	12	15	17	11	19	29	33

Source: UNCTC, World Investment Report 1995, p. 14.

Regional trading arrangements between capital-exporting and capital-importing countries are one way of bringing developing countries into this process. Such arrangements are an institutional mechanism for reducing the risks of investment by providing multi-country credibility to regulations concerning trade and capital flows.

These trends can also be linked to the existence of multiple regionalism which, in this analysis, is a reflection of the fact that the global economy is undergoing a process of fundamental change and that while capital has become increasingly mobile, both major capital suppliers and importers have been scrambling to explore all forms of institutional cooperation which might better facilitate these flows. In this process, nation states have been keen to ensure that they remain part of (any and all) groupings which are attractive to global capital and to negotiate safeguards on behalf of "their" capital exporters. Thus, developed countries have been pushing for investment codes and property rights guarantees to be included in regional arrangements with many different developing countries (or groups of countries). Meanwhile developing countries have been keen to remain open to investment from different sources; as ex-Mexican president Salinas suggested, "it is not the case of choosing between blocs but being present in all of them." (24) Developing countries, faced with mobile capital and increasing competition for it in the post-cold war world, have also been tempted to simultaneously enter into several regional trading arrangements. The result is the observed multiple regionalism.

The ASEAN case bears out this interpretation of the "New Regionalism" well. As we have seen in section II, one of ASEAN's main reasons for the formation of AFTA was the desire to remain attractive to foreign investment. By forming AFTA, the ASEAN countries were not only able to offer multinational corporations a larger regional market for production and consumption but also increased credibility about their commitment to trade openness by providing joint guarantees of this. The role of Singapore as a supplier and conduit for FDI notwithstanding, however, ASEAN's major capital suppliers lie outside its membership with the result that ASEAN countries, as members of APEC, have also been involved in APEC's initiatives to establish an Asia-Pacific investment code. (25) It also comes as no surprise that it is reported that at the Asia-EU meeting in March 1996, "the EU [pushed] for a new multilateral accord to liberalize cross-border investments." (26)

The argument that I am advancing is that the "New Regionalism" is intimately linked to the dramatic increase in global capital flows since the mid-1980s and that two of the most interesting and important characteristics of the "New Regionalism" can be explained by this. Specifically, the emergence of "North-South regionalism" is explained by the fact that capital flows are also increasingly taking on this dimension and regional trading arrangements between capital-importing and capital-exporting countries are seen as one way of reducing the risks of FDI. Second, the existence of "multiple regionalism" reflects the relative newness of the explosion in FDI flows, the uncertainty of their directions, the competition caused by the end of the cold war, and the desire of all countries, both developed and developing, not to be marginalized as the dynamics of the global economy unfold.

The ASEAN members, and their AFTA initiative, have played an important role in this process and help us to better understand the contours of the "New Regionalism." I now turn to the question of what this understanding might imply for the future evolution of AFTA. The crucial issue here seems to be how AFTA can best be extended to offer the type of investment security which capital exporters are increasingly seeking. This will undoubtedly mean more attention to investment codes, etc., in any "AFTA-plus" framework but it is also likely to mean evolving relationships with some of the other economic fora, both regional and international, in which ASEAN participates because, as noted above, ASEAN's major capital suppliers are not AFTA members. Since investment negotiations involve costs - in terms of the probability of reaching an agreement and in the subsequent monitoring and enforcement costs of any agreement - as well as benefits - in terms of increased investment flows - then ASEAN members might be expected to put most of their efforts into negotiations with their major capital suppliers. The existence of multiple regionalism may therefore be a temporary phenomenon associated with the initial uncertainties of the current phase of global capitalism; those arrangements which are more enduring are likely to be those between countries with high cross-border capital flows.

It is necessary, therefore, to examine which countries are the main capital suppliers to ASEAN. The main capital exporters to ASEAN are, in fact, to be found in the East Asian region and the pattern of FDI flows to ASEAN has a strong regional character.(27) The NICs have a strong FDI presence in ASEAN and the NIC's share of the FDI stock in the ASEAN-4 has risen from 20 percent in 1980 to 28 percent in 1993.(28) Japan's FDI flows to Asia in general remain strong despite the Japanese recession and the decline in total FDI outflows since 1989. In fact, although the total Japanese worldwide FDI flows fell by 39.2 percent between 1989 and 1994, they actually increased in Asia by 17.7 percent.(29) A sustained pattern of Japanese FDI inflows to ASEAN, at levels significantly higher than inflows from the United States, is also evident as shown below in Table 2.

The regional character of FDI flows is also enhanced by the activities of multinational corporations which reveal strong regional tendencies as the concept of "regional core networks" illustrates.(30) Given this regional composition of FDI, the natural extension for AFTA would be an EAEC-style grouping rather than APEC or Asia-EU meetings or even WTO. In this reading of multiple regionalism, therefore, AFTA again becomes less significant in the longer term but the implications for the global economy are quite different and point to the continuation of regional blocs.

TABLE 2

JAPANESE AND UNITED STATES FDI TO ASEAN 1987-94

(U.S. \$ MILLIONS)

	1987	1988	1989	1990	1991	1992	1993	1994
Japan to:								
Indonesia	545	586	631	1105	1193	1676	813	1759

Malaysia	163	387	673	725	880	704	800	742
Philippines	72	134	202	258	203	160	207	668
Singapore	494	747	1902	840	613	670	664	1054
Thailand	250	859	1276	1154	807	657	578	719
ASEAN-5	1524	2713	4684	4082	3696	3867	3062	4942

United States to:

Indonesia-	288-	251-	65	659	608	656	n/a	
Malaysia	--	--	n/a	--	--	--	--	--
Philippines-	20	156	50	222	185	55	n/a	n/a
Singapore	89	90	49	177-	27-	17	n/a	n/a
Thailand	275-	16165	481	1127	1097	n/a	n/a	
	194-	149384	315	242	367	n/a	n/a	

Source: Graham, "Towards and Asia Pacific Investment Code," pp. 5-6, and MITI, Japanese Foreign Direct Investment by Region.

IV. CONCLUSION

The formation of AFTA marks a significant point in the evolution of ASEAN and the region. The formation of regional trading arrangements is inspired by numerous objectives. The formation of AFTA is no exception in this regard and while traditional arguments concerned with trade creation between member countries are of minor importance in this case, other concerns such as regional security and ASEAN's place in the region and the world were undoubtedly important and continue to be so. In this paper, the focus has been on one particular motive which I have argued was especially important in leading the ASEAN members to form AFTA, namely, the fear of investment diversion and the desire to continue to attract FDI as part of ASEAN members' development strategies.

The important changes which led to the fear of investment diversion were the increasing mobility of capital and the increasing competition from other countries as investment sites, including the former countries of the Soviet bloc. The desire to remain a full participant in the global economy is therefore a feature of the new regionalism and differs sharply from previous waves of regionalism in developing countries; the AFTA example illustrates this well.

However, the "New Regionalism" of the 1980s and 1990s is not simply an open regionalism, in the above sense, but is also characterized by NorthSouth regionalism and by multiple (sometimes overlapping) regionalism. These characteristics are both due, I have argued, to the current phase of global capitalism which is marked by a dramatic increase in the size of capital flows and an explosion in the volumes destined for developing countries. ASEAN countries have been important participants in this "New Regionalism."

However, it should not necessarily be expected that the existence and importance of all the new institutional arrangements formed since the mid-1980s will remain unchanged over time. With respect to the members of ASEAN, it is clear that as one of the most dynamic regions in the world economy it will continue to attract investment flows from all the major capital exporters. However, given the current and likely continued importance of FDI flows from within

the East Asian region, this is likely to push ASEAN leaders to be increasingly aware of the need to use AFTA as the basis for extending guarantees to its main capital suppliers either through an EAECstyle grouping or through bilateral negotiations between ASEAN and other countries, most particularly Japan.

University of Northern British Columbia, Prince George, Canada, January 1997

1 Examples of the work by international institutions include WTO Secretariat, *Regionalism and the World Trading System* (Geneva: World Trade Organization, 1995), and J. de Melo and A. Panagariya, eds., *New Dimensions in Regional Integration* (Cambridge: Cambridge University Press, 1993); examples of national governments' work include the Japanese Ministry of Industry and International Trade, *Summary of the White Paper on International Trade* (1996), available at <http://www.miti.go.jp/g21ist-b.html>.

2 p. Imada and S. Naya, eds., *AFTA: The Way Ahead* (Singapore: Institute of Southeast Asian Studies, 1992), p. xi.

3 J. Whalley, "Why Do Countries Seek Regional Trading Agreements?" NBER Working Paper No. 5552 (1996), p. 2.

4 Intra-ASEAN trade accounts for less than 20 percent of total ASEAN trade (and considerably less if Singapore's trade is omitted). For details of intra-ASEAN trade, see P. Bowles and B. MacLean, "Understanding Trade Bloc Formation: The Case of the ASEAN Free Trade Area," *Review of International Political Economy*, vol. 3, no. 2 (Summer, 1996), p. 327, and A. Panagariya, "East Asia and the New Regionalism in World Trade," *The World Economy*, vol. 17, no. 6 (1994), pp. 827-28.

5 Bowles and MacLean, "Understanding Trade Bloc Formation."

6 The rest of this section is a summary of the discussion contained in Bowles and MacLean, "Understanding Trade Bloc Formation."

7 K. Fukasaku, "Economic Regionalisation and Intra-Industry Trade: Pacific-Asian Perspectives," OECD Development Centre, Technical Papers, No. 53 (1992), p. 28. See also C. Primo Braga, and G. Bannister, "East Asian Investment and Trade: Prospects for Growing Regionalisation in the 1990s," *Transnational Corporations*, vol. 3, no. 1 (1994), and J. Menon, "The Dynamics of Intra-industry Trade in ASEAN," *Asian Economic Journal* vol. 10, no. 1 (1996), for further details of the rise in intra-industry trade in ASEAN.

8 See S. Naya and P. Imada, "The Long and Winding Road Ahead for AFTA," in Imada and Naya, *AFTA: The Way Ahead*, p. 57.

9 L. Lim, "ASEAN: A New Mode of Economic Cooperation?" (Paper presented to the conference on "The Political Economy of Foreign Policy in Southeast Asia in the 'New World Order,'" September 1992, University of Windsor, Canada), p. 14.

10 Quoted in the Joint Communique of the ASEAN Ministerial Meeting, 1991.

11 Quoted in the *Straits Times*, Singapore, 28 January, 1992, p. 22.

13 C. Oman, "The Policy Challenges of Globalisation and Regionalisation," OECD Development Centre, Policy Brief No. 11 (1996), pp. 30-31.

14 See J. Schott, "Trading Blocs and the World Trading System," *The World Economy*, vol. 14, no. 1 (1991), p. 2. Much of the more recent work in international trade theory also

assumes that countries forming trade blocs are of equal economic size. See, for example, P. Krugman, "Regionalism versus Multilateralism: Analytical Notes," in de Melo and Panagariya, *New Dimensions in Regional Integration*.

15 J. de Melo and A. Panagariya, "The New Regionalism," *Finance and Development*, vol. 29, no. 4 (1992), p. 37.

16. Park, "The New Regionalism and Third World Development," *Journal of Developing Societies*, vol. 11, no. 1 (1995), p. 23.

17 P. Robson, "The New Regionalism and Developing Countries," *Journal of Common Market Studies*, vol. 31, no. 3 (1993), p. 340.

18 The Asian countries consisted of the seven members of ASEAN, China, Japan and South Korea.

19 Whalley, "Why Do Countries?" p. 7.

20 United Nations Centre on Transnational Corporations (UNCTC), *World Investment Report 1995* (New York: United Nations), 1995, p. 16.

21 MITI, Summary of White Paper.

22 For a discussion of enforcement costs as a barrier to long-term capital mobility see G. Epstein, "International Profit Rate Equalization and Investment," in G. Epstein and H. Gintis, eds., *Macroeconomics after the Conservative Era* (Cambridge: Cambridge University Press, 1994).

23 L. Brittan, "Investment Liberalisation: The Next Great Boost To the World Economy," *Transnational Corporations*, vol. 4, no. 1 (1995), pp. 1-3.

24 Quoted in Park, "The New Regionalism," p. 31.

25 See E. Graham, "Towards an Asia Pacific Investment Code," *Transnational Corporations*, vol. 3, no. 2 (1994), for details.

26 M. Vatikiotis and S. Islam, "A Whole New Game: Asia-European Meeting Seems to Recast Relations," *Far Eastern Economic Review*, 14 March 1996, p. 17.

27 See H. Blomqvist, "Intraregional Foreign Investment in East Asia," *ASEAN Economic Bulletin*, vol. 11, no. 3 (1995), and P. Bowles and B. MacLean, "Regional Trading Blocs: Will East Asia Be Next?" *Cambridge Journal of Economics*, vol. 20, no. 4 (1996), for more details.

28 See UNCTC, *World Investment Report 1995*, p. 53.

29 See MITI, *Japanese Foreign Direct Investment by Region*, available at <http://www.miti.go.jp/g21list-b.html>. Japanese FDI flows to North America and Europe fell by 47.7 percent and 57.9 percent respectively over this period.

30 See United Nations Centre on Transnational Corporations, (UNCTC), *World Investment Report 1991* (New York: United Nations) for more details of this concept.

