1. Introduction

The new wave of regionalism has become an important feature of global political economy today. Since the 1990s, the number of bilateral or regional free trade agreements (FTAs) that have been signed has increased dramatically. In the Asia Pacific region, for instance, countries like the United States, Canada, Mexico, and Chile have pursued FTAs as one of their trade policy options since the early 1990s. Christopher Dent (2003) has called the sudden proliferation of regional bilateral free trade agreements “one of the most important recent developments in the Asia-Pacific regional political economy.” Baldwin (1995) points to the existence of a “domino effect” in terms of FTAs from the second to the early third wave. Mansfield and Milner (1999) identify a “contagion effect.” While the number of FTA agreements has also surged on a global level since the early 1990s, the rapid increase in FTAs in the Asia-Pacific is particularly noteworthy given the relative dearth of such arrangements in the region before the 1990s.

Regarding East Asia, despite the diffusion of the FTAs, known as “the third wave” in the 1990s, the region was characterized by a near absence of formal FTAs and regional institutions. Among East Asian countries, Japan and Korea pursued a single-track approach for almost fifty years, focusing their trade negotiation efforts exclusively on the multilateral forum while shunning regionalism as harmful to the GATT/WTO system. However, both governments today are actively and strategically pursuing bilateral FTAs with their trade partners. East Asia was engaged in 120 FTAs (including those under negotiation or study) as of 2009, and there are more to come.

Several questions arise. Why do countries pursue regional trade strategies, instead of relying solely on unilateral or multilateral ones? Will this new wave of regionalism be benign or malign? How is Asia-Pacific bilateralism likely to evolve over the next decade? To address those questions, there have been several reviews of research on FTAs in the field of IPE (Mansfield and Milner, 1997 and 1999; Hurrell, 1995; Yamamoto, 1997; Yamakage, 1983), but they did not generally focus on the transformation of FTAs beginning in the 1990s.

Drawing on the institutional bargaining approach (pp. 13-16, p. 280; see also Aggarwal 1998 for a more detailed discussion of bargaining games), in this outstanding book, Aggarwal and Koo address the above questions. The volume analyzes the rise of bilateralism in the Asia Pacific region with a view for understanding the origins and rapid evolution of these arrangements, and for comprehending their potential economic, political, and strategic impacts on regional economic relations.

The main aim of this book is to extract lessons from the empirical analyses of the political and economic factors that have driven Asia-Pacific bilateralism, and the implications of these arrangements for broader trading arrangements. The examination is conducted from theoretical, institutional, and empirical perspectives. The volume contains detailed case analyses of the trade strategies of nine countries: Japan, China, Singapore, South Korea, Malaysia, Taiwan, Thailand, the United States, and Mexico.
This book examines the negotiations of bilateral trade accords in the Asia-Pacific with specific attention to the following three questions (p. 4): "(1) Why does bilateralism develop? How does the context of informal and formal trade relationships drive the formation of bilateral agreements? (2) How will bilateralism evolve? What are the different paths that bilateralism might take? Will it be deepening or widening? Trade diverting or trade creating? (3) How will bilateralism affect other types of trade arrangements? Will it play a complementary or substitutive role? Will conflict arise among different accords and spill over into broader political relations among states?" Answers to these questions are sought through the analytical framework of the institutional bargaining game approach.

2. Theoretical Framework and Economic Overview

Part I consists of three chapters that deal with theoretical and institutional perspectives. In Chapter 1, Vinod Aggarwal develops the theoretical framework for the book. He addresses two questions. First, how might one categorize bilateral trade agreements in the broader context of the possible array of arrangements that might be used? Second, how can one explain the origins, evolution, and impact of bilateral accords? He argues that the motivations for concluding bilateral trade agreements have varied widely among countries, and simple economic welfare analysis does not adequately explain the rise of such accords. He incorporates political factors into his analytical framework. Regarding the political forces driving bilateral trade arrangements, Aggarwal focuses on four factors: the role of pressure groups, regime types, ideas, and international context. He also highlights the role of some types of external shocks. According to him, the pressure for a shift toward new Asia-Pacific bilateralism came about through three external shocks. First, broader security shifts such as the end of the Cold War made it politically easier for Asia-Pacific countries to pursue bilateral FTAs with each other. Second, against the backdrop of the unprecedented economic hardships for the small and medium-sized economies in the region during the last years of the 1990s, many of those countries came to recognize that tighter institutionalization rather than loosely-structured regional production networks might be a better commitment mechanism for providing economic security. Thirdly, the Seattle meeting of the WTO and the breakdown of the September 2003 WTO meetings in Cancun created fears that the multilateral trading system would not continue to function. Also, Aggarwal notes that the characteristics of an initial bilateral agreement and its possible expansion in scope will be critical to how actors perceive their relationship to broader agreements. Countries' changing perceptions regarding the importance of supporting multilateral institutions have affected the choice of bilateral mechanisms. Many Asia-Pacific trade experts now are part of an "epistemic community," which shares the view that bilateral agreements can be trade enhancing and serve a similar purpose to multilateral trade liberalization.

In Chapter 2, John Ravenhill looks into both the economic and political implications of FTAs on potential and existing, regional and global trading arrangements. Specifically, he argues that bilateral accords may well diminish prospects for future regional or global negotiations, and that both APEC and the WTO are likely to be negatively affected. He notes that the extent to which bilateral preferential agreements are consistent with Article 24 of the GATT/WTO will greatly influence the degree to which they might be disruptive to the broad-based trading system. Ravenhill provides a detailed analysis of how the exclusion of sectors in the accords under negotiation may affect the domestic balance of power, and thus change the political atmosphere for negotiating further agreements. He suggests that while such agreements provide governments with political benefits, the agreements create a new structure of protectionism that may harm consumers, create trade diversion, and encourage further lobbying by those who manage to secure
exclusion from bilateral liberalization efforts. He notes that some analysts believe that liberalization along bilateral lines may lead to the strengthening of pro-liberalization forces, which may then foster overall market opening. He argues that piecemeal liberalization is likely to undermine the creation of a broad coalition for opening trade by giving pro-liberalization lobbyists what they want through sector-specific agreements, thus diminishing their incentives to lobby against protectionist interests.

In Chapter 3, Fukunari Kimura deals with the economic motivation for bilateral trade agreements in the Asia-Pacific. Drawing on the development of international production and distribution networks as an important aspect of economic development in the region, he argues that FTAs in the region are oriented toward increasing the competitiveness of previously protected sectors in various countries while simultaneously enhancing production networks. He presents an economic overview of Asia-Pacific bilateralism. He examines five aspects of FTAs: (1) the economic motivation driving bilateralism; (2) the role of international production and distribution networks in economic development; (3) the effects of FTAs on development strategies; (4) the limitations of computable general equilibrium (CGE) model simulations; and (5) future prospects for broader bilateral accords. Kimura notes that although FTAs have been developed on a bilateral basis for the most part, the common view in the Asia-Pacific is that these efforts will ultimately result in economic integration of the entire East Asian region. As latecomers to FTA formation, according to the author, East Asian countries share several distinct elements that have characterized their efforts in developing bilateral FTAs. These include: pressure to formulate FTA networks quickly; motivation from external rather than domestic sources; and the advantage of learning from the experiences of other regions. Aided by fragmentation, agglomeration, and internationalization theories, Kimura demonstrates the importance of production and distribution networks in East Asia by citing a case study on the machinery industry’s production/distribution network involvement. The analysis provides insight into the future prospects of Asia-Pacific FTAs. If East Asian countries are to continue towards region-wide integration, Kimura argues, several policies must guide the construction of FTAs. These include trade liberalization with minimal exceptions, forming bilateral FTAs with wide scope, learning from the experience of other regions, and utilizing other policy modes. The author concludes that this approach will allow bilateral accords to foster broader Asia-Pacific arrangements.

3. Case Studies

Part II offers nine case studies of bilateral trade arrangements involving China, Japan, the United States, South Korea, Malaysia, Thailand, Taiwan, Singapore, and Mexico. They address three common questions: What are the underlying political and economic factors driving these accords? What are the implications of these arrangements for broader trading arrangements? To answer these questions, each case study explores implications of the FTA policy and policy making for the theoretical and institutional explanations discussed in Part I, as well as the practicability of FTA multilateralization mechanisms.

Each chapter is similarly structured for a comparative analysis with an eye for understanding the different political and economic factors driving bilateralism in the region. Each case study begins with a general overview of the trade policy of each country/area analyzed as well as an overview of the bilateral agreements. It then examines both the economic and political factors that have driven the ultimate agreements. Each case study also provides an in-depth analysis of one or more bilateral agreements to provide readers with a more precise understanding of different countries’ strategies.

In Chapter 4, T.J. Pempel and Shujiro Urata focus on the structural reform agenda. They
predict that FTAs would force non-competitive sectors to face difficult structural adjustments. In
the presence of a dualist Japanese economy of protected inefficient firms and highly competitive
exporters, the political cost of liberalizing the protected industries has been prohibitively high.
Yet in the face of worldwide proliferation of FTAs, Japanese ministries with a structural reform
agenda have argued that Japanese exporters are being damaged by these trends. According to the
analysts, the Ministry of Economy, Trade and Industry and the Ministry of Foreign Affairs are
pressing for FTAs as devices to bolster national economic restructuring in a more palatable man-
ner due to their gradual impact rather than the alternative of sweeping domestic reforms driven
by multilateralism.

In Chapter 5, Richard Feinberg examines the FTA policy of the United States, the most in-
fluential country in shaping the direction of multilateral trade regimes. The author argues that the
United States has begun to dramatically shift its position on trade negotiations. Under the new
rhetoric (Robert Zoellick’s idea) of “competitive liberalization,” the United States is currently
mobilizing different types of trade arrangements, unilateral, bilateral, regional, transregional, and
global. He notes that a consensus that FTAs advance US interests domestically and internation-
ally has emerged within the policy circles in Washington.

Elaine Kwei analyzes China’s FTA policy in Chapter 6. She argues that the course of Chi-
na’s bilateralism is informed by the interaction of four logics: (1) China believes that its future
lies with multilateral or minilateral regional frameworks rather than strictly bilateral options; (2)
as a highly attractive market with economic leverage, China is more likely to pursue multilateral
or minilateral trade arrangements, especially “one-to-many” deals, while taking advantage of
private and informal overseas Chinese business networks; (3) China will not completely discard
bilateral options as long as it can exercise control over the process; and (4) China is interested
in bilateralism primarily for political rather than purely economic motives, as illustrated by the
inclusion of confidence and security enhancing measures in the China-ASEAN FTA framework
agreement. Based on this analysis, Kwei points out that China is more inclined to pursue FTAs
for their political benefits rather than for economic reasons, while at the same time continuing to
pursue broader trade arrangements.

Min Gyo Koo focuses on the trade policy shift of South Korea’s FTAs in Chapter 7. He ana-
lyzes Korea’s trade policy change from multilateralism as the first priority to the promotion of
bilateral FTAs including a multidimensional trade strategy. Koo argues that the socio-economic
restructuring that followed the financial crisis of 1997 has resulted in a new internationalist social
coalition that overshadows protectionist interests, particularly in agriculture and import-compet-
ing industries. He stresses the importance of the political leadership change, especially reform-
minded Kim Dae Jung’s presidential appointment in 1998, as the most crucial factor behind the
policy shift.

In Chapter 8, Roselyn Hsueh examines Taiwan’s troubled attempts to form FTAs with its
“natural” trading partners, which have run into obstacles raised by China’s opposition; accord-
ing to the author, for Taiwan’s trading partners, there are few economic and political incentives to
risk economic and political retaliations with China by forming an FTA with Taiwan. Hsueh points
out that, for bilateralism to be of any consequence for Taiwan, Taiwan has to find a new political
formula that makes China more tolerant toward its bid for bilateral FTAs.

Skeungjoo Lee, in Chapter 9, discusses Singapore’s two-track strategy for trade liberaliza-
tion. Singapore’s efforts at bilateral FTAs clearly mark a fundamental shift in its trade policy,
which had hinged upon multilateralism and close ties with ASEAN members for the last four de-
cades. Lee argues that a strong political leadership of former Prime Minister Goh Chok Tong and
the institutional strength of the Ministry of Trade and Industry have been essential in making pos-
sible the policy shift to bilateralism, with domestic interest groups and foreign companies playing
only a secondary role.
Kozo Kiyota examines in Chapter 10 why and how the incumbent populist government of Thailand led by Prime Minister Thaksin Shinawatra began to seek trade and investment expansion through FTAs beyond ASEAN. He argues that Thailand’s new interest in FTAs is a result of political leaders’ response to growing domestic pressure due to economic stagnation. According to the analyst, international factors influencing the nation’s policy include the stalemate in AFTA negotiations and competition with Singapore and China for new FDI. He points out that the combination of an AFTA and bilateral FTAs will be more beneficial to Thailand than geographically dispersed minilateral trade agreements.

In Chapter 11, Yumiko Okamoto analyzes Malaysia’s surprising policy shift from multilateralism toward bilateralism. Okamoto notes that because tariff rates between Malaysia and its prospective FTA partners are relatively low, the reduction of tariff alone may not create substantial trade and investment. Instead, Okamoto predicts, Malaysia will gain from trade and investment liberalization in the service sector.

Ralph Espach, in Chapter 12, focuses on the economic and institutional rationale for Mexico’s bilateral trade agenda. He argues that Mexico’s recent efforts at bilateral FTAs with East Asian countries are a logical extension of its long-term program for economic liberalization in the Western Hemisphere. The motivation for bilateral talks has increased as efforts at the multilateral and regional levels have slowed down or faced significant impediments. Espach predicts that bilateral FTAs with East Asian countries are not likely to significantly diminish Mexico’s deepening economic ties with the United States.

4. Key Findings

Part III concludes the volume. Following the examination of theoretical and institutional factors for FTA formation and proliferation in Part I, and the concrete case studies in Part II, Chapter 13 suggests the implications. Using the empirical results from the case studies, Aggarwal and Koo summarize their key findings and their implications in three aspects (p. 292): (1) How should one evaluate the extent to which the trade policy of individual Asia-Pacific countries has evolved toward bilateralism over the past several years? (2) Of the three economic motivations including trade expansion, investment expansion, and financial cooperation, which is more important in determining individual countries’ move toward bilateralism? (3) Of the four political and institutional factors, interest groups, political institutions, ideas, and international balance of power, which one is the most important driving force toward bilateralism and which one is the least important?

With regard to the first question, Aggarwal and Koo conclude that the most striking feature in the Asia-Pacific bilateralism is that small and medium-sized countries—particularly Singapore, Mexico, South Korea, and Thailand—have played a central role in setting the pace toward bilateralism. The authors add that the new Asia-Pacific bilateralism has resulted from a bottom-up rather than top-down strategy of small and medium-sized countries, as opposed to the post-war multilateralism that was largely imposed from the top (the United States) down to US allies in the region.

On the second question, the two authors observe that for the United States, China, and Thailand, facilitating the inflows and outflows of foreign investment is the number one consideration concerning bilateral FTAs. For other countries, expanding trade in goods and services through bilateral FTAs is the highest priority when they negotiate bilateral FTAs. For all the nine countries, Aggarwal and Koo conclude that financial cooperation appears to be the least important economic incentive.

Regarding the third point, Aggarwal and Koo maintain that for the majority of the countries
(six out of nine) selected for case studies in this book, political leadership and institutions are the most important driving force. For the United States, according to the authors, the new view of bilateralism as a building block rather than a stumbling block for multilateralism is the most important determinant. As for the two Chinas, international balance of power is the most important factor that drives their somewhat slow move toward bilateralism. The authors also note that interest groups play a relatively minor role in the politics of new bilateralism. It is in conflict with Solís’ (2009) argument that Japan’s fragmented decision making process, or “patterned pluralism,” gives interest groups influence over the direction of Japanese trade policy. In fact, interest group politics appears to be the least significant factor in five countries and the second least important for two countries out of nine analyzed in this volume. This implies that new bilateralism is driven from the top at the national level. In addition, these findings are closely related to the emerging consensus at the political leadership level that FTAs will advance national interests while presenting an alternative road to trade liberalization compatible with multilateralism.

5. Conclusion

Based on the above observations and the implicit and explicit suggestions presented by each chapter, common features are derived: the relatively small economic impacts of the agreements, the importance of political factors in choosing negotiating partners, and the fear of being “left out” amidst the burgeoning waves of FTAs in the Asia-Pacific. Similarly, Mansfield and Reinhardt (2003) have argued that countries may develop FTAs in order to obtain bargaining leverage within the multilateral regime.

On the fear of being “left out,” for example, for Korea at the initial stage of FTA policy development, the main drive was to prevent isolation from falling behind the tide. The Japanese case also shows that one of the main reasons for pursuing FTAs has been that “everyone else is doing it.” According to Okamoto (2003), Japan has been particularly motivated to seek FTAs when major economic powers such as the United States and China are involved in FTA arrangements. Christopher Dent (2003) also has observed that the new FTA trends can be understood in terms of “FTA catch-up.” Mansfield and Reinhardt (2003) have argued that countries may develop FTAs in order to obtain bargaining leverage within the multilateral regime.

In international political economy, whether the recent surge of the “third wave” of FTAs promotes or hinders multilateral liberalization remains unclear. Whether bilateral FTAs and multilateral trade agreements such as WTO and APEC are compatible has long been a topic of heated debate. As Ravenhill notes, there are sharply competing views on bilateral agreements, whether they are possible “stepping stones” or “stumbling blocks” to broader accords. There is noted concern over the implications that signing FTAs will eventually have for region-wide trade agreements. Indeed, once a number of different FTAs are set up, it would get technically complicated and costly to establish a single regional multilateral FTA because each FTA may have different rules of origin, exclusion lists, and external tariffs. How to induce convergence towards harmonized rules and standards among the web of FTAs will become an issue that needs to be resolved on the road to an East Asian free trade area, if it is to come in the future. For now, the question of why bilateral forms of FTAs rather than multilateral arrangements are burgeoning seems to be answered by political explanations, such as those offered in the book reviewed here. This volume cautions that there is a real danger that Asia-Pacific bilateralism will likely lead to pernicious, conflicting arrangements, rather than becoming nested within broader institutions. To make the future of Asia-Pacific bilateralism stable, conscious efforts of coordination among the countries concerned are very important.
This reviewer finds three possible points for further research. Firstly, there are theoretical contributions that can be made to the study of FTAs and international political economy. Recent literature on FTAs has focused on economic explanations for their attractiveness to governments. For example, FTAs are considered a vehicle for promoting deeper integration of economies or for dealing with trade-related issues such as investment and competition policy, and as an instrument for making economies more attractive to foreign investors. Contrary to those conventional explanations, by bringing in political and institutional factors, both domestic and international, as a key part of the explanation, this book provides us with considerable analysis showing that the motivations and implications in concluding bilateral FTAs vary widely among Asia-Pacific countries and that static economic analyses alone cannot adequately explain the growth of such accords.

Secondly, the institutional bargaining approach developed by Aggarwal and Koo in this book provides a more systematic basis for examining both policy choices and connections among different types of arrangements. Their approach focuses on goods, countries’ individual situations, and the fit with existing arrangements. With respect to goods, they assumed that any disturbances in the provision of trade liberalization as a public good motivate countries to seek club goods as a viable alternative. In looking at the nine countries’ individual situations, Aggarwal and Koo focused on their international strategic and economic interests and their beliefs about the value of pursuing trading arrangements in the face of the proliferation of FTAs in other parts of the world. To understand the varieties of trade governance measures, this approach can help us classify East Asian trading arrangements more systematically.

Thirdly, will bilateral trade agreements eventually lead to the economic integration of the East Asian region or not? This reviewer would like to point out that the subsequent development of plurilateral FTAs could be a step towards a higher goal. For example, Goh Chok Tong remarked on Singapore’s “intention to spin a web of interlocking free trade agreements between APEC members, which could help move the organization toward achieving free trade in the Asia-Pacific.” Similarly, Dent (2003) pointed out that “the inconsistent bilateral FTA rules and schedules provide the basis to rationalize them into a wider plurilateral agreement in which common rules and provisions can be established between subregional groups, thus creating the need to network these separate bilateral FTAs together.” Asia-Pacific states have clearly demonstrated their preferences for the concerted bilateral liberalization of FTAs over APEC’s multilateral liberalization. However, whether Asia-Pacific FTAs can prove their longer-term compatibility with the WTO multilateral trade order remains to be seen. By systematically evaluating the driving forces underlying the turn to bilateral trade agreements in the Asia-Pacific, this book has provided the first comprehensive analysis of this crucial phenomenon. A growing number of countries both in the region and elsewhere in the world are now considering further negotiation of bilateral trade accords. Further research is also required to understand how these arrangements will fit or conflict with existing institutions in the Asia-Pacific and with the WTO.

This book is highly informative, well organized, and clearly written. Although it was published three years ago and the country data obviously do not extend to the present, it is still very valuable as it deals with important ongoing issues in Asia-Pacific regionalism. Its contributions include extensive case studies, comparative insights, and conceptual and theoretical innovations. The book will likely inform scholarly discussions and policymaking and will serve a useful base for further research on issues of regionalism in the Asia-Pacific and East Asia. Further research that links domestic politics and the preferences of domestic actors to the national preference toward institutionalization of the Asia-Pacific will complement this book. This reviewer highly recommends this book to scholars, policymakers, and students who are interested in contemporary political economy and International Relations.
Note

2 The “first wave” was seen in the 1950s and 1960s. It appeared with the development of the European Coal and Steel Community and then the European Economic Community in Europe, and subsequent regional agreements in Africa and Latin America. The “second wave” emerged in the middle of the 1980s. The US-Canada Free Trade Agreement in 1989, the Single European Act of 1985, the establishment of the Asia-Pacific Economic Cooperation (APEC) in 1989 and so on, came one after another.
4 Dent, p. 22

References


