



**Emergence of Regionalism: About
State Preference Formation**

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Abstract

Regional cooperation and regionalism have proliferated, from the remarkable regional integration in Europe since the 1950s, to a new worldwide resurgence since the late 1980s. This research is devoted to a theoretical and empirical analysis of the emergence of regionalism. One of the specific concerns of this research is to broaden our understanding of different regionalisation experiences. It will adopt a rigorous analytical approach by juxtaposing a similar stage in the evolution of regionalism in European (after World War II) and in East Asian (after the Asian Financial Crisis). This research will also explore a general theoretical framework by which the origins of regionalism will be better analysed and compared. Such a method will broaden the scope of regionalism studies in general, and shed light on contemporary issues in East Asian regionalism in particular. A fundamental hypothesis/argument of this research is that the special stage of the emergence of regionalism is characterized by a fundamental change in regional inter-state relations and the emergence of a regional cognitive concept and identity. By exploring the formation of 'state preferences', this research will examine whether both interests and ideas matter in the emergence of regionalism, how interests/preferences are formulated, what the relationship between material incentives and ideational factors is, why specific interests/preferences and ideas matter during specific periods, what kind of mechanisms transfer relevant interests and ideas, and how they work.

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Introduction

Regional cooperation and regionalism have proliferated, from the remarkable regional integration in Europe since the 1950s, to a new world-wide resurgence since the late 1980s². This paper is devoted to a theoretical and empirical analysis of the emergence of regionalism. In analysing the systems by which regionalism emerges among sovereign states, it will focus on those factors which cause and promote regionalism in different areas.

The specific concerns of this paper are motivated by the following considerations. The first is to rethink the evolution of regionalism. Comparison studies enrich our understanding of regionalism. However, it has been realized that simply comparing the contemporary experiences of Europe and Asia leads inevitably to the conclusion that they are very different (Breslin, *et al.* 2002). This paper will adopt a more rigorous analytical approach and attempt to juxtapose the similar evolutionary stages of regionalism: Europe's earliest experience and the contemporary East Asian experience, in order to examine regionalism at its most embryonic stage. Secondly, It has seen a theoretical and methodological dichotomy in recent regionalism studies, namely rationalist and social constructivist in the mainstream theories, such as international cooperation theories (neo-realism and liberal institutionalism), integration theories (neo-functionalism and intergovernmentalism) and cognitive regionalism. These theories and approaches are only overlapped a little in the emphasis of key elements in the formation of regionalism. They are competing but also complementary. A well-known critique by Donald Puchala is that different theories can only explain different aspects of the integration process just like the blind man feels the elephant (Puchala, 1972: 267). This indicates that 'any general explanation of integration cannot rest on a single theory, ... but must rest on a multicausal framework that orders a series of more narrowly focused theories' (Moravcsik, 1999: 14-15). This paper will also try to avoid any inclination to privilege one set of variables over the other and to argue that different sets of variables and logics are analytically separated but empirically intertwined. It is an attempt at a fruitful theoretical and methodological convergence and synthesis. By bridging rationalist and social constructivist approaches, it will explore the concept of *state preference* and establish a general framework to identify common determinant elements in the origins of regionalism. Such a method will broaden the scope of regionalism studies in general by furthering the dialogue between rationalism and

² Such as NAFTA in North America, MERCOSUR in South America, APEC in Asia Pacific, and more recent developments in East Asia – ASEAN plus Three (APT).

constructivism, and shedding light on contemporary issues in East Asian regionalism in particular. By means of theoretical synthesis, however, my intention is limited to presenting a particular phenomenon rather than theorizing it or advancing existing theories.

This paper will first scrutinize the concept and definition of regionalism, on which the entire research is based. It will then be followed by a discussion on the dichotomy and synthesis of methodological issues in this field. By bridging rationalist and social constructivism approaches, the next part will explore the concept of *state preference* and establish a general framework by which regionalism's origins might be better analysed. The paper will try to answer if both interests and ideas matter in the emergence of regionalism how interests/preferences formulate, what the relation between material incentives and ideational factors is, why specific interests/preferences and ideas matter under specific period, what kind of mechanisms transfer relevant interests and ideas, and how they work. The answers to these questions will be explored in European and East Asian experiences³.

Emergence of Regionalism

Regionalism has been called an 'elusive' concept due to the fact that it has attracted an extensive scholarly interest but is yet to generate a widely accepted definition (Mansfield and Milner, 1999: 590). The term 'regionalism' frequently appears in the studies of regional cooperation, regional organisation, regionalisation and regional integration, but is often defined in slightly different ways.

First of all, regionalism is about regional cooperation. It usually appears under certain economic conditions – regional economic interdependence – and aims to improve economic efficiency and thus to reinforce market-driven regionalisation⁴. Regionalism

³ Particular considerations concerning the choice of the case studies were their special theoretical and empirical implications. Although the trend of regionalisation has spread to almost every continent, European integration has been the most successful and with the longest history. The institutional and constitutional development and governance capability of the EU today has very much justified the necessity of a closer examination of its early years and its origins in order to better understand the evolution and development of other much younger regionalisation experiences, especially those which have just entered the threshold. Among them, the concept of East Asia as a region is relatively new, not having developed until the appearance of the abortive East Asian Economic Caucus (EAEC). This region has lacked a historical legacy of regional cooperation. Conventional international relations theories and economic theories have also identified various economic and political obstacles to fruitful regional cooperation in this region (Hemmer and Katzenstein, 2002; Ravenhill, 2000; Chalmers, 1997; Doner, 1997). Therefore, it is of particular interest to look at what factors are driving the emerging regionalism in East Asia. In addition, these two cases are suitable as a theoretical experiment to go beyond the traditional European integration theories and East Asian power politics.

⁴ There is a distinction between the 'market-driven' regionalisation and the '*de jure*, state-driven' regionalism (Breslin and Higgott, 2000; Hurrell, 1997; Wyatt-Walter, 1997). Regionalisation is mostly described as concentrated economic interdependence among geographically adjacent nation states. 'Regionalisation refers to

is also used to 'connote those state-led projects of cooperation that emerge as a result of intergovernmental dialogue and treaties' (Breslin and Higgott, 2000: 344). Various regional integration schemes, which are designed and implemented by nation states, are the most concrete manifestation (Mattli, 1999; Smith, 1993). These state-led schemes are mostly economic integration in nature, which leads to a voluntary removal of barriers to the mutual exchange of goods, services, capital, or persons by nation states and often involves a shift of policy-making in economic sectors from a national level to a supranational level (Balassa, 1961; Smith, 1993; Rosamond, 2000; Mattli, 1999). Therefore, regionalism is usually associated with a policy programme (goals to be achieved) and strategy (means and mechanisms by which goals should be reached), and it normally leads to the creation of regional cooperative enterprises (organisations or institutions)⁵. From this perspective, regionalism is a recognition of the existence of interdependence as well as enhancing positive interdependence by means of international co-operation or coordination between adjoining states. Regionalism implies a complex concert, harmonisation and compromise of national economic and political interests among states, which is accompanied by an adjustment of regional interstate relations. The development of regionalism itself is a dynamic of regional international relations.

Secondly, the notion of 'regionalism' is also about perceptions, identities, and ideas. Most commonly it is a perception of regional awareness and belonging. One of the five categories of regionalism⁶ in Andrew Hurrell's study is 'regional awareness and identity', which 'is a shared perception of belonging to a particular community ... often defined in terms of common culture, history or religious tradition' (Hurrell, 1997: 41). This is a historically and culturally deep-rooted definition which gives prominence to the particularities of each individual region and highlights the uniqueness of each, leaving little space for a dialogue between different regionalism experiences. To overcome this limitation, regionalism should be used as 'an analytical device

those processes that actually build *concrete patterns of economic transactions* within an identified geographical space' (Hveem 2000: 72). Regionalisation implies a regional expansion of the market and increasing trans-border transactions assisted by technological innovation, the domination of business actors (especially giant business corporations) independent from the nation state's policy and even a retreat of traditional nation states⁴ (Hormats, 1994; Hull, 1997). It is also called 'functional regionalism' or '*de facto* evolution of regionalisation' which more or less operates within the logic of 'capitalism' (Vayrynen, 2003; Breslin and Higgott, 2000).

⁵ In regional integration, regional institutions are the key indicator to distinguish between 'cooperation' and 'integration', with the former associated with weak central institutions and the later strong (Nye, 1968). Some integration theories also prefer to use organisational tasks and institutionalisation to measure the levels of integration (Haas, 1970).

⁶ Andrew Hurrell breaks up 'regionalism' into 'five different categories': (1) regionalisation (autonomous economic process based on market force); (2) regional awareness and identity; (3) regional interstate co-operation; (4) state-promoted regional integration, and (5) regional cohesion. He provides an explanation of each category. However, he does not further explore how one may relate to another. See Andrew Hurrell, 1997:39-45.

suggesting what the world's 'natural' regions are or ought to be' (Haas, 1970: 612), and in this inquiry, 'one is forced to admit that geographic designations are not 'real', 'natural' or 'essential', (rather) (t)hey are socially constructed and politically contested and are thus open to change and vulnerable to the twin risks of reification and relativization' (Katzenstein, 1997: 7). Regionalism is 'the body of ideas promoting an identified geographical or social space as the regional project, or it is the presence or the conscious construction of an identity that represents one specific region' (Hveem 2000: 72). This indicates that the 'geographical area is transformed from a passive object to an active subject capable of articulating the transnational interests of the emerging region' (Hettne and Soderbaum, 2000: 461). In this sense, regionalism embodies 'the *advocacy* of regional cooperation' (Dosch, 2002) which 'can be a political slogan' (Haas, 1970: 612) as well as an ideology: arousing a regional consciousness, promoting a regional identity and an urge for a regional political and economic order in a particular geographical area.

Thirdly, regionalism also represents a practice and process of norm creation. The new regional cooperative enterprises not only ensure the commitment of national government and the credibility of cooperation (Moravcsik, 1998), but also serve as what Finnemore and Sikkink call 'norm entrepreneurs' (1999), which are essential to construct the regional cognitive frames from which regional norms and joint obligations emerged. They are also critical in promoting new norms to emerge, consistent with the norm entrepreneur's ideational commitment. In John Ruggie's international legitimate authority theory, when regional norms and joint obligations are incorporated into 'the determinants of national decisions', a regional legitimate authority emerges (Ruggie, 1998: 59-61). Multiple actors are involved in this process, both state and non-state actors including 'epistemic communities', which all contribute to promoting new ideas and norms inside and outside 'norm entrepreneurs'. This reflects an institutionalisation and a socialisation process.

Finally, since regionalism encompasses identity, advocacy, ideology and norms, it inevitably represents normative practices by whoever the agent is, state or non-state actors – institutions, political elites or academia. Fundamental questions are about good or bad, better or worse: whether the 'regional approach', 'regional structure', 'regional cooperation/integration' is more desirable, more effective than other approaches in dealing with human problems such as whether a regional consciousness and identity will create, maintain and modify security and wealth, peace and development within a region, and whether the new form of 'human

community' is superior than the old one, and about a question of 'ought to' (Haas, 1970: 608, 624; Nye, 1968: 856-7). In this process, the assertions are normative rather than simply descriptive as some values are evaluated against and preferred to others or sometimes mainly based on the faith of the asserters⁷. The favoured values are expected to be different across space and time. For example, during the early years of European integration, the values of 'non-coercive' unification and 'self-consciously eschew(ing) the use of force' are evaluated against those of the military conqueror, colonizing or seeking hegemony as in previous unifications (Haas, 1970: 608). In today's East Asia, people are more concerned about liberalisation over intervention, regulation over lack of it, and transparency over 'crony capitalism'. The normative character of regionalism is also reflected in its ideal types of 'terminal conditions' (theoretically) or 'blue print' (politically). They are delineated or defined in terms of different development directions – federation, economic or political union, economic or political community.

Based on this understanding of regionalism, the emergence of regionalism means the emergence or the simultaneous existence of interdependence and inter-state cooperation, and the appearance of regionalism as ideology and advocacy in certain geographical area where the above defining elements have previously been not present simultaneously. Therefore, the phenomenon to be discussed is an emerging regional system which consists of *inter-state interdependence, cooperation* and the relevant *ideology*. The fundamental research question here is critical: how this regional system came into being and what the possibilities for structural and social change are. The existing regionalisation and regional integration studies have not paid special attention to the development of the early stage of regionalism which has plenty of features different from traditional international cooperation, international organisations, international regimes or ongoing integration processes. Neither do they treat material incentives and ideational factors as equally important in the origin of regionalism. Indeed, it has been misleading to ask whether either interests or ideas are the chief determinants of policy outcomes (Campbell, 1998). A fruitful approach has to eschew the temptation of this dichotomising logic which treats ideas and interests as competing instead of mutually constitutive variables (Gofas, 2001).

⁷ Such as the European federalists did after the end of World War II.

Methodological Synthesis: Rationalism and Social Constructivism

There has been a methodological dichotomy in regionalism studies which is consistent with a general trend between rationalism and constructivism in International Relations theories. As two different approaches to social inquiry⁸, this dichotomy is seen within neo-realism, neo-liberal institutionalism and social constructivism. In general, the former postulates a rational attribute of the actors – they do what they ‘believe is likely to have the best overall outcome’ (Elster, 1989: 22). The rational choice and game-theory approaches have been pervasive in neo-realist, neo-liberal institutionalist and liberal intergovernmentalist research on regionalism studies⁹. The latter approach, social constructivism, ‘insists on the primacy of intersubjective structures that give the material world meaning’, and extends the evolution of social identity and norms in international relations through sociological approaches¹⁰. Although few theoretical reviews situate neo-functionalism into this rationalist-constructivist dichotomy¹¹, the founding figure of this theory, Ernst Haas, has tried to incorporate neo-functionalism with today’s social constructivism in his final publications¹² (Haas, 2001 and 2004). Compared with other theoretical approaches discussed, neo-functionalism is more closely affiliated with constructivism than rationalism. Neo-functionalists regards regional integration as a political-social process which transfers citizens’ loyalty from the national level to the supranational level in order to formulate a new political community. In this process, interest groups, political parties and social elites are all ‘singled out as the significant carriers of values and ideologies whose opposition, identity or convergence determines the success or failure of a transnational ideology’ (Haas, 1958: 5). Regarding the formation of interests, both neo-functionalism and constructivism

⁸ Major literatures on rationalism and social constructivism approaches in International Relations are Peter J. Katzenstein, Robert O. Keohane and Stephen D. Krasner (eds), *Exploration and Contestation in the Study of World Politics*, Cambridge/London: The MIT Press, 1999; John G. Ruggie, *Constructing the World Polity: Essays on International Institutionalisation*, London: Routledge, 1998; Alexander Wendt, *Social Theory of International Politics*, Cambridge: Cambridge University Press, 1999.

⁹ Major works are Wallace, 1997; Hurrell, 1997; Nye, 1970; Mattli, 1999; Moravcsik, 1998.

¹⁰ Although constructivism has not ever been an International Relations theory, it has established itself as a most important approach in discussing world politics since the late 1980s. Major constructivism literatures are Peter J. Katzenstein, Robert O. Keohane and Stephen D. Krasner (eds), *Exploration and Contestation in the Study of World Politics*, Cambridge/London: The MIT Press, 1999; John G. Ruggie, *Constructing the World Polity: Essays on International Institutionalisation*, London: Routledge, 1998; Alexander Wendt, *Social Theory of International Politics*, Cambridge: Cambridge University Press, 1999; Lars-Erik Cederman, Christopher Daase, ‘Endogenizing corporate identities: the next step in constructivist IR theory’, *European Journal of International Relations*, Vol. 9 (1), 2003: 5-35; Friedrich V. Kratochwil, *Rules, Norms and Decisions: On the Conditions of Practical and Legal Reasoning in International Relations and Domestic Affairs*, Cambridge: Cambridge University Press, 1989.

¹¹ One reason might be that the social constructivism approach in IR appeared decades later than neo-functionalism. Classical neo-functionalism literatures include Ernst B. Haas, *The Uniting of Europe: Political, Social and Economic Forces*, London: Stevens, 1958; and Leon N. Lindberg, *The Political Dynamics of European Economic Integration*, Stanford: Stanford University Press, 1963.

¹² He called the theory ‘soft’ rational choice: ‘social actors, in seeking to realize their value-derived interests, will choose whatever means are made available by the prevailing democratic order’ see Haas, 2004: xv.

'stress the causal role of ideas and values in defining actor preferences (interests)' (Haas, 2001: 25). This part will first juxtapose the contrasts between rationalism and constructivism. Then it will explore a possible strategy to a methodological synthesis.

Contrasts

Most scholars view these two approaches as 'sufficiently distinct to be viewed as separate explanatory devices' because 'they involve different explanations for action and different bases for international change' (March and Olsen, 1999). The main differences and emphases of these two approaches will be discussed as the followings.

(1) Rationalist versus constructivist

Rationalism¹³ is modelled on economics or natural science, for example, as seen in the neo-realist view that nation states are competing in the international political market for survival and pursuing their maximized relative gains (Walze, 1979 and 1995; Grieco, 1990). Neo-liberal institutionalism seeks to specify how international regimes may facilitate agreements among states by reducing transaction costs and producing reliable information about one another's intentions and behaviour in order to amend the 'market failure'. When involved in interactions with others, the actions of individual actors are always strategic and take into account the expected actions of others (Axelrod and Keohane, 1993; Keohane and Nye, 1977; Krasner, 1983). This strategic action and joint determination of outcomes are also based on the well-known economic model, Nash Equilibrium¹⁴.

¹³ In philosophy and in its broadest sense, *rationalism* is 'any view appealing to reason as a source of knowledge or justification' (Lacey, 1996: 286). In more technical terms it is a method or a theory 'in which the criterion of truth is not sensory but intellectual and deductive' (Bourke, 1962: 263).

In philosophy *rationality* and reason are the key methods we use to treat the data we gather through empiricism, which stands for the experiences, the observations which our senses are used to collect (Samuels, *et al.*, 1999). In economics, sociology, and political science, a decision or situation is often called *rational* if it is in some sense optimal, and individuals or organizations are often called rational if they tend to act somehow optimally in pursuit of their goals. In this concept of 'rationality', the individual's goals or motives are taken for granted and not made subject to criticism, ethical or otherwise. Sometimes, in this context, rationality is equated with behavior that is self-interested to the point of being selfish. Sometimes rationality implies having complete knowledge about all the details of a given situation. It might be said that because the goals are not important in definition of rationality, it really only demands logical consistency in choice making. Rationality is a central principle in artificial intelligence, where a *rational agent* is specifically defined as an agent which always chooses the action which maximises its expected performance, given all of the knowledge it currently possesses (Spohn, 2002).

Rational choice theory assumes human behaviour as guided by instrumental reason. Accordingly, individuals always choose what they believe to be the best means to achieve their given ends (Abell, 1991). It belongs to the foundational theory of economics and has also become increasingly prevalent in other social sciences. Rational choice theory is an individualistic methodology and as such conceives of social situations or collective behaviors as the result of individual actions. However, rational choice theory is not only applied to individual human actors. Often, the same pursuit of cherished values is assumed for collective entities, for example corporations or national governments (Scott, 2000).

¹⁴ In game theory, the Nash equilibrium, named after John Nash who proposed it, is a kind of conceptual solution game involving two or more players, where no player has anything to gain by changing only his or her own strategy. If each player has chosen a strategy and no player can benefit by changing his or her strategy while the

Constructivism follows a social or sociological approach. Constructivists separate 'over-socialized' concept of power from 'social but not entirely socialized' concept of power (Wrong, 1961 and 1988), constitutive rules from regulative rules (Ruggie, 1998: 22-25), and corporate identities from social identities (Wendt, 1994; Cederman and Daase, 2003: 7). They explore how norms and ideas are socially constructed and how they become constitutive of international cooperation and conflict. While a rationalist approach focuses on causal relationships between dependent variables and independent variables, a constructivist approach concentrates on non-causal relationships between ideational factors and certain international phenomenon.

(2) Individualism versus structuralism

Rationalism privileges individual (methodological individualism), 'treat[ing] individuals as basic (elemental) units of social analysis' and arguing that 'both individual and collective actions and outcomes are explicable in terms of unit-level (individual) properties' (Jupilie, Caporaso and Checkel, 2003). A typical 'individualist' view is that social structures are reducible to individuals and treats individuals as unproblematic, irreducible, autonomous actors who know what they want independent of social or cultural context (Finnemore, 1996b). In contrast, social constructivism claims that the individual as an autonomous social actor is a product, not a producer of society and culture, and emphasizes the interaction and mutual construction of agent and structure. Social structures can provide actors 'with understandings of their interests (it can 'constitute' them)' (Checkel, 1998: 325-6), therefore are 'inseparable from the reasons and self-understandings that agents bring to their actions' (Wendt, 1987: 335). This difference is sharpened further by Adler's question: 'do we explain human action on the basis of individual motivation and the causal interaction of international agents, or do we explain individual cognition and action as a function of social forces or social structures?' (1997: 324)

(3) Material incentive versus ideational causation

From a materialist perspective, rationalists believe the most fundamental fact about international relations is the nature and organisation of material forces, natural sources, production or destruction forces, and so on. In an individual actor's choice of

other players keep theirs unchanged, then the current set of strategy choices and the corresponding payoffs constitute a Nash equilibrium. The classical examples are 'competition game', 'coordination game' and 'prisoner's dilemma'. The concept was introduced in John Nash, 'Equilibrium points in n-person games', *Proceedings of the National Academy of the USA*, 36(1), 1950:48-9. Also see Drew Fudenberg and Jean Tirole, *Game Theory*, MIT Press, 1991.

action, materialized means-ends calculations are the key, whether for absolute gains or for relative gains. Constructivism argues that 'the structures of human association are determined primarily by shared ideas rather than material forces' and 'the most fundamental fact about society is the nature and structure of social consciousness' (Wendt, 1999). Besides instrumental rationality, ideational factors, such as ideas, cultures, norms and rules, are also germane to a better understanding of international relations. Materialists tend to privilege causal relationships, probing individual motivations and means of utility maximizing, while constructivists tend to privilege constitutive relationships, using social, institutional and ideational elements to explain and understand actions.

(4) Deductive versus inductive

Methodologically, rationalism is known as a deductive-nomological and parsimonious approach while social constructivism employs a 'narrative explanatory protocol', 'thick description' or interpretive approaches (Kahler, 1999; Ruggie, 1998). The former approach is positioned to produce generalizable, law-like theories. Social events and social structures are all analysed by breaking them into component parts, aspects or variables and linking the logical and causal relations between these parts and variables¹⁵. In contrast, the causality in social constructivism is in 'a narrative explanatory form', which 'is established through a process of successive interrogative reasoning between explanans and explanandum' and 'conforms to its ordinary language meaning of whatever antecedent conditions, events, or actions are 'significant' in producing or influencing an effect, result, or consequence' (Ruggie, 1998: 34, 94).

Regionalism in rationalist models stands for a generalisable, universally valid conception which can identify and explain individual events. In contrast, regionalism in social constructivist studies is primarily an ideational phenomenon, which helps to understand the value-ideas significance of individual behaviour.

Methodological synthesis

The apparent opposition of rationalist and constructivist approaches in studying international cooperation comes from the widely accepted choice between a relatively strict rationalist model and a social constructivist approach by mainstream research. The incompatibility of constructivist and rationalist arguments implies that neither ideational factors can be treated in a rationalist way nor can the role of

¹⁵ This is widely practiced by neo-realists, for example, see Waltz, 1979, chapters 2 and 4.

ideational factors be compromised with material factors (Finnemore and Sikkink, 1999; Hall, 1999) – it is either material or ideational factors that explain how the world works, not both (Desch, 1998). Strictly defined rationality or constructivism may help to highlight one or part of the story at the expense of neglecting other parts. International society is both material and ideational, in which material incentives and social construction both play indispensable roles. Rationality and social constructivism are complementary in terms of describing a comprehensive picture of the development, change and evolution of international political economy. However, how to combine these two approaches has aroused some academic discussion¹⁶. Three ways have been suggested.

First, most rational choice models take state identity and preferences as given and fixed. Neo-realists and most neo-liberal institutionalists view state interest/preference as exogenous and state behaviour depends on systemic variables. Even though liberal intergovernmentalism tries to identify state preference, they only turn to domestic politics and interest groups (Moravcsik, 1998). Before social constructivists seek to ‘map the full array of additional ideational factors that shape actors’ outlooks and behaviour, ranging from culture and ideology, to aspirations and principled beliefs’, they first of all problematise identities and interests of states and show how they are socially constructed (Ruggie, 1998). In this way the exogenously defined concepts of ‘interest’ or ‘utility’ in a rationalist model can be problematised in a constructivist approach to explore how the ‘complex belief system’ is socially constructed. One can combine these two approaches into a two-stage process in which constructivists explain ‘how preferences are formed and knowledge generated prior to the exercise of instrumental rationality’ by modelling social context as a background for rational choice, or attributing a circumscribed and constrained rationality to international actors (Katzenstein, *et al*, 1999; Kahler, 1999).

Second, the exogenous constraints on an agent’s action can be systemic (for example, resources and powers) as well as social structural (for example, culture, moral and norms). Rationalists look at the effects of structures on agents’ *behaviour*, while social constructivists focus on the effects of structures on agents’ *properties*, especially identities and interests (Wendt, 1999). Since both systemic and social

¹⁶ See Martha Finnemore and Kathryn Sikkink, ‘International norm dynamics and political change’, *International Organisation* 52 (4), 1998: 887-917; Miles Kahler, ‘Rationality in international relations’, *International Organisation* 52 (4), 1998: 919-41; Joseph Jupilie, James Caporaso and Jeffrey Checkel, ‘Integrating institutions: rationalism, constructivism, and the study of the European Union’, *Comparative Political Studies*, 36 (1/2), 2003: 7-40; Jeffrey Lewis, ‘Institutional environments and everyday EU decision making: rationalist or constructivist?’ *Comparative Political Studies*, 36 (1/2), 2003: 97-124.

structural factors influence the outcome of agents' actions, the dialogue between these two is possible. The effect of the former is the 'cause', and that of the latter is the 'reason', which makes the distinction between the causal and constitutive effects (Ruggie, 1998; Wendt, 1999).

Third, the concepts of 'identity' and 'norm' also open the dialogue between rationalists and social constructivists. Constructivists argue that 'collective identities' are socially constructed and values and norms are socially developed. Meanwhile, norms and values can also be intentionally designed and promoted to constrain individual behaviour. Therefore, rational choice can also be modelled as a mechanism to produce social knowledge and identity (Finnemore and Sikkink, 1999). The strategic design, invention and promotion of 'identity' and 'norms' are particularly salient in the regionalisation process.

Since Katzenstein *et al.* first brought out the theme of bridging rationalism and social constructivism approaches (1999), there have been some efforts to do this in regionalism studies. Haas's late work is among them. He tried to argue that neo-functionalism is based on value-derived interests: 'The ontology is *not* [original emphasis] materialistic: values shape interests, and values include many nonmaterial elements' (Haas 2004: xv). Actors act and interact with the material world based on their socially constructed interpretation of that world and by doing so, they also shape the material world. This paper will also adopt such a synthesizing approach to analysing the emergence of regionalism in order to explain that the emergence of regionalism is about behavioural cooperation (rationalist and materialist) as well as the formation of collective identity from a state-centric perspective. This is intended to account for the change of regional society and the emergence of a new regional system as a result of both ideational and material factors.

The Emergence of Regionalism: Formation of State Preference

Why do nation states voluntarily pursue cooperation? What is the difference between regional cooperation and general international cooperation? The concept of state preference provides useful insights into these questions. State preference is a set of knowledge and values placed on regional interactions and specific regional issues. It is a subjective understanding which structures the ways in which actors understand what kinds of actions are 'valuable, appropriate, and necessary' (Finnemore, 1996: 15). The patterns of state preferences directly shape the outcome of international cooperation. State preference is called 'interest' in neo-realism and neo-liberal

institutionalism and is treated as fixed. They assume that interest and identity are constant and look at their ability to obtain what they want. The 'fixed' interest is useful in a certain time span or context when and where the state preference is constant and unchanged (Kratochwil, 2000). However, other cases, regional cooperation for instance, often witness a change of state preference. Liberals often use 'preference' to explain state behaviour which is formed through domestic political processes. Social constructivism uses 'identity' to emphasize the consciousness of the agent concerning relevant behaviour. This paper seeks a multi-causal explanation of the formation of state preferences, which have both a deterministic quality and a voluntary nature.

As autonomous actors in the international system or structure, nation states develop their preferences both endogenously and exogenously. Endogenousness means the preference is developed inside the system or structure through inter-state interactions, or agent-structure mutual relations. Exogenousness means 'exogenous to interaction', and is often viewed as purely domestic changes (compatible with the 'two-level' games of foreign policy formation), which change 'state identities in ways that in turn change system structure'. Therefore, 'exogenously given' means that preferences 'are not seen as being continuously in process or sustained by interaction itself' (Wendt, 1999: 315-6).

In the regional context, state preference towards regional cooperation is endogenously developed through regional interactions and the change of regional structures and exogenously generated through domestic political economic consensus. The former focuses on the nation states' process of learning and innovation due to the change in the international economic system and on the definition of national interests in an interdependent regional structure. Historical experience and the learning experience contribute to the formation of what Goldstein and Keohane called 'causal beliefs', which 'are beliefs about cause-effect relationships which derive authority from the shared consensus of recognized elites' (Goldstein and Keohane, 1993:10; Pedersen, 1998: 18). The latter, namely the exogenous factors of domestic economic imperatives and the social and economic consensus, define how the nation state wishes to benefit from regional cooperation because states 'represent some subset of domestic society, on the basis of whose interests state officials define state preferences and act purposively in world politics' (Moravcsik, 1997: 518). Moreover, exogenous factors may also define the cooperation approach (sectoral approach, mixture of trade liberalisation and

protectionism, etc.) and the institutional establishment (pure intergovernmental or supranational authority) (Moravcsik, 1998).

Endogenousness

Endogenously developed state preferences towards regional cooperation are both ideationally constructed and rationally based, which has been identified by March and Olsen as a 'logic of appropriate' and a 'logic of consequence' (1999). These two logics can be compatible as ideational concepts are preconditions of rational calculations.

International crisis and state identity

State identity is an understanding of the material world, the meaning given to a situation, the self-perception about the position of the state in the international system or in a specific situation and about the relations with the outside world. Changes in state identity are generally slow, as states adapt to social competition and social evolution. Social constructivists argue that mechanisms such as 'natural selection' and 'social learning' generate state identity (Wendt 1999: 321-4). However, special social events are able to expedite the change of state identity. For example, crisis can trigger the search for new ideas to guide policy-making. 'What constitutes a crisis is an important definitional issue for ideational analysis... [and] the potential contribution of ideational analysis lies in its presumed but not yet clearly articulated ability to explain the factors that affect these perceptions in the first place...'
(Campbell, 2000 quoted in Gofas, 2001: 13). Regional conflict or regional economic crisis can substantially change the way the relation between nation states and the region is perceived. This can be understood in two ways. First, common experience induces a shared understanding of the material world. Shared understandings of 'what is going on?', 'what is the situation?' create similar responses and behaviours and lead to a convergence of expectations and policies. Martha Finnemore has used 'the logic of appropriateness' to predict similar behaviour from dissimilar actors, who would have acted differently if only regarded as having different utility functions and capabilities (Finnemore, 1996; Sending, 2002). Second, a representation of regional 'Self' and 'Other' is reconstructed by the logic of 'common fate'. 'Actors face a common fate when their individual survival, fitness, or welfare depends on what happens to the group as a whole' (Wendt, 1999). Unlike the conventional formation of alliance, 'common fate' influences not only behaviour but also actors' identity. The crucial element of 'common fate' is dealing with collective uncertainty, which can be political, economic and even ecological.

Western European countries after the World War II and the East Asian countries after the Asian financial crisis respectively share a regional wide miserable experience and understanding of a regional common fate to deal with regional economic and political uncertainty. This perspective of looking at crisis-induced identity formation is different from traditional cultural approaches which emphasise common cultural heritages and common history. Indeed, common history/experience such as the glorious renaissance and continental wars in Europe, common industrialisation history both in Europe and East Asia, contribute 'accumulative' effects of 'natural selection' and 'social learning' and have been important elements in the evolution of a regional consciousness and identity. However, a potent argument related to such acute events as regional crisis seems to be that which explores the changed views of states on two types of inter-regional relations – relations among states and relations between the individual state and the 'region' as a whole. From this perspective the notion of 'common knowledge' may be explained not only by aggregating the individually held beliefs, but by a procedure of how these beliefs 'got in there', i.e. 'the heads of the actors and why these beliefs happen to coincide' (Kratochwil, 2000: 80).

Europe

In contrast to pursuing the pre-war conditions as the European countries did after the First World War, establishing peaceful regional international relations on a fresh basis was a common consent by almost all post-war European governments (Wallace and Wallace, 1996: 16; Pedersen, 1998: 23). A sound international economic relation was vital to construct peaceful regional relations, which is a lesson the West Europe had learned from the international monetary and trade disorder during the 1929-39 Depression, the worst economic crisis suffered by modern capitalist Europe¹⁷. During the crisis, every country implemented similar economic policies: to seek salvation by reducing imports or attempting to expand exports, from raising tariffs, open or disguised export subsidies and the more direct methods of the quota, or quantitative restrictions as well as serious measures of control and restriction occurred¹⁸ in the financial and monetary area¹⁸. These measures resulted in

¹⁷ Whether measured by the decline in output or the level of unemployment and social impact (Pollard, 1974; Aldcroft, 1977b).

¹⁸ The trend of impeding imports started in big countries like Germany, France and the Great Britain but quickly followed by small countries like Italy, Denmark and Holland, quickly followed this trend. France dramatically increased all import duties by 30 per cent twice in one year time and Germany in 1925 returned her tariff level back to her tariff rates in 1902 (Woytinsky and Woytinsky, 1955: 270). The trade restriction was particularly striking in the case of foodstuffs and manufactured goods. Rye duty in raised to 300 per cent; in France, the wheat duty was raised to 200 per cent. The most drastic change occurred in Great Britain: in 1932 Great Britain gave up the free-trade tradition of nearly a century and replaced it with a tariff which began at a rate of 20 per cent on most

an economic isolation of each country from the rest and the reduction of each country's dependence on foreign trade and payment, which had been illustrated by an opposite trends of increasing production volume and stagnant or even decreasing intra-regional trade volume¹⁹. The failure to pursue more open economic policies and the attempt by each country to solve the problem at the expense of all others aggravated the tendency to national exclusiveness and the tension and hatred between nations. The cost of this regression and the damage done to Europe went far beyond the material or economic²⁰.

By 1945 the disastrous effects of protectionism on the international economy had been universally agreed. As Aldcroft states, 'international efforts to promote reconstruction were woefully inadequate after the First World War, a lesson which was appreciated by the planners responsible for the same tasks after 1945' (Aldcroft, 1977a: 63). Hervé Alphand and André Istel, de Gaulle's financial experts, stated that the 'collapse of the international economic system between 1929 and 1931 was not due to a shortage of international credit but rather to the absence of any international institutional machinery to regulate structural problems in the international economy' (Lynch, 1997: 13). Reformist economists suggested the fundamental reform of the international economy in the clear recognition that expansionary economic policies could not be sustained in isolation. A spirit of good neighbourliness would be easier to achieve if governments would pursue expansionary economic policies in concert to prevent another depression (Geiger, 1996). A new regional awareness, shared by regional countries, was evoked by this constructive attitude toward regional relations. Common experiences had also changed the perception of the relationship between nation state and the region. In contrast to the pre-war protectionism and disintegration of the international economy, the post-war period saw the attempt of novel solutions and the establishment of commonly accepted norms and rules to regulate economic relations (Milward, 1993). The 'common experience' prompted a

manufactured imports (up to 33 per cent on some) and 10 per cent on most semi-manufactures and foodstuffs (Woytinsky and Woytinsky, 1955: 276-78; Pollard, 1974:146). Italian grain tariffs rose faster than those of France, though not as high as Germany. Countries like Denmark, Holland and Switzerland graded their tariff rates carefully to favour their own advanced agriculture without raising its costs (Woytinsky and Woytinsky, 1955: 276).

¹⁹ For Europe as a whole (excluding Russia), while the volume of commodity production rose by 15 per cent from 1913 to 1928, and by a further 15 per cent in the period of 1928-38, the volume of intra-European trade remained constant in the first phase, and declined in the second by 10 per cent. Among leading industrial countries, the production of manufactures rose by 65 per cent in 1913-29 and by 9 per cent in 1929-37, yet imports rose in the first phase by only 22 per cent, and in the second they fell by 29 per cent (Pollard, 1974:152; Aldcroft, 1977b: 141-44).

²⁰ Europe bore the cost of social demoralisation, the breakdown of civic virtues, of democratic attitudes and forms of government. But what turned out to be most destructive of all in the end was the building up of political tensions that dragged Europe into another war.

reflection on undesirable inter-state relations and induced a shared understanding on the destination which European countries would all aim at.

East Asia

The East Asian economic crisis is the most important economic event in the region since the end of the World War II. The crisis was quickly transformed from the currency depreciation and debt crisis to a full-blown recession of real economy of production and caused a tremendous drop in the regional growth rate of GDP²¹. Upon the time when the Asian Financial Crisis broke out, 'East Asia' was mainly a geographic concept although it had reached a rather high degree of interdependence in the region through inter-regional trade and investment nexus, production and business networks and sub-regional economic zones (Peng, 2002; Bowles, 2002). This crisis catalysed a reassessment of inter-regional relations, impelled the regional countries to pool their sources to deal with the regional problems and therefore 'galvanized the regional governments into action' (Stubbs, 2002: 449). A new concept of 'East Asian Community'²² has been created in the process of searching a regional approach to the regional-wide problems, which formed the sense of 'group' and delineated a boundary to differentiate insiders and outsiders and posed a question of the relations between regional countries and the rest of the world. This is what Hurrell called 'how actors interpret the world and how their understandings of where they belong are formed' (Hurrell, 1995: 65). Cronin argues that 'group identities develop out of common experiences: political actors must act together as a group before they can recognize the existence of that group' (1999: 33). In the time of crisis they need to consider some kind of self-help mechanism, which was very well reflected in a statement by Thai Deputy Prime Minister Supachai: 'We cannot rely on the World Bank, Asian Development Bank, or the International Monetary Fund but we must rely on regional cooperation.'²³ In the post-crisis era regionalism, led by state design, pursues the goal of restoring the region a greater degree of political power and autonomy vis-à-vis the rest of the world (Bowles, 2002). The

²¹ From 7 –8 % in 1996 –1997 to –2 –0% in 1997 – 1998. Figures see IMF, *Managing Financial Crisis*, IMF Working Paper, 2000; IMF, *World Economic Outlook*, 1997 and 1998.

²² The 'East Asian Vision Group', proposed by the Korean President Kim Dae-Jung in 1999, was an unofficial organisation/association, comprised of former diplomats, ambassadors and government incumbents who participate on individual basis from East Asian countries in order to come up with a comprehensive long-term vision on East Asian economic and political cooperation. This group held two meetings in Seoul and Shanghai in October 1999 and April 2000 respectively. The discussion covered a wide range of topics from the nature and forms of East Asian regional cooperation to the anticipation and institutions of the cooperation. This group submitted to the ASEAN+3 leaders a research report titled *The East Asian Community* in 2001. This report analyses and makes suggestions on economic cooperation, financial cooperation, political and security cooperation, environment cooperation, social and cultural cooperation, and institutional cooperation. The core subject of discussion in relation to the economy was an East Asian FTA.

²³ Quoted in *the Nation*, 10 June 2000, from Nabers, 2003: 9.

slowly evolving regional liquidity fund initiated by the 'Chiang Mai Initiative' in 2000 will give member of ASEAN Plus Three greater autonomy in their relations with global financial institutions (Nabers, 2003).

This crisis has also cast doubts on the ability and relevance of existing regional institutions such as APEC and ASEAN and spurred the urge of searching for new regional identity. Neither of these organisations could take instant and effective measures to rescue the regional economy out of the chaos so that this crisis undermined their credibility (Bustelo, 2003). Some argued that while this crisis has exposed the inadequacy of regional institutions in East Asia it also shattered the self-sufficient 'Asian Way' (Webber, 2001; Ravenhill, 2000; Ruland, 2000). Pessimism on East Asian regionalism immediately after the crisis was even exaggerated by the two failed regional cooperation schemes – the Asian Monetary Fund (AMF) and APEC's EVSL scheme²⁴. On the contrary, however, the prospect for a continued development of 'East Asian' understanding of the region has been enhanced (Bustelo, 2003). Newly established regional cooperation bodies 'ASEAN plus three (APT)' and the 'East Asian Summit (EAS)' represent a new vision of regionalism.

Interdependence and the cost of being left outside

Realist cooperation theories suggest that the concepts of relative gains and distributional problems predict that states prefer to have cooperation which is able to sustain original power and capability distribution or balances (Grieco, 1990 and 1995). Complex interdependence theory shows international relations to be a multidimensional form of economic, social, and ecological interdependence, as a result of increasing international transactions – flows of money, goods, people, and information across international boundaries. Without denying the competitions between states, interdependence theory predicts that the joint gains generated by systemic interdependence will shape states' preference to cooperate with each other (Keohane and Nye, 1977). In an increasingly integrated and transnational economic system there is a functional requirement for greater international cooperation and coordination. However, systemic interdependence does not necessarily lead to international cooperation because interdependence is an 'objective condition', and it is 'a matter of degree, depending on the 'dynamic density' of interactions in a context' (Wendt, 1999: 344), but, it can shape states preference toward international

²⁴ Japan's proposal for an Asian Monetary Fund (AMF) to provide regional liquidity support was blocked by the opposition mainly from the United States. APEC's EVSL scheme, which identified fifteen sectors for early liberalisation, failed due to Japan's opposition to liberalisation of the fisheries and forestry products trade and later APEC referred the EVSL scheme to the WTO. After this APEC entered 'a phase of stagnation' (Otto, 2000: 51).

cooperation. Keohane and Nye highlight two aspects of interdependence, 'sensitivity' and 'vulnerability'. 'Sensitivity measures the degree to which changes in one actor's circumstances affect other actors', and 'vulnerability measures the costs an actor would incur from ending a relationship' (Wendt, 1999: 344).

In the regional interdependence context, when the proposal for regional cooperation schemes is initiated, the real rational calculation made by each country is not necessarily about how much absolute or relative gain the state might get because distributional problems may not dominate the regionalisation process, especially at the early stage. Improving welfare rather than solving distributive conflicts can be the key incentive to initiate regional cooperation. It appears that distribution problems often follow the implementation of regional cooperation rather than preceding it. A rational calculation, if any, is supposed to be about the cost of being left outside of regional cooperation. The cost of being left outside depends on the different degree of sensitivity and vulnerability of interdependence. It is also generated by the geographically concentrated interdependence²⁵. Regional economic agreements in many aspects resemble the forming of a club with some of the crucial requisites for the definition of a club: public goods and exclusive memberships²⁶. Derived from the club theory, the cost of being left outside of a club consists of, first of all, no access to public information, public resources or public goods – information exchange, freer trade or collective resources for emergency; second, the vulnerability to the negative effect of 'club policy' – 'club policy' will not take the outsider's interest into account but probably exert negative externality and third, a lack of protection or resistance provided by club membership against outside threat.

The cost of being left outside is the cause which makes the state prefer to join in. Meanwhile the cost for big countries and small ones must be different. By joining in regional cooperation, big powers may wish to consolidate their position and reassure potential adversaries. Pedersen has identified four main advantages for a big power to join in regional integration schemes (2002: 685-86), which could also, inversely,

²⁵ For example, the 'gravity model' of trade inflows assigns an important role to distance, predicting that geographical proximity will enhance the probability of trade between countries, all other things being equal. See Pier Carlo Padoan, 'Political economy of new regionalism and world governance', in Mario Telo (ed.) *European Union and New Regionalism -- Regional Actors and Global Governance in a Post-Hegemonic Era*, Hants: Ashgate Publishing Limited, 2001.

²⁶ Club theory deals with problems related to the establishment of voluntary associations for the production of excludable public goods to avoid 'free rider' problems. The size of club is determined by marginal costs and benefits. See Dennis Müller, *Public Choice*, 1987; Michele Fratianni and John Pattison, *International Organisations in a World of Regional Trade Agreements: Lessons from Club Theory*, Malden, MA: Blackwell Publishers, 2001.

become the cost of being left outside for the big power. The first is the advantage of scale, which means the power aggregation²⁷ effects of regionalism is of particular importance to a major regional power aspiring to a global role. The second is the advantage of stability, which is particularly important if fear of a bigger power in a region is high. The third is the advantage of inclusion, especially to secure access to scarce raw materials, and finally the advantage of diffusion, which provides the arena for diffusion of the bigger power's ideas, the so-called 'lock-in' strategy.

In an asymmetric interdependence the weaker party to any transaction is 'vulnerable' to interdependence, whereas the greater party is merely 'sensitive' to it. For medium and small countries, on the one hand, the engagement in self-restraint by the bigger countries and a certain degree of power-sharing and side payments may encourage them to cooperate with bigger powers. On the other hand, the small power's vulnerability to interdependence might be practically reduced by extending the range and complexity of the transactions in which it engages, and the formalisation of such transactions in international treaties and agreements would further reduce its vulnerability. Thus the vulnerability to interdependence of a weaker state could be theoretically reduced by the formation of rules of interdependence (Milward, 1992). In other words, multilateral rules and norms would give even its weakest members a say in decisions. For this reason, small countries may be more active than big powers in promoting regionalism. As Amitai Etzioni has noted, 'we find frequently that when a region is uniting, a sub-area is uniting more rapidly than the rest, and that this sub-area includes the weaker members of the region' (1965: 31). He cited the Benelux countries, and we might add the ASEAN group as another recent case in point.

Europe

Economic constraints imposed new priorities at the end of the war, as General de Gaulle addressed: 'Yesterday there was no national duty that had precedence over the duty to fight. But today there is none that can take precedence over that to produce.'²⁸ When economic considerations took more weight in the evaluation of power than before, a complex interdependence was also growing among European countries (Berstein, 1986). European countries depended on imports to fill in the

²⁷ Pederson refers to power aggregation as a regional big power to make a number of neighbouring states rally around its political project (2002, 689).

²⁸ Radio speech of 25 May 1945, cited in Robert Frank, 'The French dilemma: modernisation with dependence or independence and decline', in Becker, Josef and Knipping, Franz. 1986. *Power in Europe? Great Britain, France, Italy and Germany in a Postwar World, 1945 – 1950*. Berlin: Walter de Gruyter.

shortages of basic needs such as resources and food as well as the mutual payment agreement to finance their deficit. The intra-Western-European exports increased by 27.6 per cent in value in 1949 (Milward, 1992: 140-1).

Interdependence not only means the result of increasing transaction across the borders – trade, capital, people – but also means a possible spread of hunger, poorness and social chaos in hard time (Robertson, 1959), the ‘negative interdependence’. In order to maintain employment most countries needed a flourishing foreign trade and must therefore try to secure a favourable market in other countries. The measures necessary to secure a high standard of living are undoubtedly the economic and social policies pursued not only in the country concerned but also by its neighbours (Robertson, 1959). The weakness and instability of one country would threaten others’ prosperity. Keeping others weak had proven a self-defeating strategy because one’s weakness must not be the other’s blessing. They had to cope with interdependence and cooperate with each other in order to overcome the economic difficulty. Therefore, European postwar experience can be described as seeking to avoid the negative interdependence and to upgrade the level of positive economic interdependence from the beginning. In *The European Rescue of the Nation-State*, Milward has highlighted Germany’s key position in the post-War European intra-regional trade because ‘the Federal Republic of Germany was the dominating influence on the remarkable expansion of intra-Western-European trade in the 1950s’ (Milward, 1992:134). Under the circumstances of the complex interdependence, a most remarkable breakthrough was that French government gave up Richelieu’s foreign policy that the weakness of Germany was the strength of France. This made an entirely new approach to the France-Germany relations and European reconstruction possible (Willis, 1968). Meanwhile, there appeared a trade triangle between the Benelux and the Federal Republic. ‘The high Dutch demand for imports from Belgium depended on German demand for Dutch exports, so that Belgium-Luxembourg was an indirect beneficiary of Germany’s role’. This triangular pattern created also strengthened intra-Benelux trade (Milward, 1992:167-71). In a great sense, extending transactions and forming rules of interdependence had become the strategy which the small Benelux countries consistently adopted in the late 1940s and early 1950s, even sometimes compromised with certain immediate unfavourable effects, in order to obtain a long-term guarantee of the continuity of international economic policy.

Regionalism tends to be based on exclusion, which offers a more realistic basis for resolving the issues concerned key interests and even at stake. The calculation of the national policy makers was not merely counted on the benefits they would obtain, but on how much the cost would be if they would stay outside. The cost of being left outside was generated from to the punitive treatment as non-members such as trade tariffs and quotas. Once formulating a customs union, the new group had the power to exclude states in the long term from important markets, and they had power to set the conditions for the relations with non-members. The exclusiveness would provide the group a strong cohesive force and enhance their individual bargaining power to non-members. It would be nearly impossible for non-members to influence the future decision of such a regional system (Pedersen, 1998: 51; Dedman, 2000; Milward, 1993). For each of the founding states, the threat of the exclusion is credible. This exclusiveness to members and discrimination against non-members were the primary concerns for the founding countries. The later development proved that the founding members could exclude other prospective members unless they accepted their terms²⁹, all of the 'club' rules (Dedman, 2000: 8). France had openly expressed its preference to exclude the United Kingdom from some areas of economic influence on the continent. The Netherlands clearly benefit from a treaty which favoured its own agricultural exports against those of Denmark in the European market (Milward, 1993).

East Asia

The AFC revealed the depth of interdependence among Asian countries. Although for a couple of decades economic interdependence in East Asia has contributed the successful industrialisation and rapid economic growth, the financial crisis manifested an extreme effect of the 'negative interdependence'. Starting in Thailand, which appeared at first to be isolated, the crisis soon spread to other neighbour countries. The Crisis induced rethinking about the priority of foreign economic relations in East Asia. Not only did the crisis expose the shortage of regional monetary and financial mechanisms, but it also revealed that East Asian countries' excessive reliance on major global economies outside of the region and this lack of diversification and low level intra-regional financial flows rendered the East Asian economies of the regional susceptible to external shocks.

²⁹ The later '*acquis communitaire*' concept, see Dedman, 2000:8.

In deed, the rapid expansion of economic interdependence has rendered traditionally domestic political concerns such as fiscal policy, industrial policy as well as regulations in education, transportation and energy to be increasingly understood in a constantly changes in the operation of regional and global markets (Kikuchi, 2003: 105-6). In the simplest way, the cost calculation about joining regional cooperation is about the costs to be shared of the ensuring huge regional economic structural adjustments on the one hand and the costs of even further dislocation in the regional and international markets on the other. The consequences of each are not difficult to forecast as the former aimed at maximising the positive interdependence and minimizing the negative aspect while the latter only increases a state's passiveness in international alteration.

After the crisis, countries in East Asia have made efforts on reducing the negative interdependence and expanding positive interdependence. Every country has realised that their own prosperity depends on others' prosperity and started to take an active concern in their neighbour's economies in a multilateral framework (Nabers, 2003). Japanese believe that their economy must be invigorated by economic energy of the neighbouring countries³⁰. Chinese leaders have in different occasions repeated that its ongoing economic reform and development in a great degree depends on the regional stability and prosperity. Accordingly China has adjusted her 'calming neighbours' (An Lin) policy and added 'enriching neighbours' (Fu Lin) as a fundamental regional policy. South Korea has planned to become the 'economic centre of Northeast Asia' as a centre of logistics and commercial³¹. This crisis made ASEAN countries realize the extent of their vulnerability to international economic disturbance and take 'looking North' as an opportunity for their economic recover and sustainable development.

Just as in the European early integrations, membership remains a contentious issue in current East Asia. An 'East Asian Community' has been widely envisaged as the first step towards an integrated region. As the creation of a community could profoundly change the power relations within the region, not only between members and non-members, but also between one member and another, who and which

³⁰ The *White Paper on International Economy and Trade* issued by the Ministry of Economy, Trade and Industry of Japan in 2003 emphasizes the importance of East Asian economic cooperation. It is said in this document that, since 1980s Japan has had a more and more close relationship with China, South Korea and ASEAN countries and the sources of Japanese industries and enterprises are found in East Asia. See the website of the Ministry of Economy, Trade and Industry of Japan, <http://www.meti.go.jp/english/report/index.html>, access on 12 March 2005.

³¹ South Korea tried to improve the FDI environment and boost the weight of foreign investment in GDP to 14% before 2010. See the speech on annual meeting of the Boao Asia Forum 2003 by Kim Jin-Pyo, Vice Chancellor and Minister of Finance and Economy, Republic of Korea.

existing institutions will be the core in building up such a community has been contentious. A major bone of contention on the issue of an 'East Asian Community' is whether to keep it closed or to open it up³². Although having kept India, Australia and New Zealand in, the Summit has reached the agreement that in the formation of an East Asian Community the leading responsibility remains to the core group of the APT. By announcing that APT would be 'a vehicle for realizing the dreams of forming the East Asian Community', it means that the existing APT, and not the new EAS, will be the key actor in the process of community-building and the APT, as the core group, will have a greater ability to establish common norms. Nevertheless, the power balance and competition through membership issues will continue. Similar competition is present in the designing of the Asian currency unit, especially in the selection of currencies to be included in the basket and the choice of weights. Besides the technical issues, the main disagreement among East Asian governments is still over the incorporation of Australia and New Zealand³³. Therefore, inclusion and exclusion issues will remain a crucial political contention in the process of forming an East Asian regional community.

Exogenousness: domestic political economic consensus

Domestic political consensus on the relationship between economic development and regional cooperation is the domestic source of state preference. From a political economic view, the domestic concerns over competitiveness and domestic economic failure generate state preference to pursue international cooperation. Most of the regional cooperation schemes are economic in nature, which has a direct link with various economic problems like economic stagnation, development difficulties or policy failure.

Kathleen McNamara's model explains how regional cooperation is constructed: first, a period of policy failure throws existing institutions into doubt; second, new ideas about economic development create a domestic political economic consensus; finally, regional cooperation is generated through 'policy emulation' or 'innovation' (1998). In this model, economic ideology induces and justifies national economic policy. The change of the dominant economic ideology helps explain the change of

³² The discord has appeared in the preparation of the first 'East Asian Summit' when Japan and most ASEAN countries wanted to make the EAS more broad-based while China and Malaysia were enthusiastic about the idea of an 'Asians only' regional grouping. China's intention of weakening the influence of the US in the region was counteracted by other countries' concerns over China's ambitions and their hope that China could be balanced by including similar power like India in the EAS (Malik, 2006).

³³ As well as of the currencies of Taiwan and Hong Kong which China has strong claims on. See 'Bickering delays Asian currency unit launch', *Financial Times*, 26 March 2006.

policy. In this process, a transnational convergence of domestic values (in specific issue/policy areas) is encouraged with the effect of reducing the heterogeneity (or increasing the similarity) among actors (Wendt, 1994). In the European and East Asian cases, the depression, the war and the economic crisis shook loose the old economic philosophy and stimulated a new economic ideology on which the new economic policy is based.

Before the war, European governments were dominated by the *laissez faire* philosophy which called for the free working of market forces which 'in the long run' had improved the world economy over the centuries. J. M. Keynes had called for governments to use their powers to control the level of investment and spending, and to create credit, which would encourage investment and spending. During the war, governments were forced to take a dominant role in economic affairs by controlling national resources so that essential industries would produce goods needed to fight the war. After the war, restructuring the war economy into a peace economy was the primary task for European countries, which allowed the governments to continue to centralize planning for economic recovery both at the domestic level and at the regional level (Hall, 1989; Milward, 1992). As the crisis spread, East Asian countries were blamed for the domestic ills causing the crisis³⁴, such as the ill judgment of the banks and financial institutions, the over-speculation in real estate and the share market, the collusion between governments and business, the bad policy of having fixed exchange rates (to the dollar) and the rather high current account deficits. This implied that the 'economic fundamentals' in East Asia were fatally flawed, yet only a few months or even weeks before the crisis erupted, the countries had been praised as models of sound fundamentals to be followed by others. Under such circumstances, whatever the criticism is from outside, East Asian states have to reflect on this crisis by themselves, they have to learn the lesson from the crisis and then restructure and reform their economies. In such a context, revisionist or reformist policy makers might often face domestic obstacles to unilateral reform, so preferring to look for some kind of regional arrangement in order to sidestep domestic opposition (Mansfield and Milner, 1999).

Meanwhile, not every country which joins in regional economic cooperation is empirically purely 'neo-liberal' in nature, but may be partly industrial and partly agrarian, or partly internationally competitive and partly oriented toward sheltered

³⁴ Especially by the international establishment (represented by the IMF) and the G7 countries.

home markets. Domestic political economic consensus can be achieved through complex interactions between and among different domestic economic and social forces. Policy makers must strike a balance between promoting a country's aggregate economic welfare and accommodating the demands from different interest groups (Mansfield and Milner, 1999). Therefore, examining social coalitions is another way to understand domestic political economic consensus. Gourevitch argues that 'crisis open[s] the system of (social) relationships, making (domestic) politics and policy more fluid' (1986):

'As the collapsing international economy disrupted older relationships among economic actors, new combinations became possible. Mass discontent created new opportunities for some elites, new constraints for others. ... By linking the various instruments of mass power (ballot box, workplace, street) with the various instruments of business (capital, ownership, legitimacy), coalitions formed which had considerable potential for action.'

In the formation of social economic coalitions, post-war western European countries and post-crisis East Asian countries are very different. In western European countries, economic actors, interest groups and political parties applied pressure on government policy making through activities such as bargaining and trade-offs between each other and lobbying the legitimate branches of government. In East Asian countries, the economic policy reflected two competing interests between pro-neoliberal reform forces, representing export-oriented industries and tradable economic sectors, and nationalist and protectionist forces, representing less economically competitive sectors and non-tradable sectors (Ravenhill, 2003). On the other hand, the coalitions were often formed between prestigious national business and the apparatus of political power, the widely cited *nomenklatura* capitalism in Southeast Asia and 'crony capitalism' in Northeast Asia (Jayasuriya, 2003; Beeson and Liew, 2002). The bias in favour of the protection of certain domestic sectors is particularly salient in many regional free trade agreements by excluding these sectors from the agreements (Mansfield and Milner, 1999). This explains the special arrangements for politically sensitive industries in the regional trade agreements.

Conclusion

The main argument in this paper has begun with the point that international society is both material and ideational, in which material incentives and social construction both play indispensable roles. It regards the emergence of regionalism as a special and

crucial stage in the evolution of regionalisation. The definition of regionalism has tried to overcome the temptation of a biased explanation which focuses on either its material attributes or ideational ones and introduces a rather more comprehensive understanding of regionalism.

State preference is a useful concept to bridge rationalist and social constructivism approaches by placing social context as a background for rational choice, attributing a circumscribed and constrained rationality to international actors. A fundamental argument in this paper is that regionalism is supported by the convergence of state preferences and it looks for a multi-causal explanation of the formation of state preferences. State preferences toward regionalism which have both a deterministic quality and a voluntary nature are developed endogenously as well as exogenously. It is endogenously developed through regional interactions and the change of regional structures and exogenously generated through domestic political economic consensus. The formation of national preference reflects the analytically separated but empirically intertwined roles that interests and ideas played in the emergence of regionalism. To a great extent, this perspective has formed a foundation for a general synthesis of different theoretical approaches for regionalism studies.

Although mainstream studies have clearly acknowledged that a crisis may become the crucial catalyst for the emergence of regionalism, it has generally not analysed both ideational changes and changes in interests in the process. This research has paid close attention to the effects of international crisis on the formation of state preference and looked at how individual states perceive and react to the change of regional structure. The relative weight of ideas is strong and it is easier to demonstrate their impact during the period of crisis when the contextual change undermines the existing order and invokes ideational or paradigmatic revision. Under the conditions of international uncertainty or crisis, policy makers engage in a process of re-evaluating old ideas and looking for new ones, opening up the possibilities of new ideas being accepted. This often leads to the shared interpretations of the events, perceived common-fate and desires of inventing devices to protect peace and stability. The patterns of articulating and pursuing interests are accordingly adapted to the changing ideational environment as well. Concerns over 'vulnerability' and 'sensitivity' to interdependence are paramount in such circumstances and become the basis of acknowledging core interests and identifying the main threats to such interests. The connections between ideas and

shifts in interests are complex, however, in such a special period, they both run roughly in the same direction.

This paper has also tried to discuss the crosscutting interactions between the domestic and international levels in the emergence of regionalism and to capture the simultaneity of international and domestic developments. It revealed the close link between international strategy and domestic imperatives in articulating national interests at the time when the crisis opens up the debate on the relations between interdependence and regional regulations as well as on the need for and adequacy of institutions – both national and regional – and their combined contribution to economic growth and economic security. In a special historical setting, the power of liberal internationalist coalitions has been enhanced in domestic politics and thus come to a strong position in favour of further integration within the regional economy. The logic of these internationalist groups has been increasingly influencing the logic of real politics. In the meantime, the demands from protectionist groups are also acute in difficult times. The origins of regionalism reflect the compromises between these two competing forces at both the domestic and the regional levels.

Regionalism remains a rather elusive phenomenon and research focused exclusively on the emergence of this phenomenon remains limited. Without denying the unique historical, political and social contexts in which European regionalism and East Asian regionalism emerged respectively, this research has managed to juxtapose these two cases under an identified theoretical framework which enables a better analysis of both the common traits and uniqueness of each region.

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