“Globalisation and Economic Regionalism: A Survey and Critique of the Literature”

Helen Nesadurai

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**Centre for the Study of Globalisation and Regionalisation (CSGR),** University of Warwick, Coventry, CV4 7AL, United Kingdom. URL: http://www.csgr.org

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Helen E S Nesadurai
Institute of Defence and Strategic Studies, Nanyang Technological University, Singapore
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## Abstract

The relationship of regionalism to globalisation is modelled in the literature either as open regionalism aimed at integration with the global market or as a project of resistance to global market forces. While the model of open regionalism is underwritten by the liberal political economy perspective on IPE, the resistance model pays close attention to domestic politics. Although they offer considerable insights into the globalisation-regionalism relationship, the former model lacks a realistic notion of both the international and domestic political economies, while the latter adopts a somewhat Euro-centric view of dynamics at the domestic level based on the European welfare state. This paper argues that the economic realist perspective on IPE combined with an approach to domestic politics that pays especial attention to historical and political context offers additional insights into the globalisation-regionalism relationship. First, it makes it possible to (a) identify two variants of open regionalism (a neoliberal variant and an FDI model), and (b) to advance a fourth ideal-type model of the globalisation-regionalism relationship, namely developmental regionalism. The latter model, which also draws on strategic trade theory, involves making a conceptual distinction between foreign-owned and domestic-owned capital, a distinction that is presently missed in the literature and that may be relevant in settings where domestic-owned capital plays crucial political/social roles. Second, it suggests that it is primarily domestic political economic dynamics that determines which of these models emerges in response to globalisation, although the push to regionalism may have initially come from systemic forces. The domestic level is consequently a key level of analysis in explanations of regionalism.

Key words: Globalisation; Open Regionalism; Developmental regionalism: Economic realism; Domestic politics; Domestic-owned capital.

*Address for correspondence:*
Dr Helen E S Nesadurai
Institute of Defence and Strategic Studies
Nanyang Technological University, Singapore
South Spine S4, Level B4, Nanyang Avenue, Singapore 639805
isesnesadurai@ntu.edu.sg

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Although globalisation has been defined in a variety of ways,[2] a common theme is that it generates increasingly intense interactions between nation-states and societies through flows of goods, money, people, ideas, images and information, in the process making territorial boundaries less salient (Hurrell 1995: 54). This makes the recent growth of economic regionalism amidst globalisation rather a paradoxical phenomenon, and has generated considerable scholarly interest in the relationship between them. While globalisation tends to de-emphasise boundaries, regionalism[3] appears to be an attempt by state actors at re-imposing them at a different level, consequently creating a new, larger space out of smaller territorial spaces bounded in nation-states although the larger space is rarely if ever a new political unit or super-state.[4] How do we explain a relationship between two seemingly opposing phenomena?

Recent works in IPE identify two ways in which regionalism might emerge as an outcome of, or a response to globalisation, depending on whether the relationship is conceived of as being accommodating or antagonistic. The former – open regionalism – is the dominant model in the literature, conceptualising regionalism as a way station to globalisation, a means through which policymakers enhance the participation of their respective national economies in globalisation processes. It is a model that is informed by the liberal political economy perspective on IPE. A contrasting model, privileging domestic political dynamics, explains regionalism as an attempt by state or other domestic actors to resist the negative effects of globalisation. The main aim in this case is to preserve domestic social, including distributive agendas that are threatened by globalisation. Although providing considerable insight into developments in the contemporary world economy, these ideal-type models suffer two weaknesses, which consequently have implications for how they allow for the interpretation of empirical trends. Briefly, these models lack an adequate conception of the relationship of the state to domestic society on the one hand and to global market actors and other states on the other. These limitations, however, can be addressed by using a more appropriate theoretical tool, namely an analytical framework that

[2] See Scholte (2000: 44-46).

[3] Regionalism is defined here as a states-led project to coordinate policies in a given region. It is, thus, contrasted with regionalisation, which is defined as a process of regional integration driven primarily by markets, or more specifically, by the actions of corporate/economic actors. See Wyatt-Walter (1995). Notwithstanding their conceptual and practical linkages, this paper focuses on regionalism.

integrates the economic realist theoretical perspective on IPE with domestic politics. This approach, which is discussed in detail in this paper, offers substantial analytical purchase in explaining *why* regionalism may emerge out of globalisation and the *forms* it might take.

Before embarking on this discussion, it is necessary as a first step to advance a conception of economic globalisation that will help to extend our understanding of how globalisation might relate to regionalism as well as provide a frame of reference when operationalising the concept for empirical analysis. In the next section, globalisation is conceived of as a multi-dimensional structural phenomenon, which takes us beyond the still fairly common but rather narrow, liberal economic interpretation of globalisation as the extent and depth of economic integration between countries.

## CONCEPTUALISING GLOBALISATION

In conceptualising economic globalisation, three key features are salient. The first stresses the notion of globalisation as structure. Structure asserts or manifests its effects on actors through agency, or the policy choices and actions of a variety of agents – governments, businesses, international organisations and individuals. Not only does this particular characterisation reject the idea of globalisation as an inexorable economic force it also introduces into the equation the scope for human agency to resist, control or manage globalisation.

The second emphasises the multi-dimensional nature of globalisation, involving not just material economic factors but also ideational/cognitive and institutional forces operating in the world political economy (Higgott 2000: 70). Consequently, the pressures of globalisation are not solely manifested through the material economic changes associated with global market competition, such as through shifts in prices, market shares or profit rates, they can also emerge through cognitive and ideational influences as well as through institutional prescriptions and proscriptions. The interplay between these three dimensions of globalisation – the material, ideational and institutional – constitutes the 'context of habits, pressures, expectations and

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[4] Even the European Union, the most advanced regionalist project in the world economy cannot yet be termed a super-state or political entity. It continues to remain an inter-governmental project although it has a high level of institutionalisation and supranational governance mechanisms.

constraints within which actions take place' (Cox 1981/96: 97-98). Governments, businesses and other social groups have to respond to these forces in one way or another, but they cannot ignore them. In other words, even if states participate only marginally in world economic activities, that does not mean they are not 'part' of globalisation, or unaffected by it. They are still very much subject to the forces of globalisation, which structure the environment in which these states are located. Conceptualised in this manner, globalisation is clearly much more than the sum of economic interactions and interdependencies between countries.

The third feature of globalisation, emphasised by Scholte (1997b: 431), is its tendency to disengage human activity from territory. Hughes (2000: 4) suggests that globalisation is qualitatively distinct from internationalisation and liberalisation, two phenomenon often conflated with globalisation, because of its potential to 'reconfigure social space away from and beyond notions of delineated territory' (Hughes, 2000: 4). It is important, however, to avoid the 'hyper' globalisation thesis that the world is moving inexorably towards a borderless world.[5] The 'de-territorialisation' that some argue to be the essential feature of globalisation is still a limited phenomenon, with national borders continuing to constrain the unfettered flow of global market forces.[6] 'De-territorialisation' is perhaps confined largely to the world of global financial flows and the internet where finance and information flow instantaneously around the globe unconstrained by territorial borders and removed from territorial space. Nevertheless, Hughes raises a crucial point about the tendency of globalisation to reconfigure social, including economic space beyond prevailing notions of territoriality, namely nation-states. But, what exactly is it about globalisation that has the potential to reconfigure economic space? More specifically, how is economic space being reconfigured and how might this relate to regionalism? A closer look at the constituent dimensions of globalisation is instructive in this regard.

**The Material Dimension: The Changing Dynamics of Competition**

Historical similarities exist in patterns of trade, finance, and production between earlier periods and the present, post-1970s world economy, which is argued to represent most clearly the

[5] Ohmae (1990, 1995) is the most notable advocate of this thesis.
[6] The notion of 'de-territorialisation' comes from Scholte (1997b: 431).

globalisation period (Oman 1994: 33).[7] Yet, many students of globalisation point to the sharp differences in the volume, scope, speed, clustering and depth of the processes and interactions in the world economy between the two periods (Petrella, 1996: 64-66; Higgott, 2000: 70). More to the point, contemporary global linkages are argued to be 'organically different' due to changes in the 'manner in which firms organise production and both cooperate and compete with each other.[8] This is a valuable point, because it draws attention to underlying firm-level dynamics that underpin globalisation processes and which drive the tendency to reconfigure economic space.

One of the most important driving forces of globalisation is the diffusion and adoption of the post-fordist or flexible model of corporate and industrial organisation, particularly in the post-1970s world economy (Oman 1994: 83-99).[9] Flexible production systems increasingly underpin the growing prominence of functionally integrated transnational production patterns that has been noted in the contemporary period (Dunning 1993: 4; Oman 1994: 97; Dicken 1998: 175). Governments and firms concerned respectively about economic growth and profitability find themselves having to respond in one way or another to the implications of the shifts in the way production is becoming increasingly organised.

First, the growing turn to more flexible modes of production has been accompanied by a shift in the sources of wealth creation from natural assets such as unskilled or low-skilled labour, land and natural resources to 'created' assets centred on information, technology and management/organisational competencies (Dunning 1993: 6). Although broad generalisations need to be made with care, since natural assets remain important in a number of economic sectors, it is also evident that technology and skills have become crucial in manufacturing and service sectors, particularly in the higher value-added segments (Dicken, 1998). Created assets, which tend to be firm specific and thus, potentially mobile, lend considerable structural power to global capital. Governments concerned about high value economic growth are increasingly

[7] Other interpretations see globalisation as a continuing process of the last 100 years (Hirst 1997: 410), a development dating from 1945-50 (Amin 1996: 244-45), or emerging in its 'fully-fledged' form since around 1960 (Scholte 1997a: 19).
[8] See the Research Agenda of the Centre for the Study of Globalisation and Regionalisation (CSGR) at the University of Warwick available at: http://www.csgr.org/agenda.html and accessed in July 2001.

reliant on the firms that possess these created assets to establish production activities in or involving their respective economies, underscoring the crucial importance of FDI, particularly for the developing world, and the intense competition for it among governments (Stopford and Strange 1991: 1).

Production decisions remain, however, the purview of the global firms that governments are increasingly trying to attract (Petrella 1996: 74). Competition for FDI among countries has, therefore, become far more intense since governments are all courting essentially the same types of firms to their respective economies than in previous times, having adopted broadly similar export-centred economic policies. The worldwide liberalising trend has widened the location choice available to the firms who own these mobile assets (Stopford and Strange, 1991: 1; Dunning, 1993: 13-15). Storper (1997) suggests that particular geographic locations are entirely substitutable apart from nominal cost differences. It seems as though economic space worldwide is becoming increasingly homogenised with regard to economic policy (Biersteker 1992). Although this homogenising trend should not be exaggerated, the point remains that coupled with technological advances and the deregulation of financial flows worldwide, production can now be located worldwide with considerably more ease than in previous decades. This makes competition for FDI likely to be more intense than ever even if the ability of a firm to relocate, once established, is more restricted than is commonly presumed. Governments will more than ever compete with each other to attract these mobile assets before they become location bound once production is established.

Apart from governments, firms too are compelled to respond to the new competition. Globalisation has led to a more complex business environment for firms and more intense competition, particularly as the 'coordination and configuration of production chains has become the key to creating and sustaining competitive advantage' (Dicken and Yeung 1999: 118). This imposes an enormous burden on emerging firms, especially in the developing world, that are new to the game and which also usually lack the ownership-specific assets to compete with well-

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[9] Flexible production systems emphasise flexibility of the production process, of its organisation within the factory and of relationships with customers and with supplier firms. Dicken (1998: 165-72) and Oman (1994: 86-89) provide useful overviews of flexible and fordist production systems.

established global corporations from the advanced countries in global competition (Stopford and Strange 1991: 1-5).

Aside from this, the growing turn to flexible production methods also has implications for the manner in which economic space might be reconfigured. On the one hand, it would seem logical for firms to have an inherent preference for a global division of labour in line with the expansionary logic of capitalism. The turn to flexible production systems, however, may well be contributing to a phase of economic agglomeration through global capital's need for the spatial concentration of production activity. The agglomeration logic arises because flexible modes of production are highly dependent on physical proximity between producers and suppliers on the one hand, and between producers and customers on the other (Oman 1994: 17; Dicken 1998: 241). Thus, globalisation processes may be helping to re-define economic spaces beyond existing notions of territoriality, namely the nation-state, but not necessarily towards a global economic space. In short, both centrifugal forces (expansionary logic of capitalism) and centripetal tendencies (the agglomeration logic) co-exist in globalisation. Although this does not in any way imply in deterministic fashion particular forms of geographical clustering of production activities, it does explain the growing prominence of regionally, as opposed to globally, integrated production in the world economy (Oman 1994; Dicken 1998: 216-17). In an interesting case study, Studer-Noguez (2000) documents how Ford Motor Company's global corporate strategy shifted from one based on a single global production chain dispersed worldwide, which proved unworkable, to one that relied on setting up self-contained regionalised production chains replicated in different parts of the world. Ford's revised global corporate strategy was, therefore, premised on a number of distinct regional production operations located worldwide.

These new forms of production, driven by the shifting corporate strategy of global firms, are different from the cross-border economic activity that was prevalent during the 1960s and 1970s. Then, MNCs had exploited low labour costs in offshore production sites, producing for export to markets outside the region, usually to the industrial world and the MNCs' home markets. Although involving cross-border economic interactions, this form of internationalised economic activity did not involve any fundamental reconfiguration of production space. Production was still organised *multi*-nationally on the basis of territorial nation-states, even if cross-border economic interactions were prominent. Since then, the dynamics of global production have altered towards an increasingly *trans*-national production pattern with different segments of a single production chain established in a number of sites, often straddling or crossing state boundaries. Critics of the globalisation thesis point to the regional clustering of economic activity as evidence against the emergence of a single global market place, and thus of globalisation as a meaningful or salient phenomenon.[10] On the contrary, this paper argues that these regionalising tendencies are the very outcomes of globalisation, emerging out of the shifting microeconomics of production.

Where such regional clusters emerge depends both on the policies adopted by governments as well as on the corporate decisions of firms. Because much of the assets required for production are located within firms themselves, firms are theoretically able to relocate worldwide, provided local conditions meet with their production needs. Walter (2000: 65) notes that foreign investors privilege, among other factors, market size and, unsurprisingly in view of these changing production dynamics, 'access to large regional markets' in their investment decisions. Interestingly, governments may be able to meet firms' growing need for proximity to regional markets through participating in regional cooperation schemes.

**The Ideational and Institutional Underpinnings of Globalisation**

Far from being purely a material phenomenon, globalisation is sustained and reinforced by a coherent set of by now widely practised neoliberal economic ideas, which are increasingly institutionalised through the rules and practices of multilateral institutions, notably the World Trade Organisation (WTO).[11]

The dominant neoliberal ideas underpinning globalisation emphasise and advocate, among other things, a free market economy with limited government involvement in and control of economic activity through policies of liberalisation, deregulation and privatisation, as well as the ideal of market competition. These ideas have become especially prominent from the middle of the

[10] Hirst and Thompson (1992), and Weiss (1998: 176-7) employ this line of argument.
[11] Scholte (2000: 34-35) sets out the neoliberal underpinnings of globalisation.

1980s, and are widely practised in both the industrial and developing world (Biersteker, 1992) although they do not go unchallenged (George 2000). In fact, part of their appeal lies in the seemingly simple and effective recipe for growth and wealth creation they offer to governments compared to the failed interventionist alternatives tried during the 1960s and 1970s. Then, a variety of economic ideas prevailed, ranging from neoclassical ones about free trade and free markets, interventionist approaches to economic management, to more radical dependency thinking that emphasised withdrawal from the exploitative processes of the world economy. The extensive adoption today of neoliberal ideas globally facilitates the worldwide spread of economic activity, allowing corporations the flexibility to organise production in whatever spatial configuration that best maximises their goals. Although there is growing opposition to these neoliberal ideas and practices, they nonetheless retain their considerable influence on state actors, and, consequently, play a substantial role in reinforcing the material dimension of globalisation.

While neoliberal ideas are a crucial component of and sustain globalisation, at a more fundamental level it is perhaps the growing instantiation of 'globalisation' itself and of global economic competition especially that influences how people respond to global economic change. Mittelman (2000: 4) notes that 'globalisation has become normalised as a dominant set of ideas'. Palan and Abbott (1996: 32) argue that perception of globalisation is possibly the main cause for changing patterns of behaviour today. Actors, in their view, respond not only to actual external pressures or changes, they are increasingly responding to *perceived* environmental change. This is not an unusual point. Perceptions are, after all, of considerable importance in practical politics and policymaking (Barry Jones, 1995: 7). Policymakers, as do corporate actors, may respond in anticipatory fashion to perceived global market competition to stay one step ahead of the game even if there are no immediate or serious market pressures on the economy. We should, however, reject the suggestion that only one kind of behaviour is possible – that which accommodates to globalisation. Not all governments wish to act out the 'neoliberal script' underpinning globalisation. Ultimately, actors will respond to these perceptions in ways that are also governed by their location within distinct domestic social and political contexts.

While governments may be attracted to neoliberal economic ideas that promise simple recipes for creating economic wealth for societies – liberalisation, deregulation, and privatisation – it is becoming difficult for governments to select particular elements from this package of policy prescriptions while ignoring others, or even to reject them altogether, should they wish to do so. It is increasingly the case that international organisations, especially the World Bank, the International Monetary Fund (IMF), and the World Trade Organisation (WTO) underwrite globalisation processes by developing neoliberal rules to which national governments eventually have to conform. Either these rules are binding on governments if they are members of the WTO, or governments have to subscribe to the neoliberal policies dictated by the IMF or the World Bank in return for financial assistance during economic crises. In short, the post-World War II period of 'embedded liberalism' (Ruggie 1998: 72-76) has given way since the 1970s to what Hoogvelt (1997: 135) terms 'unembedded liberalism'.

Embedded liberalism allowed governments to intervene in the domestic economy to safeguard domestic social stability provided border barriers to international trade were progressively reduced. This compromise, which effectively allowed governments to deny market access and national treatment to foreign firms if they so wished, began unravelling over a period of time beginning from the early 1970s (George 2000). It was only from the mid-1980s, however, that new rules in world trade were adopted that redefined, or more precisely markedly reduced the purposes for which the government could legitimately intervene in the domestic economy, including restricting or discriminating against foreign firms. The new rules consequently advanced the interests of the transnational corporations (TNCs) that are key agents of globalisation. In short, the neoliberal ideas associated with globalisation have been increasingly institutionalised through a multilateral rule-based framework that has substantial authority over national governments, especially through the WTO.

To date, the WTO, previously the General Agreement on Tariffs and Trade (GATT) has been perhaps the pre-eminent institutional agent of globalisation, having a more extensive reach both in terms of geographical coverage and ever widening scope compared to other global institutions. Unlike the IMF, which enters the scene during times of economic distress when governments need emergency financial assistance, the WTO is a more constant influence or constraint on national governments and firms. Not only does the WTO boast 144 contracting parties with others awaiting entry,[12] its functional scope has dramatically expanded and its authority strengthened compared to the GATT.

Since the GATT Uruguay Round negotiations of 1986-93 that launched the WTO, disciplines addressing intellectual property rights protection, negotiable market access and national treatment for foreign service firms, as well as trade-specific investment measures were explicitly incorporated into the multilateral trade regime. Rules on domestic competition and investment liberalisation are expected to eventually fall under the ambit of the WTO. In these new issue areas, rules are expected to prescribe market deregulation while proscribing state intervention in the market, thereby constraining government direction of the economy. While the WTO is constructed in a way that provides ample opportunity for dissenting governments to veto its liberalisation agenda, there are costs to such recalcitrance. Valuable market access concessions from industrial countries might not be forthcoming while governments lose credibility in the eyes of the corporations that increasingly hold the key to wealth creation.

These trends raise expectations among governments, particularly in the developing world that the new rules that will be written into the multilateral trading regime will increasingly restrict the rights of governments to intervene in the domestic economy even for what would previously have been considered to be legitimate domestic social purposes. While such rules will offer TNCs a global trading and production environment that is increasingly tailor-made to their needs to pursue 'maximum profit' (George 2000: 22), emerging firms from the developing world may become increasingly disadvantaged. Should these rules be adopted, developing country governments, while obliged to allow foreign firms domestic market access, will become increasingly constrained in providing preferential treatment to domestic firms. This, coupled with the competitive pressures discussed above, further reinforces perceptions in the developing world of globalisation as heightened global market competition. The fear that fledgling firms will suffer from direct competition with TNCs is a growing feature in many developing country policy circles.

[12] As at 1 January 2002.

**Globalisation: Structure, Process and Agency**

Three points need to be kept in mind from this discussion. First, while globalisation involves the reconfiguration of economic space, this does not necessarily imply either re-definition towards a global economic space or a single global division of labour, nor the absence of territoriality. Instead, the optimal economic space appears to be regional. This is not to suggest a functionalist line of explanation for the relationship between regionalism and globalisation. Nevertheless, the functional relationship between these two phenomena implies that corporate actors may respond positively to regionalism, particularly of the kind that further entrenches globalisation – open regionalism. Globalisation, in other words, opens up space for agency, particularly on the part of state actors to influence corporate behaviour.

The discussion also identified three sets of potential globalisation pressures that might result in the adoption of policies for regional cooperation – material economic pressures, cognitive influences, and institutional rules. There is, however, no determining logic that points to open regionalism as the only policy response to globalisation. Countervailing tendencies may well result in other forms of regionalism, notably the resistance model. Much depends on how actors located within domestic social and political contexts respond to the structural pressures associated with globalisation on the one hand and to domestic political and social imperatives on the other that may collide with the globalisation logic. There are today significant counter-currents in the world economy that challenge both the neoliberal discourse and globalisation itself (Hveem 2000; Mittelman 2000).[13] It is in this sense that globalisation is not a stable structure or a fully entrenched order, but one that can be challenged.

While it is true that globalisation is partly driven by technological innovations and the uncoordinated individual actions of rational economic actors out to maximise economic gains – the liberal economics reading – this is not the same as saying that globalisation is an inexorable economic force. It is necessary to recognise that globalisation is a process driven by the policy choices of a variety of actors – governments, corporations, international organisations and

[13] Challenges have increasingly been mounted against globalisation through street protests, for instance during the WTO Ministerial in Seattle in 1999, the 2000 IMF/World Bank meetings, the 2001 World Economic Conference at Davos and the June 2001 EU Summit in Sweden.

individuals – who put in place the necessary institutional structures that support globalisation processes (Higgott 1999: 27). What this also implies is the possibility for human agency, including that of governments, to manage the process or to attempt to shape it in preferred ways (Hirst and Thompson 1995). It is out of such attempts that regionalism emerges in response to globalisation.

## OPEN REGIONALISM: THE LIBERAL POLITICAL ECONOMY INTERPRETATION

The preceding discussion suggests that the relationship between globalisation and regionalism may be complementary. The outward-looking nature of most contemporary regionalist projects leads many observers to surmise that these projects are designed to enhance the participation of member countries in global market activity (Gamble and Payne 1996: 251-52). This is the notion of ‘open regionalism’, which is a striking contrast to the ‘closed’ regionalism of the 1960s and 1970s that had been aimed at insulating members from the world economy in line with dependency thinking (Grugel and Hout 1999: 10). Open regionalism is the dominant theoretical model of the globalisation-regionalism relationship in the literature, as well as the most common form of regionalist project found in the contemporary world economy (Mittelman 2000: 126).

Open regionalism, as the term was originally used, meant a form of regionalism based on the principles of unilateral liberalisation rather than formally negotiated liberalisation, as well as non-discrimination, meaning that regional concessions were offered to both members and non-members alike (Drysdale and Garnaut 1993: 187-88). While retaining these liberal economic underpinnings, the term is now used in a more general sense to characterise regionalist schemes that are fundamentally about engaging with globalisation and the global market. Therefore, in regionalist schemes characterised as open regionalism, the exchange of preferences among regional partners is not accompanied by the imposition of new barriers to non-partners (Gamble and Payne 1996: 251). Some scholars also define an open regionalist project as one whose members are willing to admit new members into the grouping provided they conform to group rules and arrangements (Grugel 1996: 131; Mittelman 2000: 113).

Underwritten by the liberal political economy perspective on IPE, the primacy of economic incentives and the search for efficiency and competitiveness is emphasised in explaining open regionalism as a policy response to globalisation. Consequently, much of the literature explains open regionalism as a project of governments responding to the needs of corporate actors to improve competitiveness in global markets, using regional action as a means to engage with the global economy (Grugel and Hout 1999:10; Hveem 2000: 70-74; Mittelman 2000: 121). The liberal interpretation also suggests that these projects are likely to include a strong neoliberal agenda requiring extensive domestic deregulation, apart from trade liberalisation, aimed at reducing the state's role in economic life in order to yield efficiency gains.[14] The effect of such actions is to markedly reduce transaction costs for firms engaged in transnational economic activities. In short, this form of regionalism – neoliberal regionalism – subordinates the economies of member countries to what are seen as the beneficial forces of the global market. Aimed at deep engagement with the process of globalisation, open regionalism is an instance of 'meso-globalisation'.[15] Open regionalism and neoliberal regionalism are often regarded as synonymous in the literature.[16]

This still leaves open the question of why corporate actors and national policymakers would advocate a policy of *regionalism* if their ultimate aim is to engage with the global market. While the discussion in the previous section suggests how globalisation may be functionally related to regionalism, this does not explain regionalism as a *political* choice. The liberal perspective underpinning the notion of open regionalism provides only limited answers to this question. A strict liberal interpretation would, in fact, see global liberalisation to be superior to regional liberalisation even if corporate strategies dictate regional production networks as the optimal configuration under flexible modes of production. Even if their preference is to organise production regionally, global liberalisation allows corporations maximum choice about where to invest and in whatever spatial configuration best accommodates the firm's needs. This is borne out by actual trends in the world economy, as the previous discussion made clear. While global corporations today tend to organise production on a regional basis, locating regionalised production operations in different parts of the world, this is usually part of a global strategy.

[14] See Van Apeldoorn (2000) who discusses neoliberal regionalism in relation to the European Union.
[15] See Phillips (2000: 286, fn 7) who attributes the idea of 'meso-globalisation' to Richard Higgott.
[16] See, for instance, Mittelman (2000: 112-13, 126).

The regime literature (neoliberal institutionalism), a variant of the liberal perspective, provides an answer to the ‘why regionalism?’ question by suggesting that governments opt for regionalism because cooperation is easier to negotiate with smaller numbers than would be the case for negotiating global liberalisation (Oye 1985). Regionalism is a solution to the collective action problems that impede cooperation among large numbers. Moreover, by creating both an incentive and a potential bargaining tool for further negotiations, regional cooperation can potentially advance global liberalisation (Oye 1992). Liberal readings of regionalism thus see the phenomenon as a building block to global liberalisation. This particular interpretation suggests that we are likely to see ever-widening processes of regionalism as more and more nation-states are brought into existing regional projects in an effort to build up global liberalisation (Mittelman 2000: 113). Regionalism, then, constitutes an efficient but possibly interim approach to global liberalisation.

Although providing useful insights into the globalisation-regionalism relationship, liberal interpretations of regionalism are, nonetheless, limited because they lack a realistic notion of international politics. The decision to participate in regionalism is made in order to subordinate the national economy to what are seen as the given and beneficial forces of the global market. In this liberal model, regionalism involves very little purposeful political action by governments of states to attempt to intervene in globalisation processes – in short, the absence of any notion of political struggle, both domestically and externally. Instead, governments acquiesce in and act in accordance with the logic of global market forces asserted through the pressure of market competition. This simplifies considerably the nature of the international political economy, while also privileging structurally derived interests in explanation. There is an implied coincidence of interests between state actors and those businesses in favour of (regional/global) liberalisation, with both sets of actors responding similarly to the pressures of global market competition. The liberal perspective is silent on domestic distributive issues, since in the liberal world the search for efficiency and the resultant economic growth leads to gains for all in the long run.

Like its circumscribed characterisation of the international political economy, the neglect of the distribution question is a serious limitation of the liberal political economy reading of regionalism. Moreover, its’ framing of the relationship between state and corporate actors is overly simplistic. In particular settings, the distinction between foreign-owned and domestic-owned capital is often the more salient one, rather than between inward-focused and outward-oriented businesses. Although broad generalisations need to be made with care, domestic-owned capital in particular political settings is often harnessed to attain vital domestic social and political goals aimed at by political leaders while foreign capital addresses the broad growth priorities of national governments. For this reason, it is important to take seriously domestic distributive dynamics. In parts of the world, Southeast Asia for instance, domestic-owned capital is central to domestic distributive agendas. In settings such as this, governments may well respond to globalisation in ways that attempt to preserve and/or nurture domestic capital, particularly if emerging domestic capital that is also politically important is in danger of losing out to global capital in market competition under conditions of globalisation. To the extent that such responses include regionalism as a policy choice, the nature of the regionalist project adopted is likely to differ from the liberal model of open regionalism.

## REGIONALISM AS RESISTANCE TO GLOBALISATION: LEGITIMACY AND DOMESTIC POLITICS

The second ideal-type model of the globalisation-regionalism relationship in the literature explicitly brings in the domestic level, and is thus a useful corrective to the basic model of open regionalism that focuses on systemic level forces only. Although encompassing a range of variations, the essential feature of the resistance model is that it seeks to preserve through regionalism particular forms of national policy instruments or domestic social and economic arrangements that are difficult to sustain individually amidst globalisation (Mittelman 2000: 116-30). The resistance model thus emphasises concern with non-economic or social values like distribution and social justice as the main driving force for regionalism, in contrast to the basic model of open regionalism that emphasises the search for efficiency and competitiveness as a key driving force. Although systemic forces – globalisation – do come into the picture, the response to them – resistance regionalism – is mediated through the domestic political economy.

Legitimacy is usually an underlying concern for policymakers contemplating this form of regionalism (Hveem 2000: 75-8; Mittelman 2000: 116-30). Governments, deriving political legitimacy from their capacity to undertake traditional social responsibilities for the societies they govern, may be compelled to turn to regional collective action as the only viable option to maintain national social/economic arrangements like the welfare state apparatus (Hirst and Thompson 1996: 162). Globalisation arguably makes such arrangements more costly to maintain at the national level. Kurzer, for instance, suggests that the future of national social democratic economic systems and re-distributive policies in European countries lies in a European regional project (Kurzer 1993: 254).

Notwithstanding the theoretical possibility of the resistance model, most instances of regionalism in the world economy today are examples of open regionalism, including the European Union (Mittelman 2000: 126).[17] Nevertheless, there is always the possibility of a dialectical process emerging out of globalisation to challenge the neoliberal trend in regionalism. The resistance model may consequently emerge as an empirical feature as regional projects originally designed to engage fully with globalisation are themselves challenged by domestic groups suffering the effects of regional liberalisation, particularly if social protection or compensatory measures are unavailable as a result of neoliberal approaches to market liberalisation (Higgott 2000: 80-81). Neoliberal regionalism consequently may challenge the authority and legitimacy of governments under these conditions. In such instances, governments may attempt to withdraw from the regionalist project, or alternatively seek to change the project's original terms and conditions. The tendency to use regionalism to ride on globalisation may not be a lasting one (Hveem 2000: 71). Regionalism should, therefore, not be viewed only in static terms as the outcome of a one-off decision to cooperate. New forms of regionalism could emerge from what was originally a neoliberal project, especially if the re-negotiation option is adopted rather than outright abandonment of the project.

Although offering an alternative to the model of open regionalism through emphasising the domestic legitimacy concerns of governments, the resistance model unfortunately imposes a separation of economics and politics by conceptualising growth or efficiency (economics), the primary goal of open regionalism, and legitimacy (politics) as opposed to one another. This is because the analysis of domestic politics in the resistance model does not extend to uncover the

[17] On the European Union, see Van Apeldoorn (2000).

bases of legitimacy. Instead, this model adopts a somewhat Euro-centric understanding of legitimacy based on the European welfare state. If we explore the dynamics of political legitimacy in other settings, we may find that in certain political contexts, growth/efficiency and legitimacy may be closely interrelated, and complementary rather than opposed. Much, therefore, depends on the sources of political legitimacy in a particular society.

Again, the example of Southeast Asia illustrates this point particularly well. In this setting, it is governments' ability to deliver material economic well-being, in addition to social and political stability, that accords them legitimacy, rather than representation and process as in liberal, western democracies (Stubbs 2001: 50; Alagappa 1995: 330; Castells 1992: 59-60). In these countries, high rates of economic growth not only satisfy mass aspirations to material well-being they also allow elites to maintain their right to rule (Case 1996: 18). In such instances, the presumed tension between legitimacy and growth/efficiency is either relieved or at least, reduced. Concern with legitimacy could thus entrench open regionalist projects if these contribute to growth rather than result in challenges to them. Clearly, we need to pay closer attention to domestic state-society relations that help us to identity what the bases of legitimacy are, and the conditions under which growth or efficiency considerations prevail over distributive agendas, and vice versa.

## CONCEPTUAL GAINS FROM THE ECONOMIC REALIST PERSPECTIVE ON IPE

As already noted, the two models of regionalism offer a limited treatment of the *political* relationship between states and markets (both the domestic and the global market) as well as with other states. In open regionalism, global market forces are taken as a given and are regarded as benign, conferring benefits on all states in a positive-sum manner. State actors engage in regionalism because it is an *efficient* means of facilitating the integration of the national economy with the global economy. The resistance model, in contrast, explains regionalism as an attempt to block global market forces.

Proponents of economic realism, for instance, would dispute the liberal reading of the international economic order. This theoretical perspective regards the global economy as an inherently political space in which economic interactions and activities reflect redistributive, zero-sum games (Barry Jones 1995: 19-43). By doing so, it allows for the possibility of human agency as actors try and manipulate prevailing patterns of economic activity and economic relations in order to gain an increasing share of the benefits of global market activity. While the structuralist perspective on IPE would share some of these ideas about agency, it displays a strong element of economic determinism with actions and outcomes in international politics driven by the logic of global capitalism and the state acting as the instrument of capital. States are not seen as political communities in their own right but merely as constituent units of a world capitalistic system (Hoogvelt 1997: 8). This makes it somewhat difficult to introduce into analysis domestic political priorities not deriving from the capitalist mode of production. On the other hand, the economic realist perspective offers greater scope in modelling the relationship between globalisation and regionalism. It depicts a more 'realistic' notion of world politics while also allowing us to integrate domestic politics into analysis in a conceptually consistent manner.

The economic realist view of nation-states as independent political communities, notwithstanding their interdependent relations with other states and with non-state actors, is one that accords with much real world dynamics (Gilpin 1987: 46). Another central argument of economic realism is that 'states seek to influence markets to their own individual advantage', making the geographic location of economic activities their leading concern (Gilpin 1987: 47-9).[18] This implies that governments are likely to marshal 'power' in an attempt to interfere in global markets to attain the interests of their respective states in competition with other states, or in response to non-state actors such as TNCs in the global system. For smaller, less powerful states, this can occur through cooperation between similarly situated states for instance, in much the same way that alliance formation meets the shared strategic interests of a group of states vis-à-vis other state(s). This particular view of agency in the international political economy concurs with classical realist thinking. Morgenthau, for instance, acknowledged that states have the potential to transform the international system 'through the workmanlike manipulation of the perennial forces that have shaped the past as they will the future' (Morgenthau 1948/85: 12).[19] Economic realism recognises, therefore, that state actors can attempt to, and often do manipulate

[18] Gilpin refers to this perspective as economic nationalism.

inter-state politics to try and influence some aspect of the international political economy. While the actual success of such agendas may be limited, especially in the case of developing countries, nevertheless by allowing for the possibility of purposeful action the economic realist perspective re-introduces the political into liberal frameworks of regionalism.

**Modifying Understandings of Open Regionalism: The FDI Variant**

As it was noted previously, the economic realist perspective offers valuable insights into the globalisation-regionalism relationship based on the notion that there is room for 'purposeful action to alter or transform prevailing patterns of economic capability and advantage' (Barry Jones 1995: 31). This point of view suggests that even in the case of open regionalism where governments seek engagement with the global economy, governments may be using regionalism in a purposeful manner to manipulate particular aspects of globalisation processes to benefit the state and its society, or particular members of the political community. It encompasses the idea that governments are not always totally helpless in the face of globalisation, and may find the space to engage in actions through cooperation that alter or interfere with global market outcomes in certain desired ways.

Mittelman (2000: 133) alludes to this when he suggests that the logic of global capital, namely its tendency to engage in regional production, offers nation-states an incentive to collaborate 'to attain market shares and augment trading and investment opportunities'. Regionalism, thus, presents one means to help re-direct beneficial global capital to the region in question through the carrot of the single regional market. As the previous discussion has shown, corporate actors are likely to respond positively to the presence of regional markets when deciding where to invest. In such instances, open regionalism is driven less by narrower concerns with economic efficiency and more by concerns with attracting FDI, which is a key source of economic growth for many countries. It is an agenda that is likely to appeal to developing countries.

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[19] The economic realist perspective on IPE derives from the classical realist tradition in IR, specifically state-centric realism rather than system-centred realism or Waltzian neorealism. Hans Morgenthau and E.H. Carr are the contemporary intellectual pioneers of classical realism.

Governments may respond to the structural power of transnational or global production capital[20] by actively using regionalism to attract new production capital to the region and through that process to individual national economies. Developing countries, usually with limited indigenous capabilities for global production, often look to attracting TNCs that do possess these assets to their respective economies. In a situation where FDI can theoretically locate in a variety of sites, developing countries will want to prevent the potential loss of these wealth-creating assets owned by TNCs to other locations. TNCs may not be involved in direct lobbying or bargaining with governments, but policymakers are likely to make policies with this thought – the need to attract or retain global capital – in mind. Although this may be accomplished though providing a more liberal national regulatory environment for investors, market size and access to large regional markets are among the main criteria now influencing the decision about where to invest.

Engaging in regional cooperation, thus, allows governments to exploit global capital's functional preference for regional markets. Policymakers are likely to respond with a policy of regionalism to external developments that are seen as having the potential to divert investment away from the national economy, provided they recognise the potential of regionalism in retaining or attracting production capital. They may become aware of the potential of regionalism as a magnet for FDI once they realise that foreign investors are registering strong interest in and are actually investing in regionalist projects established elsewhere. This is the contagion explanation of regionalism highlighted by Ravenhill (2001: 15).

Regionalist projects driven primarily by the desire to attract global capital are instances of open regionalism to the extent that they are about engaging with globalisation processes. In that sense both economic realist and liberal theoretical perspectives provide similar readings of regionalism. These contrasting perspectives offer distinct views on two issues, however – the precise form or features of the regionalist project and its likely future trajectory.

Regionalist projects designed primarily to attract FDI need not necessarily encompass the strong neoliberal, deregulatory agenda often associated with neoliberal regionalist projects driven by

[20] The structural power of capital rests on the ability of capital owners to deny investment (Lindblom 1977).

efficiency concerns. The overriding concern in the former is more broadly with economic growth.[21] Efficiency is attained to the extent that the incoming capital operates efficiently, but the regionalist project is not necessarily underpinned by neoliberal ideas nor associated with a strong neoliberal agenda. There is substantial empirical evidence that foreign investors privilege other factors above the policy regime when making investment decisions, although they would clearly prefer less to more government intervention in markets (Walter 2000). Provided key areas of economic life that are crucial for foreign investors are relatively unrestricted, such as trade flows and financial regulations on profit repatriation, investors appear able to live with some degree of government restriction in markets.[22] Regionalism primarily motivated by the desire to draw in FDI may therefore display only limited neoliberal characteristics. These projects are best termed ‘embedded neoliberal projects’.[23] While they are, nonetheless, instances of open regionalism designed to remain engaged with global market forces, these projects are entirely consistent with a degree of government intervention in markets.

An economic realist reading of open regionalism also suggests that the prospects for extending the regionalist project to include new members will be contingent. Since regionalism is directed at offering global capital a distinct functional space of production, extending the project to new members could weaken the distinctiveness of the original regional project. This will be especially the case if the new member is itself a very attractive site for FDI, potentially able to draw in substantial amounts of incoming FDI with limited spillover benefits to other members in the project through vertical and horizontal production linkages. Although there is always an element of competition among the members of a regional project for incoming FDI, the presence of complementarities among members usually ensures some form of balance is achieved. In contrast, regional projects involving a group of small countries may not necessarily benefit from the membership of a large country such as China, which itself effectively offers foreign capital a

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[21] While the relationship between efficiency and growth is a close one, growth can, nevertheless, proceed in the presence of some level of economic inefficiency by simply increasing inputs of the factors of production, notably labour or capital. Efficiency pertains to maximising output and returns from a given amount of inputs.

[22] This does not necessarily stop TNCs from lobbying for neoliberal policies, particularly through multilateral organisations.

[23] The notion of ‘embedded neoliberal’ regionalism is borrowed from van Apeldoorn (2000: 241) who uses it to describe the emerging European regional order in which the state continues to play a role in the provision of public goods like education and infrastructure. The original term, embedded neoliberalism, comes from Ruggie (1998: 72-76).

'regional' site of production by virtue of its size and wide-ranging industrial complementarities. There is a strong possibility that foreign investors may prefer to establish production networks within the Chinese territory but trade the resultant output to the other members of the regional scheme, thus defeating the purpose of the regional exercise for its original members. The benefits of extending FDI-centred regional projects to new members are not unequivocal, unlike the case of efficiency-driven neoliberal regionalism.

Although the dominant open regionalist model emphasises globally oriented capital in analysis, with foreign capital a key focus in the FDI variant, domestic capital is thus far invisible. There is little attempt to consider the relationship between governments or political/state actors and fractions of capital distinguished by their ownership – domestic or foreign-owned capital. The conventional focus in the literature has usually been on segments of capital distinguished by their market orientation, either towards the domestic market or the international market.[24] Although it may be increasingly difficult to distinguish business in terms of its nationality – the 'who is us?' question posed by Robert Reich (1991: 304) – such a distinction, nevertheless, remains relevant in particular political contexts where policymakers and politicians do consciously make this distinction for various political reasons. In these settings, and this is especially true for developing countries where domestic capital is usually not as well developed as foreign capital but often plays a crucial social/political role, governments may well respond to globalisation in ways that attempt to preserve and nurture domestic capital. Clearly, we need to consider theoretically plausible models of regionalism in which domestic capital is accorded analytical priority.

**Developmental Regionalism: Privileging Domestic Capital**

Making an analytical distinction between foreign and domestic capital reveals a fourth model of regionalism, what I call 'developmental' regionalism. Deriving from the notion of the developmental state, developmental regionalism encapsulates the developmental state idea of

[24] See, for instance, Gourevitch (1978).

state intervention in markets to promote national development agendas,[25] in this case by adopting an approach to regionalism through which to nurture emerging domestic firms to eventually become internationally competitive. This is achieved through two instruments: one, the expanded regional market generated through inter-state cooperation and two, temporary protection or privileges for domestic capital in this expanded market. According to strategic trade theory from the international economics discipline, both measures can help to secure benefits for domestic firms over their foreign competitors.[26]

Insights from Paul Krugman's 'import protection as export promotion' strategic trade model reveal that when a domestic firm is given a privileged position in the home market, it enjoys an advantage in scale over foreign rivals that enables the firm to realise 'learning by doing' benefits (Krugman 1984). A larger protected home market offers greater dynamic scale and learning effects to the privileged firm. This suggests that by according selective protection or privileges to domestic firms in an expanded market generated through regional collaboration, regionalism could theoretically be used as an instrument to help develop competitive domestic industries.[27] Developmental regionalism is clearly in the economic realist tradition, encompassing as it does the idea of state activism in both the international system (inter-state collaboration) and at the domestic level (privileged treatment of domestic firms) to manipulate or direct economic activity to serve the perceived interests of the state.

[25] The notion of the developmental state goes beyond this, of course. The developmental state is often conceptualised in terms of a set of institutional features of the state and its relationship to society. See Woo-Cumings (1999).

[26] Strategic trade theory derives its conclusions from assumptions that depart from those of neoclassical trade theory: that markets display increasing returns to scale, that learning effects or the experience of firms is important, and that technological innovations matter (Helpman and Krugman 1985: 3; Brander, 1986: 25; Krugman 1986: 8). Under these imperfect market conditions, an interventionist trade policy is shown to secure welfare gains for the country (Brander and Spencer 1985; Krugman, 1986: 12-14; McCulloch, 1993: 49-50).

[27] Although Gamble and Payne (1996: 252) advance the idea of 'strategic trade' regionalism, this model is fundamentally distinct from the model of developmental regionalism advanced in this paper. Crucially, the former does not make a distinction between domestic and foreign firms. In Gamble and Payne's model, whatever sheltering of firms producing within the regional scheme comes from the higher effective price of extra-regional imports. It is fundamentally a model of open regionalism, as the authors themselves acknowledge. Likewise, Mittelman's (2000: 116-17) development integration model of regionalism is also fundamentally distinct from the notion of developmental regionalism advanced here. Mittelman's model involves explicit state allocation of regional industrial projects among regional members, which is *not* a feature of developmental regionalism. Mittelman's model is more likely to have been a central feature of the 'closed' regionalist schemes of the 1960s and 1970s centred on finding expanded markets for import-substitution industrialisation.

We may regard the concern with domestic capital as a preoccupation with distribution, or with the selective allocation of economic benefits including rents to domestic businesses, in contrast with the generalised growth/efficiency imperative that underpins open regionalism. Nevertheless, concern with growth is not entirely absent in developmental regionalism. Rather, the growth imperative is infused with distributive concerns. Developmental regionalism is, therefore, not about resisting globalisation completely, but neither is it about complete acquiescence to global market forces. Instead, it encompasses a period of temporary and limited resistance to aspects of globalisation through which attempts are made to build capabilities to enable domestic businesses to eventually participate in global market activities. This model of regionalism, therefore, allows us to consider departures from open regionalism as representing a distinct approach to regionalism rather than merely as inconsistencies in open regionalism or as instances of protectionism.

The question that remains, however, is why political actors would seek to respond to globalisation via nurturing *domestic* capital. Why would they prefer to maximise the wealth of a segment of society instead of maximising the wealth and efficiency in society as a whole through full embrace of global corporations, arguably the primary source of wealth creation in the global economy? In fact, we should extend this question to also ask why and under what conditions state actors would opt for a form of regionalism that privileges FDI instead of the neoliberal or the developmental versions.

A strict realist interpretation would see state authorities seeking consciously to manipulate patterns of economic activity for strategic, power-political purposes, and may plausibly apply to the interactions of the major powers and potential strategic rivals like the US, Japan, or the EU. Thus, Japan's drive to develop domestic industries after the Second World War has been described as mercantilist, or economic realist, in design and motivation, while the responses of the US and the EU to the 'rise' of Japan in the 1980s is argued to reflect competitive, zero-sum political dynamics among strategic rivals. The push to complete the Single European Market has been explained in terms of European attempts to counter through regionalism the strategic economic threat from Japan, particularly in high technology sectors. Such arguments, however, are less applicable in other settings, the developing world for instance, where outcomes are more likely to be driven by concerns rooted in the domestic political economy rather than by any meaningful concern with inter-state power political competition. This line of thinking is not such a radical departure from realist ideas about national security. Security for developing states is generally framed in terms of the security of *domestic* political institutions and governing regimes (Ayoob 1995: 8). The realist tradition, after all, does not completely ignore the domestic level, unlike its neorealist counterpart.[28] As such, it is conceptually consistent to argue that an economic realist external orientation may be underpinned or driven by domestic regime security imperatives more specifically, and domestic political determinants more broadly.

This paper, therefore, advocates paying closer attention to the domestic level in explaining the turn to regionalism, a call already made by many scholars of regionalism. The FDI variant of open regionalism and developmental regionalism are both informed by economic realist insights, in that they represent attempts at manipulating in one way or another global market forces. Nevertheless, the interests driving proponents of these forms of regionalism should be conceptualised in terms of domestic political dynamics rather than inter-state power political competition as in strict realist thinking. Thus, this paper advances the argument that the type of regional project that emerges in response to globalisation, and this paper has identified four such ideal-type models (see Table 1), will be determined by domestic political economic dynamics, even for regional projects that are ultimately about engaging with globalisation. This is because external events, globalisation pressures for instance, acquire 'political significance' through domestic politics (Jacobsen 1996: 94).

[28] See the discussion in Ayoob (1998: 39-40) and Williams (1996: 215). Morgenthau emphasises the importance of domestic context in shaping state interests in international politics.

**Table 1: Four models of the globalisation-regionalism relationship**

| Ideal-Type Models | Relationship to Globalisation | Key Driving Force | Key Features | Relationship to Foreign and Domestic Capital |
|---|---|---|---|---|
| Neoliberal Regionalism<br><br>[A variant of open regionalism] | Engages with globalisation | Concern with efficiency | No new barriers to non-members imposed;<br>Full deregulatory agenda contemplated;<br>Also associated with agenda to reduce government's role in all aspects of economic activity;<br>Hence the neoliberal credentials. | Does not distinguish between foreign and domestic-owned capital;<br>All globally oriented capital privileged |
| FDI Model<br><br>[A variant of open regionalism] | Engages with globalisation | Concern with attracting FDI, which is a crucial source of growth;<br><br>Efficiency may be a primary or secondary concern. | No new barriers to non-members imposed;<br>Deregulation agenda could be extensive or limited;<br>Ambivalent with regard to government's role in the economy;<br>More likely to be an instance of embedded neoliberal regionalism | Foreign capital (FDI) is targeted |
| Resistance Model | Resists globalisation | Concern with social/ distributive issues | Seeks insulation from global market forces;<br>Dominant agenda is social/distributive. | Other social groups, apart from capital privileged, notably labour |
| Developmental Regionalism | Engages globalisation eventually, though initially has a period of limited and temporary resistance to it | An initial concern with domestic distribution, with growth a long-run aim | Employs temporary protection of, or temporary privileges for domestic capital;<br>Distribution is thus directed towards domestic capital. | Domestic capital privileged |

**INCORPORATING THE DOMESTIC LEVEL**

Political actors everywhere are usually confronted by the choice of adopting policies that maximise wealth in society as a whole or that benefit particularistic interests; in other words, between concern over growth or over domestic distributive priorities. Distribution is defined in this paper as the conscious allocation by governments of income, rents and other economic benefits to particular individuals, groups or firms who would otherwise not have received these gains through the workings of the free market.[29] Policy responses to external events, including choices about regionalism, are quite likely to involve tension between the growth and distributive imperatives. In most domestic settings, economic policies, including foreign economic policies, are influenced by these basic priorities, with policymakers driven by whichever goal best secures their chances of remaining in power. Which priority dominates – growth or distribution – will depend on the political costs to incumbent leaders of adopting policy choices that emphasise/de-emphasise one or the other goal, and thus, will be contingent on prevailing economic as well as political circumstances. It will also depend on the nature of political legitimacy.

This requires closer attention to be paid to the nature of domestic politics *in distinct settings*, a point emphasised by scholars of IPE who have called for more studies of regionalism outside the European and North American settings as a way to pay attention to contextual factors (Payne 1998). To put another way, not only does the domestic level matter in explanations of regionalism, the precise nature of domestic politics is also crucial. While it may be true that political elites everywhere generally depend on these two key policy instruments – growth and distribution – to maintain themselves in power, nevertheless, distinct domestic social and political settings often determine which particular groups are privileged in the distributive agenda of political elites, including which segment of capital, and the conditions under which this takes place. In short, it is dynamics at the domestic level that are likely to determine when political elites favour (a) globally oriented capital; (b) *foreign*-owned capital; or (c) *domestic*-owned capital, which in turn shapes the course and nature of regionalism to the extent that the

[29] The concept of distribution used in this paper does not incorporate any normative connotation. It is not to be seen as an egalitarian act, as something that is inherently 'progressive' involving the allocation of material and other benefits from rich to poor. As Susan Strange notes, distribution may well involve the 'regressive' reallocation of wealth, from the poor to the rich (Strange 1988/94: 212-3), and in the context of this paper, to partners of ruling elites as the latter attempt to maintain elite cohesion and their power base.

regional option is adopted as a policy choice. The Southeast Asian case discussed below illustrates especially clearly the conditions under which distinct segments of capital might be privileged.

**The Southeast Asian context**

Although political systems in Southeast Asia range from democracies, to semi-democracies and authoritarian regimes, countries such as Indonesia, Malaysia, the Philippines, Thailand and Singapore share the basic characteristics of elite governance political systems where political power is largely in the hands of elites despite the presence of mechanisms for citizen participation (McCargo 1998: 127).[30] In these countries, the political elite is, however, not completely insulated from domestic society and needs to respond to concerns arising from this level in order to maintain elite rule and its legitimacy, which remains fragile to date.

On the one hand, political elites need the support of citizens to maintain their right to rule and to ensure political order, and this is largely achieved through creating material wealth for citizens – the notion of performance legitimacy, which remains salient in Southeast Asia (Alagappa 1995: 330; Stubbs 2001). This explains the preoccupation of political leaders with securing and maintaining key sources of growth in the economy, of which FDI is pre-eminent in this regional setting. On the other hand, elite rule is also sustained by unity and accommodation between members of the elite/governing coalition (Haggard and Kaufman 1997). In a number of Southeast Asian countries, political elites often selectively distribute economic benefits to their elite partners as a primary means to achieve elite unity.

By the 1990s, it was the accommodation between the political elite and an emerging domestic business class that was crucial. The material and other forms of political support provided by domestic businesses help incumbent political elites maintain their power base, while the former in turn receive economic privileges through preferential policies instituted by the latter. In addition, domestic businesses are often privileged because they helped political actors fulfil broader social equity goals in society. This is especially clear in the Malaysian and Indonesian

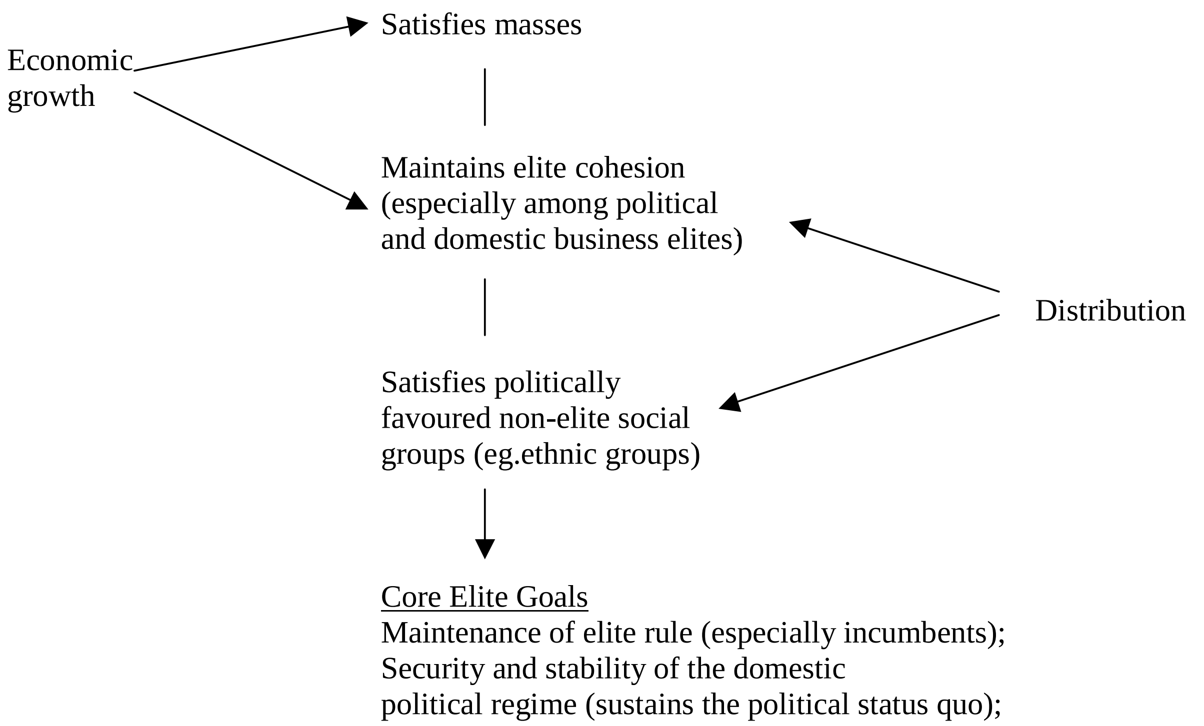
[30] Elite governance is most usefully viewed as a project whose principal aim is to maintain elite power, autonomy and exclusivity (Case 1996: 20; McCargo 1998: 127).

cases, where political legitimacy also rests on the capacity of the state to develop respectively an ethnic Malay and indigenous Indonesian domestic capital class, particularly to offset the dominance of ethnic Chinese capital.[31] There is also a wider distributive agenda in parts of Southeast Asia that may lead policymakers to privilege non-elite or broad social groups in policy choices, provided these represent key constituencies for ruling elites and vital to sustaining elite rule and the stability of the regime (see Figure 1).

The importance of the distributive agenda in maintaining elite unity does not imply that economic growth is unimportant. Even though economic distress is not the primary source of factional or inter-elite conflicts, it is likely to exacerbate them. Fewer internal divisions within the ruling elite are likely when economic growth is strong. Declining economic performance often disrupts the political bargains rulers typically forge with other elite groups in society (Case 1996: 17-20). Under these circumstances, political elites are unable to provide their elite partners with the basic conditions that support wealth creation, while the latter become unable or unwilling to continue to offer material and political support to ruling incumbents. The end result is a weakening of elite cohesion and the power base of incumbent elites, while opposition groups gain from the defection of business and other elites previously aligned with the incumbents (Haggard and Kaufman 1997: 267-68). Political elites, therefore, often have to engage in difficult balancing acts in their policy choices, particularly when these involve significant trade-offs between the growth and distributive imperatives, or between maximising wealth and efficiency in society as a whole and maximising the wealth of a segment of society.

[31] See Crouch (1996) for Malaysia and Habir (1999) for Indonesia.

**Figure 1**
**The role of growth and distribution in elite governance political systems**




In much of Southeast Asia, foreign capital remains a key source of growth and exports, particularly in the high value-added and advanced sectors of the economy that virtually all governments are increasingly targeting, although domestic-owned firms are not entirely absent from this picture. On the other hand, the distributive imperative, where it exists, is usually aimed at privileging domestic-owned capital or segments of it that are also close allies of the political elite. More specifically, it is *emerging* domestic capital that will most likely need to be nurtured, rather than internationally oriented domestic-owned capital. Thus, it is when the political elite is closely allied to inward-focused or emerging domestic capital that the tension between growth and distribution becomes pronounced. Policymakers may well adopt measures to protect, preserve and/or nurture emerging domestic capital vis-à-vis foreign capital if external pressures are perceived to be threatening to this particular segment of domestic capital.

Such pressures may come from multilateral institutions. The WTO, for instance, continues to try and incorporate investment rules within its agenda although this is rejected by many developing countries (Khor 2001). This attempt is increasingly perceived in parts of the world as a means to maximise the rights of TNCs to operate freely worldwide, and is regarded as detrimental to the future of emerging domestic capital. To the extent that policymakers regard such external developments to be detrimental to the future of domestic-owned capital, then they might well adopt a developmental approach to regionalism along the lines suggested in this paper.

This was, in fact, the case in Southeast Asia. When the members of the Association of Southeast Asian Nations (ASEAN) formally incorporated an investment liberalisation component programme within the ASEAN Free Trade Area (AFTA) project in 1998, they opted to accord full national treatment and market access privileges to foreign (non-ASEAN) investors at least ten years later than to domestic or ASEAN national investors. This is explained as an attempt at developmental regionalism, a response by certain member governments of ASEAN to secure the future of emerging domestic capital perceived to be at the losing end should a global investment regime become a reality, which these governments expected would occur sooner rather than later. The concern was greatest with regard to domestic capital that was closely allied to the political/ruling elite and vital to broader social/political goals in the countries concerned (Nesadurai 2003, forthcoming). On the other hand, we are likely to see the FDI variant of open regionalism if policymakers are primarily driven by the need for FDI and the growth imperative. The point to note is that policymakers may adopt distinct forms of regional projects depending on which segment of capital is perceived to be threatened by external pressures.

## CONCLUSION

The analytical framework suggested in this paper, which combines the economic realist perspective on IPE with a model of domestic politics, offers substantial analytical purchase over liberal perspectives in explaining regionalism as an outcome of globalisation. The value of economic realism as a theoretical tool comes from its recognition that states continue to matter, and more importantly, that the governments of these states can, and often do consciously manipulate inter-state relations to try and intervene in the international political economy in line with domestic interests. Regionalism can be interpreted as one such instrument for states to pool their resources in order to influence the international political economy. By using the economic realist theoretical perspective, it was possible to first, identify two variants of open regionalism, and second, to advance a fourth ideal-type model of the globalisation-regionalism relationship in addition to the two existing ideal-types in the literature, namely developmental regionalism (see Table 1). These four distinct models differ in terms of how they engage with globalisation, their relationship with different segments of capital and with other social groups, whether driven by growth, efficiency or distributive concerns, and their key features.

Although globalisation may provide the primary stimulus for regionalism, it is clear that attention must be paid to the domestic level in order to explain what form the regional option might take. A key assumption of the paper is that governments respond in the first instance to domestically derived political priorities. In short, it is dynamics operating at the domestic level that determine which of the four ideal-type models of regionalism outlined in this paper will emerge in response to globalisation, even though the push towards regionalism comes from systemic forces. These dynamics centre on the tension between a growth imperative and a domestic distributive imperative. The specific case of Southeast Asian domestic politics was highlighted to illustrate the conditions under which one or another of these priorities operates in this particular setting, which consequently will have implications for the type of regionalist project that is likely to be adopted in response to the pressures associated with globalisation.

To summarise, the type of regionalism that emerges as a result of globalisation is mediated by domestic political economy dynamics centred on the tension between growth/efficiency concerns on the one hand and distributive priorities on the other, even in the case of regionalist projects that seek engagement with globalisation. Political and state actors interpret external events and developments – globalisation – through lenses grounded in domestic political priorities, which also influence their responses to these external impulses, including their particular approaches to regionalism. As a growing number of IR scholars argue, external events acquire ‘political significance only as they are factored into national politics in ways that accommodate the interests, strategies and ideologies of dominant local players’ (Jacobsen 1996: 94-5). The domestic level is clearly a crucial mediating factor between globalisation and regional outcomes. Breslin and Higgott’s (2000: 341) call for a ‘marriage between the disciplinary approaches of the theorist of regionalism and the richer empirical work which recognises the importance of specific historical and political contexts' – domestic politics – is one that should be taken seriously.

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