

Great Powers' Strategy and Regional Integration: A New Regionalism Analytical Approach

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The growth of regionalism in the past few decades has created new relationships between states and has revealed differences in the motives that drive states to take part in regionalization. However, there have been few attempts in the previous literature to analyze the essential strategic differences in the ways that great powers and other states participate in the regionalization process that are due to differences in economic scale. This paper adopts the new regionalism approach (NRA) to analyze the synthetic motivations behind the participation of great powers in regionalism and their domination of the regionalization process, the structural influence on the region of great powers' participation in regionalization, and how competition among great powers affects the regionalization response strategies of other states. This provides the analytical basis for exploring China's East Asian regionalization strategies.

The participation of great powers in the regionalization process tends to be driven by non-traditional economic motives. The great powers expect to increase their international bargaining power for sequential negotiation by expanding their market scale in order to increase their influence on international political and economic rules. The enormous market scale of the great powers is also a critical mechanism of influence and

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exclusive resource endowment which allows them to dominate the regionalization process. Once a great power participates in regional integration, it changes the influence mechanism and development of integration and also causes other states to change their response strategies and their interaction with each other.

KEYWORDS: regional integration; new regionalism; free trade area (FTA); China; ASEAN+1.

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Regional economic integration is an important phenomenon influencing the arrangement of the world today. The formation of economic structures in Europe, America, and East Asia has taken place at a spectacular pace. In May 2004, the European Union (EU) expanded to include a total of twenty-five member-states, and that total was increased to twenty-seven in 2007. On January 1, 2005, thirty-four American countries, with the exception of Cuba, established the Free Trade Agreement of the Americas (FTAA). Compared to Europe and the Americas, regional integration in Asia is significantly less advanced, although it is developing rapidly.¹ There are three major trends in East Asian regional cooperation: a change from market-led integration behavior to government- and institution-led behavior; an adjustment from loose to institutional cooperation; and an expansion in the field of cooperation from that of trade and economic activities to include politics, security, and energy.²

In this process of rapid regional integration in East Asia, China has played a dominant role. Although China did not become a member of the World Trade Organization (WTO)—the rule-based body made up of market economies—until 2002, as a "latecomer" it has wasted no time in

¹The Cold War impeded regional integration in Asia, and since the end of the Cold War the region has been playing catch-up.

²Chen Fengying, "Woguo zai quyue hezuo zhong de jingji liyi yu zhanlue xuanze" (The economic benefits and strategic choice of China in regional cooperation), in *Shijie quyuhua fazhan he moshi* (The development and model of world regionalization), ed. Zhang Yunling (Beijing: Shijie zhishi chubanshe, 2004), 57.

concluding several free trade agreements (FTAs) with other Asian countries. China signed the Framework Agreement on Comprehensive Economic Cooperation with the Association of Southeast Asian Nations (ASEAN), known as "ASEAN+1," in November 2002. This agreement called for China and the ten ASEAN member-states to conclude a free trade agreement before 2010. China also signed the Closer Economic Partnership Arrangement (CEPA)³ with Hong Kong in June 2003, issued the Cooperative Strategy Promotion of China, Japan, and South Korea with the leaders of Japan and South Korea in November 2004, and has furthered economic cooperation with Japan, South Korea, and ASEAN in the "ASEAN+3" agreement. China and the nations of East Asia have strengthened their political and economic alignment through these FTAs, which will transform the economic and political structure of East Asia. In the process, as the newly emerging great power in the region, China has accelerated overall economic change in East Asia—intra-Asian trade as a percentage of total trade in the region has increased over 50 percent annually since 2000—and China understands that it can play an important role in the process of Asian regional integration, given that the increase in intra-Asian trade is mainly centered around its own market. China has consciously utilized its important strategic position and the unique great-power resources with which it is endowed to launch and then dominate the process of East Asian regional integration, and its influence has also gradually increased.⁴

³The main content of the CEPA between China and Hong Kong is as follows: customs duties on 273 Hong Kong products entering China to be abolished from January 1, 2004, and tariffs on nearly four thousand products to be lifted from January 1, 2006; Hong Kong firms in eighteen service fields, including finance, insurance, and stocks and bonds, to be allowed to enter the Chinese market; restrictions to be eased on firms from Hong Kong and Macao engaged in finance, telecommunications, and other service industries. For more details of the CEPA, see <http://www.tid.gov.hk/tc-chi/cepa/index.html>.

⁴Since 2003, China has overtaken Japan and become the biggest export market for other Asian countries and it has also become the top trading partner of Japan, South Korea, and Taiwan. Chinese scholars Hu Angang and Men Honghua are keen advocates of China's participation in Asian integration, claiming that it would boost China's economy. See Hu Angang and Men Honghua, eds., *Zhongguo: Dongya yitihua xin zhanlue* (China: new strategy for East Asia's integration) (Hangzhou: Zhejiang renmin chubanshe, 2005), 12-13.

Understanding China's East Asian regionalization strategy is the key to understanding the rise of China as a great power. Chinese scholars Hu Angang (胡鞍鋼) and Men Honghua (門洪華) have pointed out that the rise of any great power must be based on a dependent region. East Asia is the strategic dependent region for the rise of China and China's regional integration strategy is critical to its progress toward becoming a great power.⁵ Taiwanese scholar Chu Yun-han (朱雲漢) has concluded that China must actively participate in the construction of a new order in East Asia if it is to create the conditions for the evolution of a new world order.⁶ These scholars agree that China's East Asian regionalization strategy is at the core of its rise to great-power status and is the major force for change in East Asia.

However, with respect to analysis of China's role in East Asian regionalization, most of the Chinese and Taiwanese literature has focused on the development of integration and the economic effects of ASEAN+1 and ASEAN+3, or the possible impact of integration on Taiwan from an economic perspective.⁷ Rarely have any of these authors examined how great powers and other states exhibit essential strategic differences in how they participate in the regionalization process due to differences in economic scale. Also, there has been little analysis of the non-traditional economic motives behind the participation of great powers in the regionalization

⁵Hu and Men, *Zhongguo: Dongya yitihua xin zhanlue*, 3.

⁶Chu Yun-han, "Zhongguoren yu ershiyi shiji shijie zhixu" (Chinese and the world order of the twenty-first century), *Shijie jingji yu zhengzhi* (World Economy and Politics), no. 10 (October 2001): 54-59.

⁷Studies from an economic perspective include: Tung Chen-yuan, "Dongya jingji zhenghe yu Taiwan de zhanlue" (East Asian economic integration and Taiwan's strategy), *Wenti yu yanjiu* (Issues and Studies) 45, no. 2 (March/April 2006): 25-60; Ku Ying-hua et al., "Yatai jingji zhenghe dui woguo chanye fazhan yingxiang zhi pinggu" (An assessment of the impact of Asia-Pacific economic integration on the industrial development of Taiwan) (Taipei: Industrial Development Bureau, Ministry of Economic Affairs, 2004); Huang Chao-ren and Chu Hao, "Dongya jingji zhenghe zhongchangqi qushi yu Taiwan dingwei" (Long- and medium-term trends of East Asian economic integration and the position of Taiwan) (Taipei: Council for Economic Planning and Development, Executive Yuan, 2004); and Chan Man-rong et al., "Woguo yinying Zhongguo dalu yu Dongxie jianli ziyou maoyiqu zhi yanjiu" (A study of Taiwan's responses to the free trade area construction of China and ASEAN) (Taipei: Research, Development, and Evaluation Commission, Executive Yuan, 2004).

process or how they have used their unique resource endowment to promote regionalization, particularly with reference to the impact of China on East Asian regional integration.

In an attempt to compensate for these shortcomings, this article will take as its theoretical basis great-power strategy and the non-economic factors in the regionalization process, and from that perspective it will analyze China's East Asian regionalization strategy. This analytical perspective has been adopted for the following reasons:

1. The European Union, the North American Free Trade Area (NAFTA), and Mercosur⁸ (Southern Common Market) have all relied on the resource endowments of more economically and politically powerful countries to advance the progress of regionalization. By contrast, although the gross domestic product (GDP) of China and Japan combined accounts for 84.5 percent of the total GDP of Asia as a whole, it is ASEAN, despite its small geographical size, that has played the role of promoter of Asian integration. However, especially since the 1997 Asian financial crisis, China and Japan have begun to play more and more important core roles in this process. The nascent ASEAN+3 group, which includes the much larger economies of Japan, China, and South Korea in addition to the ten ASEAN members and takes account of pan-regional forces, is a real attempt to enhance regional autonomy by institutionalizing and increasing intra-regional trade and investment in East Asia.⁹

⁸Mercosur (Spanish: Mercado Común del Sur; Portuguese: Mercado Comum do Sul; Guarani: Ñemby Ñemuha; English: Southern Common Market) is a regional trade agreement among Argentina, Brazil, Paraguay, and Uruguay founded in 1991 by the Treaty of Asunción, which was later amended and updated by the 1994 Treaty of Ouro Preto. Its purpose is to promote free trade and the fluid movement of goods, people, and currency. Bolivia, Chile, Colombia, Ecuador, and Peru currently have associate member status. Venezuela signed a membership agreement on June 17, 2006, but before becoming a full member its entry has to be ratified by the Paraguayan and Brazilian parliaments.

⁹Although ASEAN has been an important foundation for the development of ASEAN+3, the two have some important differences. ASEAN is a product of decolonization, the Cold War, and the great-power competition that continues in the region. Private sector-driven economic integration manifested in denser trade and investment flows was not decisive in the formation of closer political cooperation in Southeast Asia and, even now, intra-regional trade among the ASEAN member-states is still modest. The individual economies within ASEAN are mostly non-complementary and essentially competitive. It is important to remember that the economies of the ASEAN member-states were shaped by colonialism

2. Although after comparing the experiences of Europe, East Asia, and North America, some scholars have concluded that having a regional hegemon or great power is not necessary for regional integration,¹⁰ this research will show that great powers, on account of their exclusive and absolute resource endowment, dominate the development of regionalization. For example, the United States enjoys a particularly strong and special relationship with Canada and Mexico. Given their unusual dependence on the U.S. market, Canada and Mexico have made stable access to that market their top priority through a regional agreement with the United States which acts as a guarantee against changes in U.S. policy.¹¹ In East Asia, China has enormous market capacity, and this is the critical mechanism allowing the Chinese to influence the regionalization process. China has consciously operated this unique mechanism to dominate the direction of regionalization by a process of "great-power economic strategy."¹²

and by more powerful economic and political forces from outside Southeast Asia. The integrative forces encouraging economic regionalization in Southeast Asia have originated from countries like Japan, which are outside ASEAN. Therefore, larger groupings, such as ASEAN+3 which takes into account these pan-regional forces, makes intuitive sense. See Mark Beeson, "ASEAN Plus Three and the Rise of Reactionary Regionalism," *Contemporary Southeast Asia* 25, no. 2 (2003): 264-65.

¹⁰From a "hegemonic leadership" perspective, we would expect regionalism to develop more fully in those areas of the world in which there is a local hegemon able to create and maintain regional economic institutions, and at a slower pace where there is no such local hegemonic leadership. According to a study by Joseph M. Grieco, the cases of the United States/NAFTA and Brazil/Mercosur appear to be in accord with the expectations of the hegemonic leadership approach. However, the cases of Germany/EC and Japan/EAE/EAEC both seem to cut against that approach. In the former instance there is a combination of the lowest concentration of regional economic capabilities among the groupings under review and the highest level of achieved regional institutionalization, and in the latter case a very high concentration of economic capabilities is combined with failed regional institutionalization. Hence, Grieco concludes that the presence of an overall regional hegemon appears to be neither a necessary nor a sufficient condition for the emergence of regional economic institutions. See Joseph M. Grieco, "Systemic Sources of Variation in Regional Institutionalization in Western Europe, East Asia, and the Americas," in *The Political Economy of Regionalism*, ed. Edward D. Mansfield and Helen V. Milner (New York: Columbia University Press, 1997), 173-74; and Joseph M. Grieco, "Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism," *International Organization* 42, no. 3 (Summer 1988): 485-507.

¹¹Stephan Haggard, "Regionalism in Asia and the Americas," in Mansfield and Milner, *The Political Economy of Regionalism*, 33.

¹²Hu Angang, ed., *Zhongguo da zhanlue* (The grand strategy of China) (Hangzhou: Zhejiang renmin chubanshe, 2003), 122-39.

3. There is a high degree of correlation between the power relations among great powers and the development of regionalism. In fact, during economic integration, great powers have a high degree of political and economic intent with respect to policy priorities and the selection of partners, and they prefer to choose their political and military allies as partners in economic integration. As Robert Gilpin has suggested, a hegemon uses its enormous market scale as a critical influence mechanism and it prefers to open its market to "friendly" countries and exclude "unfriendly" ones in order to influence other countries or even to implement economic sanctions.¹³ This is why China has given priority to integration with the ASEAN member-states and intentionally excluded Taiwan, revealing a high degree of specific intent.

For these reasons, this article will attempt to demonstrate that the participation of a great power is a critical factor influencing regional integration. The great power's motives for participation are various, including political and economic considerations. The strategy adopted by the great power and the results of its participation in regional integration also have a long-term structural influence on the region. Given the major hypotheses and theoretical positions of the "new regionalism approach" (NRA), this study will address the following primary research questions: How do great powers and other states reveal essential strategic differences in their participation in regionalization due to differences in economic scale? What are the unique motives behind the participation of great powers in the regionalization process? How does a great power's participation in regionalization affect the response strategies of other states? Through answering these questions, this article will attempt to provide an analytical basis for exploring China's reconstruction of East Asian regionalization strategy and how China has dominated and influenced the new wave of regional integration in East Asia.

The first section of the paper explains the NRA. After a brief review of the literature on regional integration theory, the question of how differ-

¹³Robert Gilpin, *U.S. Power and the Multinational Cooperation: The Political Economy of Foreign Direct Investment* (New York: Basic Books, 1975).

ences in economic scale affect states' motives for participating in the regionalization process will be addressed. The second section explores the incentives for great powers to participate in regionalization and the influence mechanisms they use in order to understand the great-power factor in regional integration. The third section investigates the influence that great-power participation has on the regionalization process and focuses on the mutual response strategies of great powers and smaller states. The fourth section addresses the strategic thinking of smaller states regarding participation in the regionalization process in order to compare the political and economic forces and incentives they possess with those of the great powers. Finally, the results are discussed and conclusions are drawn.

Dynamic and Synthetic Effect Analysis of Regional Integration: New Regionalism Approach

Original Analytical Views of Regional Integration

The previous literature on regional integration has mostly been concerned with its economic dimensions, emphasizing how regional economic and trade cooperation as well as the liberalization process can increase the economic welfare of a country.¹⁴ The analytical core of these studies is the "great market theory," which emphasizes how economies of scale in the regionalization process lead to the improvement of economic welfare in the region as a whole. Traditional theories of regional economic cooperation stress the static profits accruing to member-countries, such as improvements in their trade conditions, increased ability to attract foreign investment, and expansion of economic scale. In addition, traditional economic

¹⁴Karl W. Deutsch et al., *Political Community and the North Atlantic Area: International Organization in the Light of Historical Experience* (Princeton, N.J.: Princeton University Press, 1957); Ernst B. Haas, *The Uniting of Europe: Political, Social, and Economic Forces, 1950-1957* (Stanford, Calif.: Stanford University Press, 1958); and David Mitrany, *A Working Peace System: An Argument for the Functional Development of International Organization* (London: Oxford University Press for the Royal Institute of International Affairs, 1966).



theory mainly analyzes the economic welfare benefits of regional integration from the perspectives of trade creation and trade diversion, and draws the conclusion that regional free trade leads to economic benefits through these two effects. Trade creation occurs when, in a free trade environment, the fall in internal production costs in the region leads to an increase in total trade volume. By contrast, trade diversion occurs when internal trade barriers are eliminated and the products that were previously exported out of the region are now transferred within the region.¹⁵ Thus, the direct economic and trade effects of regional integration increase the trade volume in the region.¹⁶ Regional economic cooperation theory uses two main research models to assess regional trade agreements (RTAs): one is the gravity model operated post-assessment and the other is the computable general equilibrium model suitable for assessment in advance. Another argument in favor of RTAs is the so-called "second best" theory—while global trade liberalization is the ideal, if that is not possible, then regional trade liberalization is better than nothing.

As for the driving force behind regionalization, the functionalism and new functionalism approaches emphasize the spillover effect and the way that the national drive for regional integration is motivated by a need to satisfy functional demands through international institutions or to increase national economic welfare through economic and trade cooperation and the liberalization progress.¹⁷ The school of new institutionalism sees international institutions as central to regionalization and holds that these

¹⁵Jacob Viner, *The Customs Union Issue* (New York: Carnegie Endowment for International Peace, 1950).

¹⁶According to a WTO study, intra-regional exports within the main regional trade agreements as a percentage of total regional exports have significantly increased since 1970. For example, from 1970 to 2001, the proportion of regional exports of the European Union increased from 59.5 percent to 62.1 percent, in the NAFTA it increased from 36 percent to 54.8 percent, and in Mercosur it increased from 9.4 percent to 20.8 percent. See *The World Trade Report 2003* (Geneva: WTO, 2003), 56.

¹⁷Mitrany, *A Working Peace System*; David Mitrany, *The Functional Theory of Politics* (New York: St. Martin's, 1975); Ernst B. Haas, *Beyond the Nation-State: Functionalism and International Organization* (Stanford, Calif.: Stanford University Press, 1964); and Ernst B. Haas, "International Integration: The European and the Universal Process," *International Organization* 15, no. 4 (1961): 366-92.

institutions can solve international market failures and the difficulties of collective action by strengthening mutual dependency through issue linkage, which forces individual nations to follow international regulations.¹⁸ In addition, there is a great deal of literature that attributes the development of regionalism to domestic factors, stressing the influence of domestic interest groups and social pressure on regional integration.¹⁹ Some analytical methods have even involved a combination of domestic political structure and international forces. Studies employing these methods have explored the foreign economic policy of a country from the perspective of the relationship between the national bureaucracy and society, and in addition they have combined examination of the domestic political structure (including the ruling coalition and policy network) with international factors to explain the formation of regional foreign policies or the economic and trade policies of individual countries.²⁰

There are other scholars who focus on the power relationships among great powers and their correlation with the development of regionalism. The analytical perspective of this school is based on neorealism, which highlights the anarchic nature of the international system and views nation-states as the primary actors within it.²¹ The political and economic analysis of regionalism by scholars of neorealism has three aspects: first, neorealists analyze the asymmetric distribution of gains among countries during the

¹⁸Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, N.J.: Princeton University Press, 1984).

¹⁹Robert E. Baldwin, *The Political of Economy of U.S. Import Policy* (Cambridge, Mass.: MIT Press, 1985); Richard E. Caves, "Economic Models of Political Choice: Canada's Tariff Structure," *Canadian Journal of Economics* 9, no. 2 (May 1976): 278-300; and Jonathan Pincus, *Pressure Groups and Politics in Antebellum Tariffs* (New York: Columbia University Press, 1977).

²⁰Peter J. Katzenstein and Takashi Shiraishi, eds., *Network Power: Japan and Asia* (Ithaca, N.Y.: Cornell University Press, 1997); and Edward D. Mansfield and Marc L. Busch, "The Political Economy of Nontariff Barriers: A Cross-National Analysis," *International Organization* 49, no. 4 (Fall 1995): 723-49.

²¹Kenneth N. Waltz, *Theory of International Politics* (Reading, Mass.: Addison-Wesley, 1979); Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981); and Stephen D. Krasner, *Defending the National Interests* (Princeton, N.J.: Princeton University Press, 1978).

cooperation process.²² During the integration process, countries with fewer gains will oppose the development and enhancement of formal regional organizations. Thus these scholars conclude that whether or not the international institution is strengthened during the integration process depends on whether there is a problem of interest imbalance among the countries concerned.²³ Second, neorealists see the priorities of the economic cooperation coalition as being dependent on political alliance relationships; that is, powerful countries will prioritize economic integration with their political and military allies, and political and military alliances will affect the choice of international trade partnerships and the model of their development. The great powers will use their market advantage to influence trade flows and will be able to decide whether to open their domestic markets to potential rival nations.²⁴ Third, some scholars of new realism have focused on the influence of hegemony and have concluded that the decline of hegemony leads to the generation of protectionist regional barriers.²⁵

New Regionalism Approach (NRA)

With the vigorous development of regional organizations around the world in the 1990s, regional integration once again became a focus for academic study. More recently, faced with a new wave of regional integration, academia has been considering new research methods and ap-

²²Neorealism assumes that the state is mainly concerned with getting "relative gains"—more benefits than other states can get—when it enters into a cooperation status quo with other states. If the state finds it cannot obtain more benefits or that some other states are likely to obtain a more dominant position during the cooperation process, it will not maintain cooperative relationships with its counterparts. Neoliberalism, on the other hand, is concerned with "absolute gains"—collective benefits that come from maintaining the relationship of cooperation. A smaller difference in the value of the gains of each state makes it maintain the relationship of cooperation longer and makes it more solid.

²³Grieco, "Anarchy and the Limits of Cooperation," 490-92.

²⁴Joanne Gowa, *Allies, Adversaries, and International Trade* (Princeton, N.J.: Princeton University Press, 1994); and Joanne Gowa and Edward D. Mansfield, "Power Politics and International Trade," *American Political Science Review* 87, no. 2 (June 1993): 408-20.

²⁵Gilpin, *U.S. Power and the Multinational Corporation*, 35-37; Robert Gilpin, *The Political Economy of International Relations* (Princeton, N.J.: Princeton University Press, 1987); and Stephen D. Krasner, "State Power and the Structure of International Trade," *World Politics* 8, no. 2 (January 1976): 317-47.

proaches to the subject. The new regionalism school, which consists mainly of European scholars, has devised a new research model and analytical framework based on an original research approach with which to conduct cross-regional comparative explorations of the dominant features and characteristics of the new wave of regionalism.

New regionalism was developed by scholars at the United Nations University and the World Institute of Development Economics Research in the 1990s. Hettne, Inotai, and Sunkel suggest five specific books that can be used as the systematic principle base of the NRA.²⁶ In addition, de Melo, Panagariya, and Rodrik have also explored the many dimensions of the new wave of regional integration.²⁷ These studies of new regionalism are mainly concerned with three interrelated issues: (1) the relationship between globalization and regionalization; (2) a dynamic analysis of regionalization; and (3) the influence of regionalization.

The generation of a new research direction for the study of regionalism provides evidence that European scholars have a new theoretical view of regional integration. Their research method consists of compound analysis with multiple levels, dimensions, and actors and also includes international political economics, thus allowing them to conduct a synthetic analysis which explores the complexity of this new wave of regional integration. The main contribution of these scholars has been to identify the developing features and dominant characteristics of this wave of new regionalism. They argue that compared to old-style protectionist, introverted and exclusive regionalism, the new regionalism that emerged at the end of the 1980s could be characterized as open regionalism, South-North regionalism, and multiple regionalism.²⁸ These scholars have also attempted to

²⁶Björn Hettne, András Inotai, and Osvaldo Sunkel, eds., *Globalism and the New Regionalism* (London: Palgrave Macmillan, 1999); and Norman D. Palmer, *The New Regionalism in Asia and the Pacific* (Lexington, Mass.: Lexington Books, 1991).

²⁷Jaime de Melo, Arvind Panagariya, and Dani Rodrik, "The New Regionalism: A Country Perspective," *Finance and Development* 29, no. 4 (1992): 37-52.

²⁸Paul Bowles, "ASEAN, AFTA, and the 'New Regionalism'," *Pacific Affairs* 70, no. 2 (Summer 1997): 228-29; and Hao Pei-chih, "Ya'Ou huiyi xingcheng de jiegouxing dongli yu yiyi: cong xin quyu zhuyi de guandian fenxi" ('The structural drive and significance of the

understand the unique drivers and features of each individual example of regionalization through comparison with the European Union.

Some studies based on the new regionalism approach indicate that some traditional regional integration theories are inadequate to explain the various phenomena in the current regional integration process. In particular, by focusing on purely economic explanations and particularly by emphasizing the static economic interests of trade creation and trade diversion in regional integration, traditional regional integration theories neglect non-economic dimensions; neither do they take into consideration differences in economic scale among great powers and other states.

First, traditional regional economic cooperation theories emphasize the static interests of member-states, including the improvement of trade conditions, expansion of economic scale, and increased attractiveness to foreign investment. However, many recent studies have shown that these static interests are not significant.²⁹ For great powers in particular, the trade creation and trade diversion effects of regional economic cooperation are negligible.³⁰

Second, theoretical studies of the new regionalism school reveal that great powers usually have a multiplicity of motives for participating in regional economic cooperation. In addition to the traditional trade and economic interests, great powers tend to value the political dimensions of regional economic cooperation and its non-economic factors. Sometimes, political reasons have been more important than economic reasons for initiating RTAs. This has been true also for smaller states. The political benefits of regional integration for smaller states include improvements in regional security and increased collective negotiation capacity.³¹

formation of the Asia-Europe Meeting [ASEM]: analysis from the view of new regionalism), *Wenti yu yanjiu* 43, no. 1 (January/February 2004): 125-44.

²⁹Soamiely Andriamananjara and Maurice Schiff, "Regional Grouping among Microstates," *Policy Research Working Paper*, no. 1922 (The World Bank, March 1998).

³⁰Raquel Fernandez and Jonathan Portes, "Returns to Regionalism: An Analysis of Nontraditional Gains from Regional Trade Agreements," *World Bank Economic Review* 12, no. 2 (1998): 197-220.

³¹*Ibid.*, 210-13.

Third, cross-regional integration has also usually been influenced by non-economic factors. Recently, in particular, there has been a lot of South/North and cross-regional cooperation that cannot be explained by traditional regional cooperation theory.

The main hypotheses and perspectives of the NRA are as follows:

1. Different types of countries exhibit significantly different motives for participating in regional economic cooperation. Great powers exhibit essential strategic differences from other states in their participation in the regionalization process due to differences in economic scale.³²

2. Non-economic factors are more important for great powers, and their participation in regionalization tends to involve a high degree of political strategic thinking. Great powers hope to expand their market scale through regional cooperation in order to increase their influence on the formulation of international political and economic rules.

3. The major incentives for smaller states to participate in regional integration include: entering markets (particularly that of the great power), enhancing collective negotiation capacity, and increasing the institutional incentives for foreign capital. In the integration process, smaller states tend to make one-sided concessions to the great powers.

The differences between the old and new regionalism approaches are presented in table 1.

The Great-Power Factor in Regional Integration: The Incentives and Influence Mechanisms of Great Powers' Participation in Regionalization

Current studies related to new regionalism explore the unique content and development of the new wave of regionalism launched since the 1990s. Some of these studies focus on differences of economic scale

³²Ibid., 197-200; Andriamananjara and Schiff, "Regional Grouping among Microstates," 1-5; and Li Xiangyang, "Xin quyue zhuyi yu daguo zhanlue" (New regionalism and great-power strategy), *Guoji jingji pinglun* (International Economic Review), 2003, no. 7-8:5-9.

Table 1
Differences between the Old and New Regionalism Approaches

	Old regionalism approach	New regionalism approach
Main characteristics of regionalism	(1) introverted and exclusive regionalism	(1) extroverted and open regionalism
	(2) North/North or South/South regionalism	(2) North/South regionalism
	(3) hegemony regionalism under the cold war binary system	(3) multiple regionalism
Perspectives of analysis	(1) traditional trade and economic interest analysis	(1) compound analysis with multiple levels, dimensions, and actors
	(2) static interest analysis	(2) emphasis on cross-regional comparison
	(3) representative analytical approach or framework: such as functionalism/new functionalism; new institutionalism; new realism	(3) analysis of international political economics
		(4) emphasis on analysis of non-economic factors
		(5) emphasis on different motivations due to differences in economic scale

among nations and non-economic factors and try to identify how great powers and other states exhibit essential strategic differences when participating in regionalization and how these differences are related to economic scale.³³ They also analyze great powers' non-traditional economic motives for participating in regionalization.

Great powers are different to other states in terms of market scale, industrial structure, development strategies, capacity to defend themselves from external attack, and the ability to exact revenge in trade disputes, and for these reasons great powers exhibit considerable differences in strategic thinking and operational mechanisms when they participate in regionaliza-

³³See note 28 and 29 above; and Li, "Xin quyu zhuyi yu daguo zhanlue."

tion.³⁴ Their motives for participating in regional economic cooperation are different also. Great powers are mainly concerned with expanding their market scale to increase their influence on the formulation of international economic rules, whereas smaller states seek to enter markets (particularly that of the great power), enhance their collective negotiation capacity, and increase institutional incentives that attract foreign capital.

According to Li Xiangyang (李向陽), one of the long-term motives behind great powers' participation in regional economic cooperation is their desire to gain a leading position and acquire authority over the formulation of international economic regulations.³⁵ By concluding RTAs, great powers not only acquire the internal benefits of regional cooperation but they also receive external benefits, such as increased influence over multilateral trade negotiations and more influence over international economic rules. The influence of a country over the formulation of international economic rules depends on market scale.³⁶ The most direct impact of RTAs is to expand a country's market scale. Great powers have the capacity to transform the rules of the region into multilateral trade regulations through a process known as *sequential negotiation*.³⁷ During the Uruguay Round of trade negotiations, this kind of negotiation was the leading measure through which great powers used RTAs to influence global economic rules.³⁸ On several occasions, the United States threatened to replace the multilateral trade negotiations of the WTO with NAFTA, and was repeatedly successful. For example, in 1993, in order to bring the Uruguay Round to a speedy end, the United States used the establishment of NAFTA to force the cooperation of the APEC (Asia-Pacific Economic

³⁴Li, "Xin quyue zhuyi yu daguo zhanlue," 5-9.

³⁵Ibid., 7-8.

³⁶Of course, great powers also derive their influence over other states from their technology and resource advantages. This is the concept of *structural power*, which Susan Strange explains through the example of the United States, which takes advantage of its military, financial, and technological capabilities to control the global economy. See Susan Strange, *Casino Capitalism* (New York: Basil Blackwell, 1986); and Susan Strange, *Mad Money* (Manchester, U.K.: Manchester University Press, 1998).

³⁷Zhang, *Shijie quyuehua de fazhan yu moshi*, 8.

³⁸Li, "Xin quyue zhuyi yu daguo zhanlue," 8.



Cooperation) members and reinforce its positions. It further used APEC to force concessions from EU members on trade in agricultural products.³⁹

Great powers have managed to use the regionalization process to expand their overall market scale and to transform it into influence over international regulations. In turn, that market scale is an absolute and exclusive resource endowment, which allows great powers to dominate the regionalization progress. In this sense, by entering the WTO and thus liberating its enormous internal market, China then had the incentive to promote and dominate FTAs. According to Hu Angang, during this process China admitted that its strategic objective was to become "an open economic giant."⁴⁰ This kind of "open economy" is different from the "outward-oriented economy" or "export-led economy" implemented by China in the past. An open economy means having completely open domestic markets and accelerating the enforcement of trade and investment liberalization. In terms of trade theory, the term "great power" has unique significance: it is a country whose economic behavior is capable of affecting prices on the international market.⁴¹ Hu Angang has pointed out that trade liberalization and big reductions in tariff and non-tariff barriers in China, the largest developing country in the world, have had diverse great-power effects. In other words, the WTO acted as the incentive for China to open its enormous internal market, and this market in turn became the mechanism through which China was able to dominate the FTA process. Indeed, the Chinese economy became even more liberalized than that of Japan, and before entering the WTO, China reduced its tariffs more radically than any other developing country,⁴² making it the most open of all the

³⁹Hsiao Chuan-cheng, "Lun Zhonggong de 'heping jueqi'" (On China's peaceful rise), *Zhengzhi kexue luncong* (Political Science Review), no. 22 (December 2004): 7.

⁴⁰Hu, *Zhongguo da zhanlue*, 122-39.

⁴¹China's exports accounted for up to 30 percent of the increase in global export value by 2002, being a more prominent part of up to 60 percent of the increase in East Asia's exports during the same period. Cf. Hu and Men, *Zhongguo: Dongya yitihua xin zhanlue*, 32.

⁴²By the time China entered the WTO, it was already perhaps the most open of all developing countries. Its tariff and non-tariff barriers were falling rapidly. The scope and depth of China's market access commitments compare favorably with those of other WTO members. For example, China committed to reduce its average statutory tariff on industrial

world's emerging markets.⁴³

The great-power strategy of transforming the expansion of market scale into domination of the global market also means that the power battle among great powers is transformed into competition to dominate regional organizations. In order to have the capacity to dictate regional rules, great powers must strive to dominate integration in their region.⁴⁴ In this sense, competition among great powers results in the development of competitive regionalization. For example, the formation of a single market in Europe meant that the EU surpassed the United States in terms of market scale for the first time. Only by fighting to regain superiority in market scale could the United States continue to dominate the formulation of international economic rules.⁴⁵ Thus, when Europe passed the Single European Act creating a European single market in 1986, the United States immediately entered free trade area negotiations with Canada. When the Maastricht Treaty was signed in 1991, the United States began actively negotiating the formation of NAFTA. The eastward expansion of the EU induced Washington to promote the FTAA, and during the Bush administration in particular, the United States acquired and made active use of "fast track" trade negotiation authority granted by Congress to complete the FTAA negotiations by 2003.

In addition, in order to expand market scale and subsequently transform it into international influence both within and outside the region, great powers have also chosen the dominant model for the economic integration

products to 8.9 percent by 2005; for Argentina, Brazil, India, and Indonesia, four other large developing countries, the comparable figures are 30.9, 27.0, 32.4, and 36.9 percent, respectively. As already noted, China has agreed to much lower tariff levels on its most sensitive agricultural products than has Japan. See Nicholas R. Lardy, *Integrating China into the Global Economy* (Washington, D.C.: Brookings Institution Press, 2002), 79-80.

⁴³Hu and Men, *Zhongguo: Dongya yitihua xin zhanlue*, 5; and Lardy, *Integrating China into the Global Economy*, 8-9.

⁴⁴Li, "Xin quyue zhuyi yu daguo zhanlue," 8.

⁴⁵As a hegemon, the United States not only relies on its market scale to maintain its dominance over international economic rules, but also operates its meta-power by developing some new guidelines, principles, norms, and rules through new economic institutions set up in order to maintain its global dominance. See Stephen D. Krasner, ed., *International Regimes* (Ithaca, N.Y.: Cornell University Press, 1983), 13-21.

of bilateral trade. RTA patterns can be divided into five stages of development according to the degree of integration they represent, these are: free trade area, customs union, common market, economic union, and political union.⁴⁶ At present, most regional trade agreements fall into the free trade area category, and only a few, such as the EU and Mercosur, are at a higher stage of development. In fact, customs unions allow more scope for exacting revenge in foreign trade while free trade areas lack that revenge capacity and are mainly used to expand market scale and export markets. Most of the RTAs in East Asia follow the free trade area pattern and are not intended to develop into customs unions. The reason for the popularity of the free trade area pattern is that it allows great powers to rapidly expand their market scale and transform it into influence over international economic rules and into bargaining chips for sequential negotiation. Free trade areas allay other states' concerns that they could lose control over their own domestic policy during the process of regional integration with great powers.

China also expects to expand its market scale through FTAs, to dominate bilateral negotiations, and to increase its bargaining power for sequential negotiation.⁴⁷ China's priorities in creating free trade areas are: (1) creating a free trade area with ASEAN; (2) creating a four-sided free trade area with Hong Kong, Japan, and South Korea; (3) establishing an East Asian free trade area on the basis of (1) and (2); (4) attracting the nations of South Asia and establishing a free trade area embracing East Asia and South Asia; and (5) creating and participating in an Asia-Pacific trade area.⁴⁸

By dominating free trade area negotiations, China expects to increase the growth of intra-regional trade through regionalization, which

⁴⁶Ali M. El-Agraa, ed., *The Economics of the European Community* (London: Haverter Wheatsheaf, 1994).

⁴⁷Stephan Haggard argues that China's rapidly expanding market and large size give it numerous opportunities to conduct its foreign economic policy on a bilateral basis. See Haggard, "The Political Economy of Regionalism in Asia and the Americas," 33; and Hu, *Zhongguo da zhanlue*, 141-42.

⁴⁸Hu, *Zhongguo da zhanlue*, 140-51.

Table 2
Intra-Regional Trade as a Percentage of Total Trade in Three Regions

Region	1980	1985	1990	1995	2000	2001
East Asia-10, including Japan	33.6	36.2	41.6	50.1	50.1	50.8
North American Free Trade Area	36.6	36.8	41.9	46.5	46.3
European Union	52.6	53.8	64.9	64.1	62.1	61.9

Source: <http://www.mof.go.jp/english/others/ots022c.pdf>.

would help it exploit its comparative advantage and great-power market advantage. Over the past twenty years, intra-regional trade as a proportion of total trade in East Asia has grown continuously. In 1985, intra-regional trade accounted for 36.2 percent of total trade; by 1995, it had increased to 50.1 percent, and it has remained above 50 percent ever since.⁴⁹ In 2000, the proportion of intra-regional trade in East Asia was greater than that in NAFTA and only 12 percentage points less than that of the European Union (see table 2). According to Peter J. Katzenstein, in contrast to Europe and America, where intra-regional trade was boosted using institutional methods, the high degree of intra-regional trade in East Asia was achieved through market mechanisms.⁵⁰ The establishment of the East Asia Free Trade Area encouraged a switch from market-led to institution-led growth in economic and trade development in East Asia.

In addition, great powers usually attach considerable value to the political effects of regional economic cooperation. The great power can usually devise institutional arrangements to reform the political and economic structure of the region and establish strategic alliance relationships through the regional integration process. Thus, political factors usually take the lead in RTAs. For example, when the East European countries were seeking to join the EU, their level of democratization was seen as a

⁴⁹Tung, "Dongya jingji zhenghe yu Taiwan de zhanlue," 28-29.

⁵⁰Peter J. Katzenstein, "Introduction: Asian Regionalism in Comparative Perspective," in Katzenstein and Shiraiishi, *Network Power: Japan and Asia*, 12-22.

crucial condition for membership.⁵¹ Also, more and more political clauses are being included in RTAs, including those concerning labor standards and democratic systems. In some cases, political factors have been the main drivers of RTAs; for example, after the Iraq war, the United States proposed that it establish a free trade area with the countries of the Middle East in order to exercise political control and eliminate the roots of terrorism through economic cooperation.⁵²

Up to now, in addition to NAFTA, the FTAs signed by the United States have mostly been based on political concerns and strategic interests, with economic interests taking a back seat. The United States has tended to operate bilateral agreements in such a way as to benefit and strengthen its loyal allies. Thus, political concerns are a major factor in its selection of trade partners. Many of its bilateral and regional cooperation negotiation processes have involved in-depth consideration of U.S. diplomatic and strategic interests (the trade agreement between the United States and the Middle East countries being a case in point). For political and military reasons, Israel was the first country in the Middle East with which the United States signed an FTA, despite the fact that the agreement immediately produced a trade deficit with Israel. Politics was also the main concern in China's recent bilateral trade agreements with countries of Central Asia. After Mongolia was admitted as an observer in the Chinese-led Shanghai Cooperation Organization (SCO) in 1994, the SCO announced that Iran, Pakistan, and India would join on June 4, 2005. This expansion of the SCO indicated that China was attempting to dominate the security of Central Asia and establish strategic alliances in the region.⁵³ Furthermore, since September 2003, China has been promoting the facilitation of trade

⁵¹At the Copenhagen Council in 1993, the EU established three qualifications for membership: (1) the possession of institutions to defend democratic stability, law, human rights, and respect for and protection of minority peoples; (2) the possession of an effective market economy and the capacity to respond to the internal competitive pressure in Europe and market forces; and (3) the capacity to fulfill the duties of member-countries, including adherence to the aims of political, economic, and monetary union.

⁵²Li, "Xin quyü zhuyi yu daguo zhanlue," 6.

⁵³Chien-peng Chung, "The Shanghai Cooperation Organization: China's Changing Influence in Central Asia," *The China Quarterly*, no. 180 (December 2004): 989-1009.

and investment among the members of the SCO and has advocated the gradual establishment of a "Free Trade Area of the Shanghai Cooperation Organization."

The participation of great powers in the regionalization process has given these powers a base from which to develop regional hegemony.⁵⁴ Back in 1934, the United States, as part of its "good-neighbor" policy, signed a series of fair-trade agreements with the countries of Latin America. In addition to reducing tariffs, abolishing import restrictions, and developing a regional currency and trade groups centered on the United States, these agreements were the basis for the U.S. dollar eventually becoming the world reserve currency, which further allowed the United States to gain a hegemonic position.⁵⁵ According to hegemonic stability theory, it is the enormous market scale of a hegemon that is the root of its great capacity and sphere of influence. Moreover, great powers also attempt to manipulate market forces to increase their influence over both adversaries and allies.⁵⁶ In Asia, the potential for political gains has also provided a very important motive for China to start its regional strategy with the China-ASEAN FTA (CAFTA). Studies indicate that the larger the FTA, the more benefits it can generate, so an East Asian FTA (EAFTA) would be more beneficial to China than CAFTA. Nevertheless, China has chosen CAFTA over EAFTA for political reasons, as closer economic relations with ASEAN will help strengthen its political ties with that organization.⁵⁷

⁵⁴Immanuel Wallerstein has suggested the following, relatively restricted, definition of hegemony: a situation in which rivalry between the so-called great powers is so unbalanced that one power is truly *primus inter pares* and can largely impose its rules and its wishes in the economic, political, military, diplomatic, and even cultural arenas. According to Wallerstein, the material base of such a power lies in the ability of enterprises domiciled within it to operate more efficiently in the three major economic arenas of agro-industrial production, commerce, and finance. Cf. Immanuel Wallerstein, *The Politics of the World-Economy: The States, the Movements and the Civilizations* (Cambridge: Cambridge University Press, 1984), 38-39.

⁵⁵Men Honghua, *Baquan zhi yi: Meiguo guoji zhidu zhanlue* (The wing of hegemony: international institutional strategies of the United States) (Beijing: Beijing daxue chubanshe, 2005), 189-90.

⁵⁶Gowa, *Allies, Adversaries, and International Trade*, 6-8.

⁵⁷A report submitted to the ASEAN-China Expert Group on Economic Cooperation by a joint research team, September 27, 2001. Cf. Zhang Yunling, "China's FTA Strategy and

Thus, China concluded an FTA with the countries of East Asia and signed the Chiang Mai Initiative on East Asian currency and finance cooperation,⁵⁸ both of which have the potential to substantially reinforce its influence in the East Asian region.

The participation of great powers in regional integration is also likely to have a long-term influence on the regional trade and production structure. China, through its active participation in East Asian regional integration, provides tax incentives to attract large amounts of capital from Hong Kong and Taiwan, creating the "Sinicization of the production network in East Asia," or a "greater China," which has not only changed the production structure through the establishment of numerous Hong Kong- and Taiwanese-owned factories in mainland China but has also helped upgrade China's management skills and logistics services. Apparently, the process of "Sinicization" has also made an impression on Japan, South Korea, and many developed countries, so that more intra-Asian trade and investment is conducted with "the great China" system rather than with the Japan-centered one,⁵⁹ and it has also resulted in the "Asianization" of trade in Asia.⁶⁰ Moreover, China's active participation in East Asian regional inte-

China-Japan Economic Relations," in Zhang Yunling, *East Asian Regionalism and China* (Beijing: World Affairs Press, 2005), 180-82.

⁵⁸After the 1997 Asian financial crisis, the major countries in Asia adopted the Chiang Mai Initiative and its related currency exchange agreement. At present, based on a bilateral currency exchange network among these countries, there are sixteen two-sided exchange initiatives. The total amount exchanged was US\$36.5 billion. On May 5, 2004, the finance ministers of ASEAN+3 signed a unified declaration and indicated that they would issue an "Asian currency basket," based mainly on their own currencies, to reduce possible exchange rate fluctuations among the East Asian nations.

⁵⁹By the mid-1990s, the "greater China" production and trade networks involving China, Taiwan, and Hong Kong had developed real regional weight. In some industries—including the production of notebook computers and hard disk drives—the combination of American research and "greater China" production networks had displaced Japanese corporations from their preeminent position. Furthermore, Taiwanese and overseas Chinese business people have been central in creating East Asia's regional production networks. China's increased importance was not simply as a magnet for incoming foreign investment.

⁶⁰The "Asianization" of trade refers to the long-term overall trend in Asia toward greater intra-Asian trade. The share of intra-Asian exports to total Asian exports increased from 43 percent in 1992 to 49 percent in 1996, dropped back to 43 percent in 1998, and then recovered to 50 percent in 2002. This trend toward greater intra-Asian trade and the increase in intra-regional trade will be the main driving forces of economic growth in many Asian nations. Cf. Peter J. Katzenstein and Takashi Shiraiishi, eds., *Beyond Japan: The Dynamics*

gration will be likely to further disrupt the "flying geese model" led by Japan, which has gone into decline.⁶¹

The Impact of Great-Power Participation on the Regionalization Process: The Strategies of Great Powers and Smaller States

The participation of great powers in the regionalization process changes the relationships between great powers and other states. Competition among the great powers forces the other states to change their strategic thinking and methods of response concerning regionalization.

In the case of NAFTA, established by the United States, Canada, and Mexico, and in the expansion of the European Union into Eastern Europe, there was an imbalance between the great powers and the smaller states in the negotiation process, and the latter tended to be forced to make one-sided concessions.⁶² These concessions were not only concerned with traditional tariff and non-tariff barriers, but were also related to their domestic political and economic systems.⁶³

of East Asian Regionalism (Ithaca, N.Y.: Cornell University Press, 2006), 12-13, 161-87; and T. J. Pempel, ed., *Remapping East Asia: The Construction of a Region* (Ithaca, N.Y.: Cornell University Press, 2005), 87-89.

⁶¹The collapse of the flying geese model has taken two forms. As a result of the problems afflicting the Japanese economy, the circulation of capital and technology through the system is too weak to sustain the model. Moreover, there is no longer an unambiguous hierarchy among the "geese" and the division of labor has become more complex. Different economies have developed strong capabilities in different sectors, and there is no longer a clear ordering among the economies in terms of sophistication. Instead, a pattern of rival production systems is emerging. Under the "flying geese model," Japan has traditionally cooperated with the labor-intensive economies of Southeast Asia, while the China-centered networks have their labor-intensive production bases in China itself. The dynamism of China and the weakness of Japan have therefore especially hurt the Southeast Asian economies, because their competitor economy has grown in strength, while their complementary economy has declined. These patterns produce new possibilities for competition and cooperation that cannot be contained within a hierarchical flying geese model. Cf. Pempel, *Remapping East Asia*, 90-91.

⁶²Carlo Perroni and John Whalley, "The New Regionalism: Trade Liberalization or Insurance?" *Canadian Journal of Economics* 33, no. 1 (February 2000): 1-24.

⁶³Li, "Xin quyue zhuyi yu daguo zhanlue," 5.

However, this pattern of one-sided concessions has developed differently in East Asia. In order to promote itself as a good neighbor, China actively established close relationships with the Southeast Asian countries and unilaterally opened the Chinese market. When Chinese Premier Zhu Rongji (朱鎔基) initially proposed the idea of a free trade agreement with ASEAN, China decided first of all to open its market and then to provide ASEAN with non-tariff incentives, in order to reduce possible anxiety among the ASEAN members with respect to their economic and trade similarities with China and the dangers of Chinese competition. Once the relationship with ASEAN was stabilized, China intended to ask ASEAN members to open their markets to China. In consideration for the variety of economic situations and varying degrees of liberalization among the ASEAN members, and the different impacts that the opening of markets was likely to have on them, China specifically provided preferential tariff treatment for Vietnam, Laos, Myanmar (Burma), and Cambodia, all of which were at a lower stage of development. This willingness on China's part to open its market first was embodied in the "Early Harvest Program" (EHP). China and the ASEAN countries reduced tariffs three years in a row after 2004, and provided most-favored-nation (MFN) status to three non-WTO nations, Vietnam, Laos, and Cambodia.⁶⁴

In addition, the competition among great powers tends to force other states to become passive participants in the wave of regional economic cooperation. Scholars have divided the response strategies of smaller states into three types. The first is to join an RTA to avoid discrimination and marginalization, which is the choice of late-comers to the process of regional economic cooperation. This type of behavior may be described as an "insurance policy" or "bandwagoning." The second type of response is to increase international economic competition positions and choose geographic neighbors with which to actively develop economic cooperation. In the third type of response, the smaller states take advantage of

⁶⁴Richard Stubbs, "ASEAN Plus Three: Emerging East Asian Regionalism?" *Asian Survey* 42, no. 3 (May-June 2002): 440-55; and John Wong and Sarah Chan, "China-ASEAN Free Trade Agreement," *ibid.* 43, no. 3 (May-June 2003): 507-26.

competition among the great powers to make themselves the biggest beneficiaries of regional economic cooperation. This may be described as "balance of power" behavior.⁶⁵ Two or more great powers might compete for the cooperation of some smaller states, and these states would then become the beneficiaries of such competition. This is the "hub and spoke" effect.⁶⁶

The "hub and spoke" effect occurs when one country concludes RTAs with several other countries, the first country acting as the "hub" and the others acting as "spokes." Since there are no RTAs between the "spokes," the products of the hub country can enter all the spoke markets, but the products of the spoke countries cannot enter each other. Thus, the hub country is more likely to attract foreign capital.⁶⁷ Many smaller states, such as Mexico, Chile, and Singapore, have become centers of regional economic and trade agreements because of competition between great powers (see figure 1).

Studies of the regionalization process also show that the competition among great powers tends to allow some smaller states to benefit. In the regional integration of East Asia, the most significant example is that of the ASEAN member-states. China and Japan both expected to become the main force in East Asian regionalization.⁶⁸ The ASEAN member-states were crucial to achieving this ambition so both China and Japan had to use their relationships with ASEAN to increase their influence in East Asia in general. Since the mid-1990s, China has been trying to prove that it poses no threat to its neighbors while at the same time expanding its political and

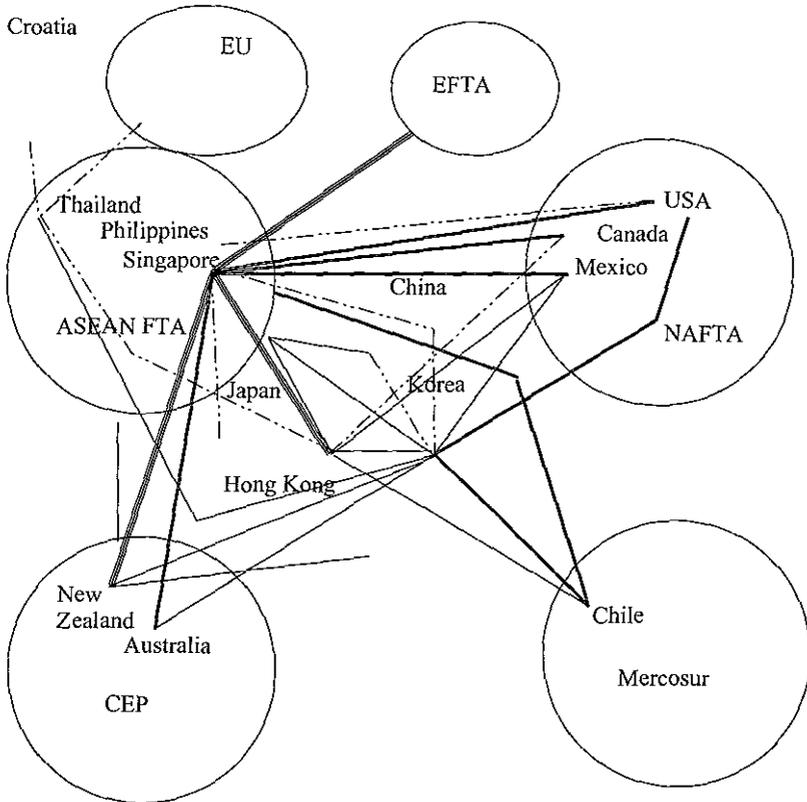
⁶⁵Zhang, *Shijie quyuhua de fazhan yu moshi*, 12.

⁶⁶Craig VanGrasstek, "U.S. Plan for a New WTO Round: Negotiating More Agreements with Less Authority," *The World Economy* 23, no. 5 (May 2000): 673-700.

⁶⁷Li, "Xin quyue zhuyi yu daguo zhanlue," 5-9.

⁶⁸Even though Japan has been involved much longer than China, its method of engagement has been mainly through official development assistance (ODA) and foreign direct investment (FDI), rather than FTAs. Although the Japanese government attached nominal importance to free trade agreements, it was in fact quite reluctant to sign FTAs with other states. This was firstly because FTAs were strongly opposed by some domestic sectors, especially agriculture which would have lost its long-term tariff protections, and secondly because Japan lacks the incentive to develop more integrated regional institutions for tariffs as its trade dependence on East Asia is only 32.1 percent.

Figure 1
FTAs and the "Hub and Spoke" Effect



KEY: ASEAN FTA (Association of Southeast Asian Nations Free Trade Area); CEP (Australia-New Zealand Closer Economic Partnership); EFTA (European Free Trade Association); EU (European Union); NAFTA (North American Free Trade Agreement); Mercosur (Southern Common Market).

- Implemented
- - - Under negotiation
- Official discussion
- · · Proposal and/or under study

Source: Byung-Kook Kim, "Redrawing East Asia's Strategic Map: The Politics of Bilateral Regionalism" (Paper presented at the Fourth International Convention of Asia Scholars, Shanghai, August 20-24, 2005), 29.

economic influence in East Asia. To this end, China has been expressing its good intentions toward its neighbors in terms of security, while at the same time setting up dialogue mechanisms and reconstructing its relations with the nations of Southeast Asia through debt reduction and economic aid.

Strategic Thinking behind the Participation of Smaller States in the Regionalization Process: Diverse Political and Economic Forces and Incentives

In addition to studies of the strategies of great powers in the regionalization process, there are also related studies of the part smaller states play in regionalization, in particular the economic and non-economic interests that persuade developing countries to participate in regional cooperation.⁶⁹ Most of these studies conclude that since developing countries have smaller markets, they are less dependent on the external world and are therefore in a less advantageous position in international political and economic negotiations. Thus, the main incentive for smaller states to participate in regional economic cooperation is the expectation of entering other markets, particularly those of the great powers. For instance, Mexico had a competitive advantage in labor-intensive products. Thus in order to expand its exports, Mexico made a concession to the United States in order to join NAFTA and enter the American market. In the East Asian region, it was the hope of gaining priority entry into the Chinese market that prompted ASEAN to conclude a free trade agreement with China.

According to Fernandez and Portes, the non-economic benefits that developing countries can acquire through regional integration include: maintenance of reform in terms of time consistency, signaling, insurance, increased bargaining power, and the establishment of coordination.⁷⁰ The

⁶⁹Such as Andriamananjara and Schiff, "Regional Grouping among Microstates"; and Fernandez and Portes, "Returns to Regionalism."

⁷⁰Fernandez and Portes, "Returns to Regionalism," 197-220.

maintenance of reform in terms of time consistency means that developing countries tend to confirm the progress of their internal reforms through the external pressure of the regional integration mechanism. For example, after the debt crisis of the 1980s, Mexico underwent a series of reforms, and in order to prevent domestic elections from disrupting their progress, the Mexican government confirmed its reform route by participating in NAFTA.⁷¹ "Signaling" means using participation in regional cooperation to indicate to external investors that a country has liberalized its trade, has a good economic situation, and has a transparent government, in the hope of attracting foreign capital. Regional cooperation is a form of insurance because it reduces uncertainty, thus increasing member-countries' welfare. Andriamananjara and Schiff conclude that traditional trade regionalization interests are not the most decisive factor influencing smaller states to participate in regional integration. What RTAs can give smaller states is an increase in bargaining power.⁷²

Some of the new regionalism scholars in particular look at the motives of developing countries for participating in regional integration from the analytical angle of international political economy and how the developing countries respond to globalization. These motives include the opportunity of enhancing their collective bargaining power, balancing the regional great power within the regional framework, looking out for the interests of their own domestic businesses, and increasing their own global competitiveness.⁷³ Jeffrey Schott has also suggested that the different types of regional economic integration have the following three objectives: increasing economic benefits, increasing the negotiation chips given to a third nation, and opening space for political cooperation in the region.⁷⁴ Robert Gilpin has concluded that Third World countries participate in re-

⁷¹Liu Junsheng, "Jingji quanqiuhua beijing xia woguo canyu quyue hezuo de zhengce" (The policies of China's participation in regional cooperation in light of economic globalization), in Zhang, *Shijie quyuhua de fazhan yu moshi*, 36.

⁷²Cited in Li, "Xin quyue zhuyi yu daguo zhanlue," 5.

⁷³Hettne, Inotai, and Sunkel, *Globalism and the New Regionalism*, 25-30.

⁷⁴Jeffrey J. Schott, "Trading Blocs and the World Trading System," *The World Economy* 14, no. 1 (March 1991): 16.

gional economic cooperation in order to improve and strengthen their relationships with developed nations or to increase their political and economic capacity in the region.⁷⁵

In addition, Paul Bowles has emphasized that regional integration offers developing countries the chance to establish the institutional incentives that can attract international capital. They therefore look to establish RTAs with developed countries, and this has led to the significant phenomenon of North-South regionalism.⁷⁶ In the global competition for capital, developing countries expect that by signing FTAs with developed countries, they will be provided with the international and multinational guarantee conditions that will make them more attractive to international capital. As de Melo, Panagariya, and Rodrik have stated, "the developing countries now look to developed nations as their partners rather than the undeveloped nations partnering with each other, which is a significant change."⁷⁷ Jong Park has also made the same observation and indicated that "the most important characteristic of new regionalism development was the regional agreement among south/north nations instead of the regional agreement among the south/south nations in the first wave of regionalism."⁷⁸

For example, the main motive for the establishment of the ASEAN Free Trade Area was not to expand intra-regional trade, but rather to deal with global competition and to attract international capital. The development strategies of the ASEAN countries at the end of the 1980s were export-led, with the aim of attracting the foreign capital necessary for their economic development. Although the countries of Southeast Asia attracted the most foreign direct investment (FDI) of all the developing nations in the 1980s, in the post-Cold War era Southeast Asia faces competition from newly developing countries such as China, the former Soviet states, the countries of Central and Eastern Europe, and Mexico. This is why the

⁷⁵Gilpin, *The Political Economy of International Relations*, 330.

⁷⁶Bowles, "ASEAN, AFTA, and the 'New Regionalism'," 228-29.

⁷⁷de Melo, Panagariya, and Rodrik, "The New Regionalism," 37.

⁷⁸Jong H. Park, "The New Regionalism and Third World Development," *Journal of Developing Societies* 11, no. 1 (1995): 23.

Table 3
A Comparison between South/South Regionalism and North/South Regionalism

	South/South Regionalism	North/South Regionalism
Period	Before the end of the 1980s	From the late 1980s to the early 1990s
Main characteristics of regionalism	(1) intra-regional trade agreements mainly signed among developing countries or among developed countries (2) trading blocs contain member-countries with similar levels of per capita GNP	(1) intra-regional trade agreements mainly between regions of developing countries and regions of developed countries (2) developing countries likely to seek partnerships with developed countries rather than solely with each other (3) many new and proposed regional trading groupings contain members with very different levels of per capita income

strategic thinking behind the establishment of the ASEAN Free Trade Area in 1992 was concerned with the dispersion of international capital. As the volume of trade within ASEAN has only accounted for 20 percent of total trade,⁷⁹ the main purpose of the ASEAN Free Trade Area was not to expand trade within ASEAN, but to fight for international capital.⁸⁰ In East Asia, China now absorbs the lion's share of FDI going to developing countries. This enormous surge of FDI into China, which began in 1992, quickly began to pose a challenge to the ASEAN countries, those recipients of FDI

⁷⁹Paul Bowles and Brian K. MacLean, "Understanding Trade Bloc Formation: The Case of the ASEAN Free Trade Area," *Review of International Political Economy* 3, no. 2 (Summer 1996): 327; and Arvind Panagariya, "East Asia and the New Regionalism in World Trade," *The World Economy* 17, no. 6 (June 1994): 827-28.

⁸⁰Since the birth of the ASEAN FTA (AFTA) in 1993, intra-regional trade as a percentage of total trade has increased gradually from 21.4 percent in 1993 to 25.4 percent in 1997. It dropped to 22.7 percent in 1998 because of the 1997 Asian financial crisis. Nevertheless, this percentage is low compared to NAFTA's 40 percent and the EU's 50 percent, which truly reflects the competition rather than complementarity that exists among the members of ASEAN. <http://www.wtocomer.org.tw/SmartKMS/fileviewer?id=18442>.

that had been "ranked" ahead of China in the early years of the flying goose model. In this sense, China actually competes with ASEAN. This was a major concern of Indonesia and the other ASEAN member-states and prompted them to accelerate their plans for the AFTA.

Conclusion

Traditional regional integration theories focus on purely economic explanations and rarely introduce differences of economic scale among nations and non-economic factors to the analysis of how great powers and other states participate in regionalization. This study adopts an analytical perspective that is different from those of the previous literature and utilizes the new regionalism approach to analyze the synthetic motivations triggering great powers' domination of the regionalization process, the structural influence that the participation of great powers has on the region, and how the power competition among the great powers affects the regionalization response strategies of other states.

Some of our findings are consistent with one of the major hypotheses of the NRA: that there are significant differences in the underlying motivations for participation in regional economic cooperation between countries of different types. Great powers want to expand their market scale in order to increase their influence over international political and economic rules. Thus, the great powers fight to dominate regional integration so they can use it as the basis of future international competition. In addition, the enormous market scale of the great power is an exclusive resource endowment and critical influence mechanism which allows it to dominate the regionalization process. In order to rapidly expand its market scale and transform this market scale into influence over international economic rules and bargaining chips for use in *sequential negotiation*, the great powers usually begin by establishing a free trade area as the basis of a major regional integration operation.

The great powers' participation in the regionalization process has tended to involve a high degree of political strategic thinking. A country

aspiring to be a great power has usually sought to participate in regionalization in order to provide itself with a strategic dependent area which could help it to become a regional hegemon. Since 1934, the United States' good-neighbor policy and the free trade negotiation process in Latin America have formed the basis of U.S. global hegemony. Also, when a great power is participating in economic integration, its policy priorities and its selection of partners exhibit a high degree of political and economic intent. During the economic and trade liberalization process, the dominant great powers have preferred to choose their partners from among their political and military allies. Since the market scale of the great power is huge, it will try to increase its power and influence over both its friends and its enemies by manipulating market forces. During the process of regional integration, great powers tend to play the role of providers of public goods to the region, as has been demonstrated by hegemonic stability theory.

However, scholars who have adopted the NRA have seldom dealt with the question of how power competition among great powers affects the strategies of smaller states in the regionalization process. This paper has discussed the response strategies of smaller states and made some different findings while simultaneously testing the hypothesis of the NRA.

Once a great power participates in regional integration, it changes the influence mechanism and the way that integration develops; it also affects the other participants' response strategies and the way they relate to each other. Great powers fighting to dominate a regional integration process force other participants to respond. The main incentives for smaller states to participate in regional integration are the chance to enter new markets (particularly that of the great power), the ability to increase their collective negotiation capacity, and the opportunity to attract more foreign capital. Due to keen competition within the region, smaller states tend to make one-sided concessions to the great power in the regional integration process. However, a few small states are able to turn the competition among great powers to their own advantage or to become the competitive targets of a number of great powers seeking to conclude RTAs. Mexico, Chile, and Singapore are examples of small states that have become regional economic cooperation "hubs" in this way.

In East Asia, China actively sought close relations with the Southeast Asian countries and took the lead in opening its markets to these countries. Thus China used access to its huge domestic market as a means to control the FTA process in the region. As a great power in the region, China provided enormous market capacity, actively opening the market and playing the regional hegemonic role by providing regional public goods.⁸¹ In addition, the scale of China's economy and its active participation in the East Asian regional integration strategy led to the Sinicization of production networks in East Asia and the "Asianization" of trade in Asia as a whole. This research indicates that China's active participation in East Asian regional integration is likely to further disrupt the "flying geese model."

China is not only playing the role of a production plant in East Asia, but it has also replaced Japan as the major export market for many of the East Asian countries.⁸² As the countries of East Asia have become more dependent on China and Hong Kong as markets for their exports, their dependency on the Japanese market has decreased. This represents further change in the original East Asian trade model.⁸³ Trade in East Asia is growing much faster than trade in other areas, and China's contribution to the increase in East Asia's GDP is much greater than that of Japan.⁸⁴ A

⁸¹According to hegemonic stability theory, any effective leader or hegemon would act as a market provider for surplus commodities; a key supporter of economic, commercial, and financial openness; and even sometimes as a lender of last resort in the face of currency crises to provide emergency liquidity. Cf. Charles P. Kindleberger, *The World in Depression, 1929-1939* (Berkeley: University of California Press, 1973).

⁸²As a trading partner, China began to play an increasingly important role in both intra-Asian trade and exports outside the region. By the mid-1990s, production and trade networks among China, Taiwan, and Hong Kong had developed real regional weight. The total external trade of these three, after netting out trade among them, amounted to US\$810 billion in 1999, surpassing Japan's total of US\$731 billion. Since 2003, China has surpassed Japan as the most important Asian market for exporters from South Korea, Taiwan, and Singapore and has gained ground among other exporters. See Pempel, *Remapping East Asia*, 87-88.

⁸³The shift in the relative position of Japan and greater China was by far the most important change in overall trade patterns in Asia during the 1990s. The overall trade trends are easiest to see in Asian exports to the rest of the world. Overall, Asian exports to the rest of the world have grown strongly, averaging 5 percent per year. There has been a huge drop in Japan's share of these exports, from 45 percent to 30 percent, while China's share has increased from 6 percent to 21 percent, so apparently those 15 percentage points have shifted from Japan to China in a single decade. See Pempel, *Remapping East Asia*, 89.

⁸⁴Hu and Men, *Zhongguo: Dongya yitihua xin zhanlue*, 10.

report issued by the Asian Development Bank also shows that the Chinese economy has become the engine of the East Asian economy, and this was the critical factor triggering East Asian economic cooperation.⁸⁵ China's launch of the regionalization process served as an institutional means of increasing trade growth in East Asia.

Additionally, China's active participation in East Asian regional integration is a critical part of its international strategy. The ultimate consumer markets for the countries of Europe and America are mainly themselves members of RTAs. In contrast, the East Asian region did not have highly institutionalized RTAs as a mechanism for facilitating regional trade. East Asian integration relied mainly on a market production network to increase the total trade volume in the region.⁸⁶ Thus, for China, strengthening regional economic integration would lead to the long-term structural effect of intra-regional trade creation and trade diversion, which could reduce the structural problems of being highly dependent on markets outside the region and could particularly reduce over-dependency on the U.S. market. In addition, China has used regional economic cooperation to enable its economy to grow continuously, and it has transformed this economic growth into bargaining power in its various international political alliances, in order to pursue its ultimate goal of achieving regional or even global hegemony and constructing a new political and economic arrangement in East Asia.

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⁸⁵Asian Development Bank, *Asian Development Outlook 2004* (May 2004), Part 1: "Developing Asia and the World," www.adb.org/documents/books/ADO/2004/default.asp.

⁸⁶Katzenstein, "Introduction: Asian Regionalism in Comparative Perspective," 12-23.

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