East Asian Economic Regionalism

Cooperation for Economic Development or Power Interests?

Ivana Miková

The rush for trade liberalisation has been a prominent feature of international trade since the late 1980s. Mainly developing and newly industrialised countries followed this trade policy as a tool for economic development. East Asian countries are signatories to almost 80 trade agreements. Nearly half of them have been concluded with states within the area. However, economic cooperation is equally active with the rest of the world, which makes East Asia the second most economically integrated region, uniformly outward and inward oriented. This paper evaluates theoretical approaches towards regional cooperation by acknowledging the qualitative differences of its forms. Therefore, the main question is what and whose interests the trade and investment agreements serve and what their purpose is. Multiple linear regression analysis of the collected panel data for the 13 countries from 1960 to 2016 evaluates the relationship between the volume of the trade in goods and services and foreign direct investments and the number of trade and investment agreements in East Asian countries. Ambiguous results show the different effects of the trade and investment agreements on the volume of commerce and capital movement in countries with different levels of economic development. This leads to asymmetrical dependencies generating unequal relations driven by the principles of competition.

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Regionalism

Regionalism comes in many forms, subject to endless debates and not only among academics. Even after detailed analysis it still does not lose its importance. The complexity of this phenomenon reflects the intensity of relations among states in many areas of interactions ranging from trade and social affairs to peace and security. It is considered to be a part of almost all spheres of human activity. Some observers even claim that regionalism is fundamental to the functioning of all aspects of world affairs[1] or that the current state of affairs can be described as an emerging regional architecture of global politics.[2] Despite such a broad generalisation, this paper examines economic regionalism from the perspective of the International Political Economy (IPE), which acknowledges interdependence as an important factor in the states' interactions and their probability of being involved in a peaceful or hostile relationship.[3]

East Asian economies exhibit increasing trade interdependence within the region as well as with the economies outside the area. Moreover, a number of the trade agreements seem to have a statistically significant correlation with foreign direct investments (FDIs) and trade flow. This estimation leads to the presumption that cooperation among countries is a subject to a high level of economic interdependence. However, a central aim of this article is to find a rationale for the large number of trade and investment agreements in the East Asian region. For this purpose, theoretical approaches are discussed, and their critical values are compared.

This is not to say that only one hypothesis will or should be considered as the one with the most explanatory power. Following the rationale of Robert O. Keohane and Joseph S. Nye, each model of the states' relationship will, under certain conditions, produce "accurate and satisfactory explanations"[4], however, "the secret of understanding lies in knowing which approach or combination of approaches to use in analysing a situation. There will never be a substitute for careful analysis of the actual situation."[5]

The article is divided into four parts. The first section evaluates the concept of economic regionalism and interdependence and their mutual conditionality. The second part focuses on the theoretical approaches - each offers a different explanation of economic regionalism and interdependence. The third part takes a closer look at the character of the regional cooperation and purposes it fulfils. Finally, objectives of regional trade and investment agreements are analysed by drawing from the literature on economic interdependence and its effects. Whether these agreements merely aim at economic development or have a multivariate purpose is the subject of the last section.

Economic Interdependence

The intensity of states' interactions is steadily increasing and creating dense networks of cooperation. These systems are characterised by the variability in the sense of a geographical determination as well as in the meaning of different dimensions of social interactions among a variety of actors.[6] In other words, the concept of regionalism usually reflects the number of regions' mutations and permutations. Such complexity makes it very difficult to coin only one definition of a region, let alone regionalism. This has contributed to its increased intricacy and fragmentation of its research.[7] For almost seventy years, political science has been focusing on the institutions and political context of the integration describing and explaining the process and different reasons for doing so. Therefore, a variety of cooperation forms is recognised according to their purpose, scope of activities, institutional designs and degree of power delegation.

Security regionalism describes a process of cooperative activities in conflict management within the distinct region where states face and manage common security problems via shared institutional platforms.[8] Economic regionalism eliminates or removes trade barriers (i.e. tariff and non-tariff barriers) among states to promote mutual trade via agreements. Today more than one-third of the total world trade takes place within the regional trade agreements (RTAs).[9] Cultural regionalism focuses on the process of regional identity formation via shared culture and identity. This type of regionalism does not have a settled form, although it might exist independently as a shared idea.[10] Political regionalism reveals an even more complicated structure than the previous types. Integration in a political sense results in "building the political community, with the political units as its contents, through establishing the same frame of rules, creating common institutions with the power of decision-making, and projecting an identity of the integrated community."[11]

Diverse forms of regionalism represent the changing character of world politics which is often described by the buzzword interdependence. The question arises of what exactly do we mean when we say that the world is becoming more interconnected, interdependent or even transformed into a global village?[12] Intensified transactions of goods, services, people, capital or information have contributed to the increased mutual dependence among states. However, interdependence is not the same thing as interconnectedness. The latter is not associated with significant constraints or costs, while the former implies reciprocal costs of transactions. The concept of (complex) interdependence has been put forth by Robert O. Keohane and Joseph S. Nye in their books *Transnational Relations and World Politics* and *Power and Interdependence.* They define interdependence as a process by which transnational actors creates new pathways of connections which are later transformed into social interdependence. Hence, this approach is different from the traditionalist point of view, mainly due to the addition of new actors besides the unitary state and the transfer of connectivity among actors to other levels besides the state's level. This consequently disrupts traditionalists' view on the hierarchy of states' interests.[13]

Thanks to this new approach to the changing world politics and character of relations among states, we can better understand the complexity of regionalism. However, such relationships do not have to be always symmetrical. Whether or not these relations are symmetrical or asymmetrical depends on two factors identified by Robert O. Keohane and Joseph S. Nye: the sensitivity and vulnerability of states to the changes which determine the costs of the alternations in the transactions. In other words: the more costly the change is in trade and the less flexible states are in coping with the changes, the more asymmetrically dependent they are on their trading partners.[14] States as participants in the trading network have to take the character of the dependency into consideration as every alternation in the division of labour may have severe economic consequences.

However, economic interdependence is not novel, and it has become a principal feature of the globalised economy founded on the specialisation and division of labour. Why then do states expand their economic linkages with other countries via trade and investment agreements that deepen their economic interdependence?

Theoretical Perspectives toward Economic Regionalism

Economic regionalism leads to the discussion mostly on explaining possibilities of cooperation among the states and reasons for doing so. The liberal hypothesis claims that determination of the states' interests is based on total benefits that enable collaboration in the anarchical system. Hence, long-term repeated cooperation brings more benefits for all actors. This situation is analogous to the repeated prisoner's dilemma game, because states experience repetitious and reciprocal contacts. However, such cooperation is possible only under the condition when the advantages override the costs. Since states are engaged in economic interdependence, they want to gain as many benefits as possible with the lowest price possible. This can be achieved only under stable relations. Therefore, the liberal hypothesis claims that economic regionalism helps bring peace and security to the states' relations. Countries that are economically integrated and interdependent share vested interests in well-functioning cooperation.[15] Trade agreements can have, to some extent, a deterrent effect on states' intention to become involved in a conflict. Some empirical research brings supportive results to the liberal hypothesis. For example, Aysegul Aydin (2010) found a positive correlation between trade interdependence and the deterrent effect on the potential attacker with a significant role of institutions, which are critical factors in creating security and peace.[16] Institutions like regional trade agreements (RTAs) play a vital role in regulating states behaviour, and they contribute to cooperation on multiple issues which deepen interdependence beyond trade. Therefore, economic regionalism and its institutions strengthen economic interdependence and zones of peace in the region.[17]

However, the traditionalist hypothesis contradicts the contention that economic regionalism serves the purpose of peace and security via economic development and mutual benefits. Realists claim that trade and investment agreements can act as tools for securing the power position of the dominant state in the region, or as politics of weaker states for constraining actions of the dominant actor.[18] This argument is especially evident when states are part of asymmetrical trade relations, because "extreme interdependence asymmetrical or symmetrical has greater potential for increasing the likelihood of conflict."[19] Moreover, states are always evaluating their relative gains compared to other countries. Dependence on other state actors can lead to the loss of short-term relative gains to their rivals, and even if countries would prefer absolute gains from cooperation, conflict may arise over their distribution. Hence, according to the traditionalists' assumptions, cooperation among states should not take place. By the logic of the prisoners' dilemma, formerly cooperating actors will eventually trick one another due to the fear of exploitation, and due to the fact that states coexist in an anarchical system driven by conflict and in the absence of a central authority that would enforce cooperation or any rules of interaction. Therefore, fear and uncertainty of the other states' actions prevent them from cooperating, which would lead to the dependence on other countries. Nevertheless, neo-realists admit a particular scope of the coordination, even if it cannot be maintained permanently. States can be inclined to cooperate, but only certain circumstances, namely an external menace posing a threat to the national interests of states or a challenge such as a presence of a hegemon – regional or global. This kind of collaboration is for survival, while keeping in mind relative gains and national interests.[20] On the other hand, the presence of the hegemon in the region does not have only adverse impacts. Hegemon presence can also be seen positively as a means to incur substantial costs and as a way for collective goods distribution, which would not happen without its presence in the region. Smaller and weaker states would not bear such a burden themselves, because this would collide with their national interests.[21] Traditionalists' critique of the liberal hypothesis is that they tend to focus on the beneficial aspects of trade and cooperation, assuming that its benefits will always be higher than costs. However, interdependence can be asymmetrical, which makes its costs far greater than benefits, at least for one party in such a relation. Dependency and neo-Marxist schools point to the problem of disadvantageous dependency, which can lead to adverse situations. Moreover, in some instances, dominant states can also use military power to maintain their advantageous position.

Multivariate Purpose of the Regional Cooperation Schemes

Each theoretical approach emphasises different purposes of economic regionalism based on the intensity and balance of interdependence among states, which also determines the probability of stable long-term cooperation. Interests of the countries derived from the nature of world politics are also taken into consideration. However, none of the proposed hypotheses can be fully excluded at the expense of another. Different cooperation schemes can have multiple purposes that may even change with the widening of the issues on which countries collaborate.

David H. Bearce (2003)[22] points to the fact that some trade agreements and their institutional structure can be later in its existence supplemented by other issues such as security agenda. Hence, their purpose "runs from commercial institutions to dispute resolution (and not only in the reverse direction)."[23] In the analysis, David H. Bearce uses examples of the Economic Community of West African States (ECOWAS) and the Gulf Cooperation Council (GCC). In the latter case, founding documents mention solely economic cooperation, which, however, does not exclude the presence of the security threats in the region. These concerns were taken into account in the cooperation activities, as security issues prevent the expansion of economic cooperation and make the region less attractive to potential investors. In considering the former (regional cooperation), economic goals were also at the heart of the founding document as in the case of GCC. However, leaders recognised the importance of a peaceful environment for the development of economic cooperation and "thus, economic development and regional security became linked concepts, and commercial coordination spilt over into defence issues."[24] In conclusion, evidence from the analysed cases supports the liberal hypothesis stating that trade institutions increase the opportunity costs of conflict and thus they contribute to peaceful relations.

On the other hand, cases like economic interdependence between China and Taiwan supports traditionalists' arguments that emphasise the negative impacts of asymmetrical dependency. Such asymmetry can lead to exploitation and security threats on the part of the weaker partner. That is to say that the less dependent partner will use its relative gains from the cooperation to manipulate and destabilise the weaker and more dependent partner. The weaker partner is expected to retreat. However, the space for manoeuvring is often relatively limited as was the case of economic relations between China and Taiwan in the 1990s.[25] The results of the analysis are often very ambiguous. Evidence can be found for all main hypotheses about the purpose of economic interdependence and regionalism. Therefore, we can expect that economic cooperation in the East Asian region will be characterised by the mixture of the reasons for cooperation and by multiple purposes that can be defined as a spill-over effect.

Early regional projects among the countries of Southeast Asia were all marked by a profound security and postcolonial accent. Based on the changing political and security situation in the region at the beginning of the 1950s, an organisation of the Southeast Asia Treaty Organization (SEATO) emerged with mixed membership of states from and outside of the region. Although its main aim was to block further proliferation of communism, later its activities spilled over to domains such as culture, education or strengthening the foundation for economic cooperation. However, for its numerous internal difficulties in efficient operation and also due to changes in international politics, SEATO was dissolved in 1977.

Another cooperation platform was established at the beginning of the 1960s functioning alongside the SEATO. Southeast Asia Economic and Cultural Cooperation Organization known as an Association of Southeast Asia (ASA) was declared a non-political organisation with political stability and economic cooperation as its primary goals. Nevertheless, its non-partisan proclamations met with scepticism from some Southeast Asian states which believed in its pro-West orientation. Although ASA declared itself to be a solely economic organisation, its existence seems to be ambivalent regarding its relationship with the U.S, which realised ASA's importance for the containment of Communism in the region. For the U.S, regionalism became a popular movement in the region.[26] Later in its existence, it became clear that economics cannot be detached from politics and that similar efforts should be made on two fronts simultaneously. Military cooperation securing political stability should support economic transformation in the region. These foundations of economic cooperation can be explained in two ways. First, supporting the liberal hypothesis, ASA can be interpreted as an aim to bring security and peace in the region via economic cooperation and its institutions. In other words, resolving the military conflicts in the area was necessary to assist regional economic development, because the only way to achieve economic transformation was to stabilise and strengthen the economy of every country in the region. Second, by the traditionalists' approach, the U.S. support of the ASA and economic regionalism can be understood as an attempt by the dominant state to maintain its position in the region under containment politics. Although the position of the powerful actor can be considered as one factor explaining the development of regionalism in Southeast Asia, an asymmetrical economic interdependence was the central issue at the time.

Nevertheless, internal disputes among ASA and the Greater Malayan Confederation (MAPHILINDO) members led to the transformation of the cooperation into institutionalised structure of dialogue in 1967. The new organisation Association of Southeast Asian Nations (ASEAN) has been an expression for the desired economic development and further reconciliation of the relations among Southeast Asian states. However, cooperation principles were not limited only to economic ones. Members committed themselves to cooperate also in cultural and security realms to provide peace, stability and prosperity in the region.

Before ASEAN members formed a free trade area (FTA) in 1992, trade cooperation had been conducted via the set of preferential trade agreements (PTAs) such as the ASEAN Industrial Projects (AIPs); ASEAN Industrial Complementation (AIC) and ASEAN Industrial Joint Ventures (AIJVs). Besides their economic goals, the intention was also to strengthen stability in the region at the time of the Chinese Cultural Revolution, Indonesian instability,[27] and the fall of South Vietnam in 1975.[28]

In considering the political and security situation in the region, these PTAs represented continuity of the ASA principles of economic cooperation for the stabilisation of the area. On the other hand, as proponents of the traditionalist approach claim, these industrial PTAs were early attempts to solidify a position of the Southeast nations against the external threat of China and as a reaction to the changed position of the U.S. in the region.[29]

All mentioned examples of the old regionalism represent instances of the spill-over mechanisms which make regionalism a two-way street going either from economic to security agenda or vice versa. On the other hand, traditionalists would analyse these stages of regionalism from the principal actors' position in the region crafting Southeast Asian regionalism, which is following their hegemony argument. However, at this point, neither of the theoretical approaches can use the argument of symmetrical or asymmetrical economic interdependence and exploitation of the dominant states' power in the dependency relations.

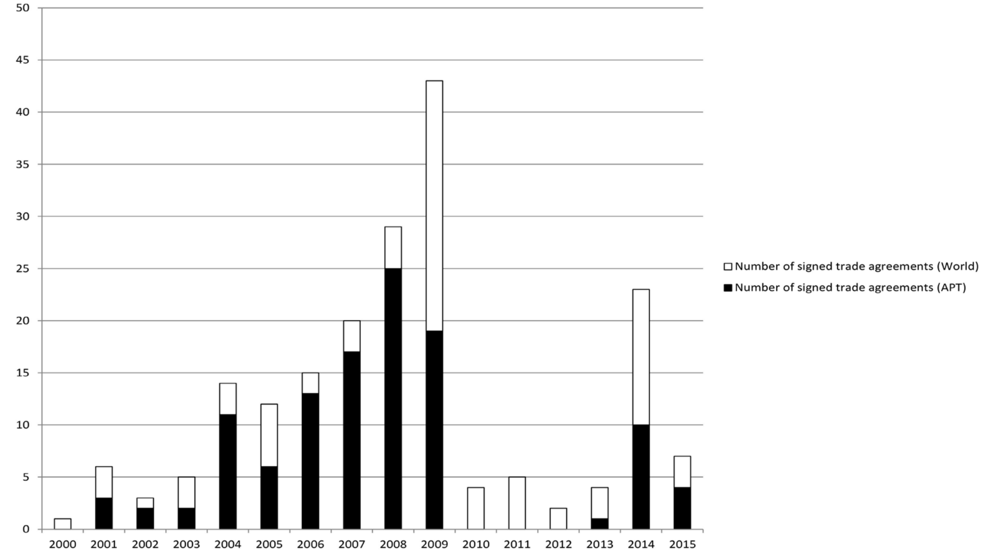
Such relationships were strengthened at the beginning of the 1990s, which is in line with the so-called new wave of regionalism. ASEAN members formed FTA in 1992. This case of economic regionalism is explained as a reaction to the external threat posed by the foundation of the Single European Market in 1992 and the free trade area connecting the two most developed industrial countries in North America (NAFTA) in 1993. It is argued by the neo-realists that the ASEAN countries' decision to create the FTA had sprung from their high economic dependence on the European and the North American countries that would lead to the reduction of exports from ASEAN countries. Moreover, neo-realists argue that the EU and NAFTA would increase their relative gains to the rest of the states.[30]

The traditionalists' argumentation is often applied also in other cases of East Asian regionalism. ASEAN China FTA (CAFTA) is explained as an attempt of states seeking economic cooperation only to constrain the hegemon's freedom of action, because regional trade agreements are seen as a response to small countries "trapped in the world of strong."[31] Alternatively, it is an attempt by China to balance the power of the U.S. and Japan in the region via a strategy of peaceful ascendancy.[32]

Since China is considered to be (at least) the economic hegemon in East Asia, its activism seems to have a more strategic character, which should solidify its position within the region. Therefore, this trading strategy might be considered as a tactic to become the dominant actor with significant capabilities in the security realm, because this FTA is regarded as the Chinese attempt to secure raw materials for its production and economic growth.[33] Changes in the economic and political situation in the region resonated with Japan and South Korea as well. However, a new wave of regionalism required striking a compromise between economic cooperation and competition and securing alliances. Therefore, CAFTA should not be explained only from the traditionalists' point of view. Japan and South Korea were looking for the enhanced competitiveness of their domestic industries via FTAs with ASEAN as well as for the protection of their investments at the global and regional markets, although it has not diminished geopolitical concerns whatsoever. The stable neighbourhood is still considered to be central factor necessary for economic development; it has only been complemented by competitive liberalisation.

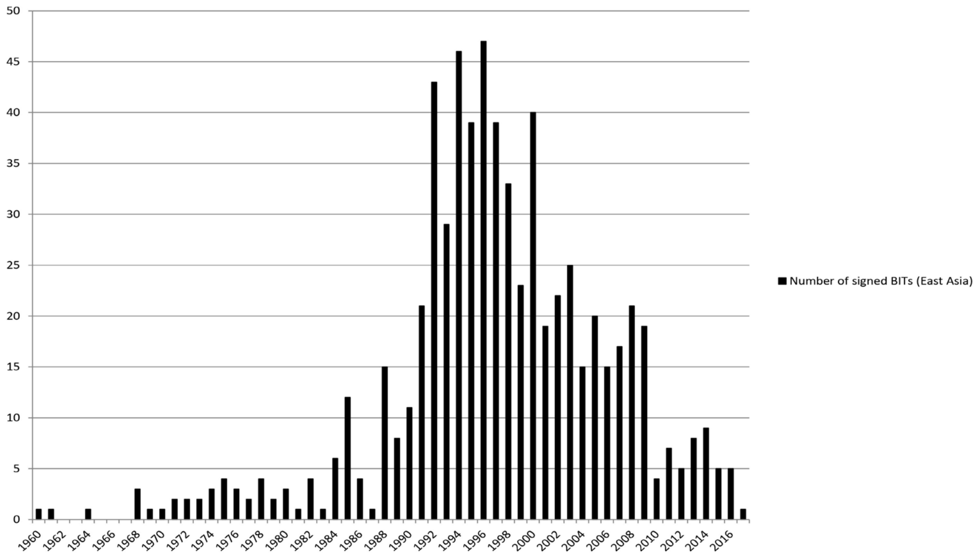
The rapid increase in the trade and investment agreements can be attributed to the last added factor. Equally striking to the high number of agreements is their balanced inward and outward orientation (Figure 1, Figure 2). Structural pressures emitting from globalisation lead to regionalism as one possible response. States can promote an open model of regionalism which aims at deeper engagement with the global trade networks. This approach to regionalism is supported by the increased numbers of trade agreements with outward-oriented characteristics.[34] On the other hand, states can react by the closed model of regionalism aiming at the protection of national interests in line with neo-realists' fear of extensive dependency on other countries. Therefore, they choose to disengage from the global market networks.[35] However, the former model asserts that states can benefit from globalisation by the purposeful action of cooperation through which they can alter otherwise adverse outcomes of the global markets. By this logic, states, trapped in the system of the global capitalist markets and flow of global capital, will seek an attraction of capital needed for economic development. Thus, opened markets are an opportunity for a capital investment and trade in goods and services. Accordingly, regionalism serves as a handy tool for the attraction of trade and investment, which are benefits of globalisation and interdependence.[36]

Figure 1



Source: WTO Regional Trade Agreements Database

Figure 2



Source: UNCTAD Regional Trade Agreements Database

What Purpose? Empirical Analysis of the Data

East Asia is considered to be one of the most dynamic regions in the world regarding the pace of economic growth and intensity of cooperation within the region as well as with economies outside the area. However, countries' motivations to cooperate in the realm of the economy have been a debated issue since the advent of regionalism. One of the aims of this article is to contribute to the clarification of the purpose of the trade and investment agreements. Are they concluded solely for economic reasons or do they also fulfil other roles such as securing peaceful environments or power positions of the dominant states in the region? States enter into trade agreements for various reasons, primarily for reciprocity, the prospect of economic growth, access to global markets and more available goods and services, and to avoid being left out. The last factor is connected with the concept of the competitive liberalisation when countries compete for trade and investments. C. Fred Bergsten (1996)[37] attributes the situation to a "rapid increase of global interdependence" which explains why "so many countries, in so many different parts of the world, with such different economic systems, at such different stages of development, have all headed in the same direction."[38]

If trade and investment agreements serve economic goals such as growth achieved via competitive liberalisation of trade and investment markets, then the number of these agreements should have a significant effect on the volume of trade and investments. On the other hand, if these agreements serve mostly political purposes, then the number of concluded treaties should not affect the amount of commerce and investments in the region and particular countries. Therefore, the hypothesis is stated as follows:

Null Hypothesis (H_0)*: number of trade and investment agreements does not affect the volume of trade and investments.*

Alternative Hypothesis (H): number of trade and investment agreements has a significant effect on the volume of trade and investments.

The empirical part of the article concentrates on the statistical analysis of the relationship between the number of the trade and investment agreements and the volume of trade and investment in East Asian countries. Panel data has been extracted on the 13 East Asian countries for the period from 1960 to 2016. The delimitation of the region is derived from the concept of the Malaysian Prime Minister Mahathir encompassing the geographical areas of Northeast and Southeast Asia, including China, Japan, Republic of Korea, Brunei, Cambodia, Indonesia, Laos PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

Independent variables are trade and investment agreements concluded by the selected countries. Data on trade agreements has been extracted from the World Trade Organization (WTO) Regional Trade Agreements Information System (RTA-IS) and the database on Preferential Trade Arrangements. Data on the investment agreements has been extracted from the United Nations Conference on Trade and Development (UNCTAD) database on the International Investment Agreements Navigator.

The decision to include all types of the trade and investment agreements has been made to cover as many specifics of the agreements that cover different areas of trade and investment liberalisation, and each can have a different effect on the volume of trade and investments in differently developed economies. Preferential trade agreements (PTAs) are non-reciprocal preferential schemes reducing trade barriers. However, they are not eliminated and non-tariff barriers are less strict, although still in place. Regional trade agreements (RTAs) such as free trade agreements (FTAs) and custom unions (CUs) eliminate tariff and non-tariff barriers. Hence they create more opened markets with the enhanced movement of goods and services. The degree of freedom and areas of economy covered by two types of trade agreements vary considerably. Moreover, PTAs are concluded mainly with developing countries. Therefore, both types are included to avoid leaving out some of the East Asian countries in the analysis.

Although some trade agreements also include investment clauses, covered areas of the economy can differ from those in the investment agreements. The comparably ambiguous situation is the inclusion of the investment agreements where there are also different types. International investment agreements are divided into three categories: bilateral investment treaties (BITs) promoting investments in the countries that are parties to the treaty; treaties with the investment provision (TIPs) that are not BITs and include limited investment provisions like free transfer of funds or framework for future cooperation; and finally, investment-related instruments (IRIs) covering tools like dispute settlement rules or clauses from international conventions. The number of trade and investment agreements has been coded as a numeric variable giving a numeric response for each year for each type of the trade or investment agreement.

Dependent variables include the volume of trade and investments covered by the amount of export and import of the goods and services and volume of inward and outward oriented foreign trade investments. Data on trade in goods has been extracted from the UNCTAD database under Merchandise: Total trade and share, annual, 1948-2016. "Imports include all goods entering the free circulation area of the compiling country, which means cleared through customs for home use, and exports include all goods leaving the free circulation area of a compiling country."[39]

Data on trade in services has been extracted from UNCTAD database under Exports and imports of total services, value, shares and growth, annual, 1980-2013. "Services are defined as the economic output of intangible commodities that may be produced, transferred and consumed at the same time. International trade covers transactions between residents and non-residents of an economy."[40] Data on the FDI flow has been extracted from the

UNCTAD database under foreign direct investment: Inward and outward flows and stock, annual, 1970-2016. The table contains information on foreign direct investment (FDI) inward and outward flows and stock, expressed in millions of dollars. To avoid the bias of the statistical analysis missing data from 1960 till 1970, multiple imputations have been applied. Aggregated data on the volume of trade and investment are used as response variables, which are also considered to be fundamental indicators of economic development.[41]

Due to the possibility that every trade and investment agreement can potentially exert a significant effect on all specified response variables, the regression analysis studies the significance of relationship among every response variable and the set of the explanatory variables in the collected data set. The data set has been transformed by using logarithm transformation due to both positive and negative values in the data set, and a constant has been added to produce a set of nonnegative data, and to induce symmetry and variance homoscedasticity in the data, which range over several orders of magnitudes.

$$\ln(Y_{jt}) = \ln(\beta_0) + \beta_1\ln(RTAs_{jt}) + \beta_2\ln(PTAs_{jt}) + \beta_3\ln(BITs_{jt}) + \beta_4\ln(TIPs_{jt}) + \beta_5\ln(IRIs_{jt}) + \ln(\varepsilon)$$

Where $ln(Y_{jt})$ stands for the dependent variable in the *ln* form for a particular country $_j$ in the given year $_t$, β_0, β_1, β_2, β_3, β_4, β_5 are parameters to be estimated, and ε stands for the error term. To control for unobserved heterogeneity, a fixed model effect has been used according to the results of the Hausman test for fixed versus random effects model, where one of the models showed inconsistency. Separately fixed model estimation has been taken for each dependent variable with the set of the independent variables, and a cross-section dimension (Country) and a time dimension (Year) has been specified. Each model represents the analysis of one dependent variable for each independent variable in the following order: RTAs, PTAs, BITs, TIPs, IRIs.

Results of the fixed effects model show a significant effect of trade and investment agreements on FDI flow except for the PTAs. This can be explained by the fact that they cover only limited lists of the reduced tariff lines and no provisions for the movement of investments. On the other hand, the overall effect of PTAs is slightly better in the case of trade in merchandise, which is the area of liberalisation on which they focus.

However, results are different when the analysis focuses on the particular countries. The group of 13 states can be divided into three subgroups. In the first subgroup are countries like China, Japan, Malaysia, South Korea and Singapore, for which the number of the trade and investment agreements has the most significant effect on the volume of trade and investments. This can be explained by the character of their economies and volume of production and their foreign trade strategies. In the second subgroup are countries like Indonesia, Vietnam, Philippines or Thailand, for which trade and investment agreements have a significant effect only in certain areas such as export of goods or inflow of the FDIs. In this case, the effect of trade and investment agreements fluctuates due to the level of the economic development. These countries are more likely to attract investments into production but are less likely to increase their investments in other nations. In the third subgroup are countries like Laos, PDR, Cambodia, Myanmar or Brunei, for which the overall effect of trade and investment agreements have only limited or no effect on the volume of trade and investments. Only in the last case do trade agreements have a significant effect on its export, as Brunei is an important exporter of natural resources. The rest of the states in this group are developing economies with a weak production base and limited ability to accumulate capital that could be invested.

The flow of commerce and investments into the East Asian countries varies considerably across the countries and over time. However, a significant number of the countries in the region are intensively engaged in global trade, even though the effects are negligible or almost non-existing. Therefore, the question is: why are they willing to participate in economic interdependence? Indeed, this cannot be answered only by looking at the number of trade and investment agreements, but also by considering other economic and political factors. This demands further research to address the domestic political and economic issues, which is unfortunately beyond the scope of this article.

Conclusion

Few concise conclusions can be deduced from the results of the multiple regression analysis. First, the number and character of the cooperation agreements seem to have an ambiguous effect on the volume of the international trade and capital in East Asian states. This can be caused by various factors like the level of economic development, the character of the production base, and ability to accumulate and invest capital. Therefore, for some countries trade and investment agreements cause increased volume of commerce and capital movement. For other countries, specifically developing ones, the effects of the agreements are relatively negligible. Moreover, other factors besides the character of the economy can influence the trade policy in a given country. Therefore, these factors should also be added in future research on the impact of the trade and investment agreements on the flow of commerce and investments.

Second, the assets of the economic regionalism and interdependence seem to benefit only a particular group of countries. However, states receiving only negligible advantages from the cooperation are also involved in global trade and interdependence, which begs the question on their motivation to do so.

The reasons for doing so are as varied as the effects of trade and capital liberalisation. On the one hand, proponents of the liberal hypothesis can claim that state is willing to engage into interdependence even if it does not bring measurable benefits. It is because to be left out means to sacrifice potential mutual benefits from cooperation and liberalisation. Hence the opportunity cost of leaving is very high compared to the opportunity cost of being engaged in economic interdependence. Moreover, trade and investment agreements can also have a stabilising effect on the political situation in the region.

On the other hand, traditionalists can point to the asymmetrical interdependence among strong and weak economies in the region, and those principal actors can exploit their position toward the weaker economies. This creates a situation when the latter group of countries is heavily dependent on the former. However, the room for manoeuvring is insufficient, and therefore the asymmetrical relations persist. This applies to the relations among dominant and weaker actors, where asymmetries should not lead to an adverse situation and cooperation will continue. In such cases, the neo-realist argumentation stating that countries are reluctant to cooperate due to the fear of the potential loss to their partners, and therefore are unwilling to subordinate the national interests to the supranational entity associated with the global trade, may not hold true.[42] But asymmetrical dependency can lead to an adverse situation. Such argumentation can hold true in the cases of the unequal economic dependency between politically equal trading partners or the case when one partner is politically supported by the dominant actor.

Traditionalists then can ask the question of why dominant or developed economies are more than willing to engage in economic interdependence and global markets. The character of regionalism and world trade has changed significantly since the advent of the so-called first wave of regionalism, when political and security concerns were at the centre of the debates on trade cooperation. It was a time when political situations had to be stabilised for future economic transformation. The new wave of regionalism can be characterised by the prominence of the commercial competition among states, where the most economically powerful countries also gain political leverage. For example, Japan has changed its foreign trade strategy due to the rising economic power of China. Therefore, Japan started finding new ways of supporting their domestic industries in the international markets. The ultimate goal of trade cooperation is to be the most competitive even at the expense of economic interdependence. The closed model of regionalism suggested by the traditionalists' approach is not a viable option because the current process of the trade cooperation is in line with the liberal argumentation. Nonetheless, its consequences can be traditionalist in its character.

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Table 1 – Fixed Model Effects for the Dependent Variable FDI Flow

	Dependent variable: FDIsInflow		Dependent variable: FDIsOutflow
Xln_RTAsTN	0.991***	Xln_RTAsTN	0.913***
	(0.096)		(0.098)
Xln_PTAsTN	-0.235**	Xln_PTAsTN	-0.306***
	(0.099)		(0.101)
Xln_BITsTN	0.565***	Xln_BITsTN	0.262***
	(0.056)		(0.057)
Xln_TIPsTN	0.569***	Xln_TIPsTN	0.608***
	(0.091)		(0.093)
Xln_IRIsTN	0.187**	Xln_IRIsTN	0.126*
	(0.073)		(0.075)
Observations	741	Observations	741
R2	0.389	R2	0.296
Adjusted R2	0.375	Adjusted R2	0.280
F Statistic	92.164*** (df = 5; 723)	F Statistic	60.841*** (df = 5; 723)
Note:	*p<0.1; **p<0.05; ***p<0.01	Note:	*p<0.1; **p<0.05; ***p<0.01

Table 2 – Fixed Model Effects for the Dependent Variable Trade in Merchandise

	Dependent variable: ExportMerchandise		Dependent variable: ImportMerchandise
Xln_RTAsTN	1.415***	Xln_RTAsTN	1.362***
	(0.161)		(0.156)
Xln_PTAsTN	-0.472***	Xln_PTAsTN	-0.483***
	(0.166)		(0.161)
Xln_BITsTN	0.916***	Xln_BITsTN	0.901***
	(0.094)		(0.091)
Xln_TIPsTN	1.239***	Xln_TIPsTN	1.148***
	(0.152)		(0.147)
Xln_IRIsTN	0.292**	Xln_IRIsTN	0.318***
	(0.122)		(0.119)
Observations	741	Observations	741
R2	0.390	R2	0.384
Adjusted R2	0.376	Adjusted R2	0.369
F Statistic	92.451*** (df = 5; 723)	F Statistic	89.972*** (df = 5; 723)
Note:	*p<0.1; **p<0.05; ***p<0.01	Note:	*p<0.1; **p<0.05; ***p<0.01

Table 3 – Fixed Model Effects for the Dependent Variable Trade in Services

	Dependent variable: ExportServices		Dependent variable: ExportServices
Xln_RTAsTN	0.824*** (0.136)	Xln_RTAsTN	0.8238*** (0.1362)
Xln_PTAsTN	-0.348** (0.140)	Xln_PTAsTN	-0.3481** (0.1402)
Xln_BITsTN	0.734*** (0.079)	Xln_BITsTN	0.7343*** (0.0794)
Xln_TIPsTN	0.867*** (0.128)	Xln_TIPsTN	0.8666*** (0.1283)
Xln_IRIsTN	0.316*** (0.103)	Xln_IRIsTN	0.3165*** (0.1034)
Observations	741	Observations	741
R2	0.304	R2	0.3045
Adjusted R2	0.288	Adjusted R2	0.2881
F Statistic	63.308*** (df = 5; 723)	F Statistic	63.3078*** (df = 5; 723)
Note:	*p<0.1; **p<0.05; ***p<0.01	Note:	*p<0.1; **p<0.05; ***p<0.01

Table 4a – Models of the Multiple Linear Regression for the FDIs Flow – Inflow

	Dependent variable:				
	ln_FDIsInflow				
	Model1	Model2	Model3	Model4	Model5
Brunei	0.034	0.168	0.133	-0.012	0.142
	(0.112)	(0.127)	(0.116)	(0.115)	(0.128)
Cambodia	0.063	0.148	0.092	0.020	0.147
	(0.112)	(0.129)	(0.116)	(0.114)	(0.128)
China	1.696***	1.927***	1.359***	1.733***	1.907***
	(0.113)	(0.127)	(0.126)	(0.115)	(0.128)
Indonesia	0.351***	0.475***	0.160	0.324***	0.456***
	(0.112)	(0.127)	(0.119)	(0.114)	(0.128)
Japan	0.455***	0.649***	0.496***	0.443***	0.607***
	(0.113)	(0.127)	(0.117)	(0.115)	(0.129)
Lao PDR	-0.093	0.043	-0.090	-0.097	0.040
	(0.113)	(0.128)	(0.117)	(0.114)	(0.128)
Malaysia	0.785***	0.980***	0.663***	0.770***	0.956***
	(0.113)	(0.127)	(0.119)	(0.115)	(0.128)
Myanmar	0.071	0.174	0.148	0.056	0.175
	(0.112)	(0.128)	(0.116)	(0.114)	(0.127)
Philippines	0.340***	0.479***	0.283**	0.344***	0.462***
	(0.112)	(0.127)	(0.117)	(0.114)	(0.128)
ROK	0.687***	0.940***	0.452***	0.784***	0.904***
	(0.113)	(0.127)	(0.123)	(0.114)	(0.129)
Singapore	1.248***	1.561***	1.262***	1.295***	1.530***
	(0.114)	(0.127)	(0.119)	(0.115)	(0.128)
Thailand	0.732***	0.888***	0.638***	0.672***	0.870***
	(0.113)	(0.127)	(0.118)	(0.115)	(0.128)
Viet Nam	0.442***	0.599***	0.343***	0.403***	0.582***
	(0.113)	(0.127)	(0.118)	(0.115)	(0.128)
ln_RTAsTN	1.293***				
	(0.090)				
ln_PTAsTN		0.155			
		(0.122)			
ln_BITsTN			0.738***		
			(0.062)		
ln_TIPsTN				1.163***	
				(0.088)	
ln_IRIsTN					0.152*
					(0.089)
Observations	741	741	741	741	741
R2	0.586	0.470	0.554	0.572	0.471
Adjusted R2	0.578	0.460	0.546	0.564	0.461
Residual Std. Error (df = 727)	0.845	0.956	0.876	0.858	0.955
F Statistic (df = 14; 727)	73.357***	46.023***	64.625***	69.507***	46.198***
Note:			*p<0.1; **p<0.05; ***p<0.01		

Table 4b – Models of the Multiple Linear Regression for the FDIs Flow – Outflow

	Dependent variable:				
	ln_FDIsOutflow				
	Model6	Model7	Model8	Model9	Model10
Brunei	-0.091	0.035	0.015	-0.134	0.035
	(0.108)	(0.121)	(0.117)	(0.110)	(0.122)
Cambodia	-0.100	-0.009	-0.044	-0.140	0.002
	(0.108)	(0.123)	(0.117)	(0.110)	(0.122)
China	0.930***	1.148***	0.820***	0.964***	1.151***
	(0.109)	(0.121)	(0.127)	(0.110)	(0.122)
Indonesia	0.230**	0.352***	0.169	0.206*	0.355***
	(0.108)	(0.121)	(0.120)	(0.110)	(0.122)
Japan	2.123***	2.303***	2.214***	2.111***	2.299***
	(0.108)	(0.121)	(0.118)	(0.110)	(0.123)
Lao PDR	-0.149	-0.013	-0.092	-0.153	-0.003
	(0.108)	(0.122)	(0.118)	(0.110)	(0.122)
Malaysia	0.539***	0.723***	0.539***	0.523***	0.725***
	(0.108)	(0.121)	(0.120)	(0.110)	(0.122)
Myanmar	-0.120	-0.014	-0.031	-0.135	-0.003
	(0.108)	(0.122)	(0.117)	(0.110)	(0.122)
Philippines	0.068	0.204*	0.089	0.071	0.208*
	(0.108)	(0.121)	(0.118)	(0.110)	(0.122)
ROK	0.801***	1.036***	0.754***	0.889***	1.035***
	(0.109)	(0.121)	(0.124)	(0.110)	(0.123)
Singapore	0.851***	1.140***	0.967***	0.893***	1.137***
	(0.110)	(0.121)	(0.120)	(0.111)	(0.122)
Thailand	0.247**	0.398***	0.252**	0.191*	0.401***
	(0.108)	(0.121)	(0.119)	(0.110)	(0.122)
Viet Nam	-0.056	0.095	-0.054	-0.093	0.098
	(0.108)	(0.121)	(0.119)	(0.110)	(0.122)
ln_RTAsTN	1.190***				
	(0.087)				
ln_PTAsTN		0.075			
		(0.116)			
ln_BITsTN			0.425***		
			(0.063)		
ln_TIPsTN				1.075***	
				(0.084)	
ln_IRIsTN					0.017
					(0.085)
Observations	741	741	741	741	741
R2	0.589	0.484	0.514	0.578	0.483
Adjusted R2	0.582	0.474	0.505	0.570	0.473
Residual Std. Error (df = 727)	0.812	0.911	0.884	0.823	0.911
F Statistic (df = 14; 727)	74.557***	48.649***	54.913***	71.270***	48.596***
Note:			*p<0.1; **p<0.05; ***p<0.01		

Table 5a – Models of the Multiple Linear Regression for the Trade in Merchandise – Export Merchendise

	Dependent variable:				
	ln_ExportMerchandise				
	Model11	Model12	Model13	Model14	Model15
Brunei	0.934***	1.150***	1.089***	0.822***	1.106***
	(0.191)	(0.213)	(0.195)	(0.188)	(0.214)
Cambodia	0.378**	0.527**	0.418**	0.276	0.512**
	(0.191)	(0.216)	(0.195)	(0.188)	(0.214)
China	3.534***	3.909***	2.958***	3.551***	3.872***
	(0.192)	(0.213)	(0.212)	(0.189)	(0.214)
Indonesia	0.885***	1.091***	0.559***	0.808***	1.054***
	(0.191)	(0.213)	(0.200)	(0.188)	(0.215)
Japan	4.511***	4.821***	4.565***	4.447***	4.754***
	(0.192)	(0.212)	(0.196)	(0.189)	(0.216)
Lao PDR	-0.003	0.226	-0.009	-0.045	0.209
	(0.191)	(0.215)	(0.196)	(0.188)	(0.214)
Malaysia	2.717***	3.033***	2.500***	2.645***	2.990***
	(0.192)	(0.213)	(0.200)	(0.189)	(0.215)
Myanmar	0.518***	0.696***	0.637***	0.463**	0.684***
	(0.191)	(0.215)	(0.195)	(0.188)	(0.214)
Philippines	1.954***	2.184***	1.849***	1.928***	2.150***
	(0.191)	(0.213)	(0.197)	(0.188)	(0.215)
ROK	2.981***	3.386***	2.572***	3.100***	3.326***
	(0.193)	(0.213)	(0.207)	(0.188)	(0.216)
Singapore	2.869***	3.368***	2.870***	2.887***	3.319***
	(0.194)	(0.212)	(0.200)	(0.190)	(0.215)
Thailand	2.461***	2.718***	2.295***	2.317***	2.682***
	(0.191)	(0.213)	(0.198)	(0.189)	(0.215)
Viet Nam	1.268***	1.525***	1.092***	1.160***	1.491***
	(0.191)	(0.213)	(0.199)	(0.189)	(0.214)
ln_RTAsTN	2.059***				
	(0.153)				
ln_PTAsTN		0.170			
		(0.205)			
ln_BITsTN			1.225***		
			(0.105)		
ln_TIPsTN				2.097***	
				(0.144)	
ln_IRIsTN					0.239
					(0.149)
Observations	741	741	741	741	741
R2	0.784	0.731	0.773	0.792	0.732
Adjusted R2	0.780	0.726	0.769	0.788	0.726
Residual Std. Error (df = 727)	1.436	1.603	1.471	1.411	1.601
F Statistic (df = 14; 727)	188.574***	141.048***	177.156***	197.183***	141.548***
Note:			*p<0.1; **p<0.05; ***p<0.01		

Table 5b – Models of the Multiple Linear Regression for the Trade in Merchandise – Import Merchendise

	Dependent variable:				
	ln_ImportMerchandise				
	Model16	Model17	Model18	Model19	Model20
Brunei	0.419**	0.624***	0.563***	0.314*	0.570***
	(0.185)	(0.205)	(0.188)	(0.183)	(0.207)
Cambodia	0.510***	0.659***	0.544***	0.415**	0.627***
	(0.185)	(0.209)	(0.188)	(0.183)	(0.207)
China	3.489***	3.847***	2.913***	3.507***	3.798***
	(0.187)	(0.206)	(0.204)	(0.184)	(0.207)
Indonesia	0.863***	1.062***	0.538***	0.792***	1.012***
	(0.185)	(0.206)	(0.193)	(0.183)	(0.207)
Japan	4.423***	4.717***	4.466***	4.365***	4.639***
	(0.186)	(0.205)	(0.189)	(0.184)	(0.209)
Lao PDR	0.120	0.344*	0.106	0.083	0.312
	(0.186)	(0.208)	(0.189)	(0.183)	(0.207)
Malaysia	2.612***	2.914***	2.389***	2.546***	2.858***
	(0.186)	(0.206)	(0.193)	(0.184)	(0.208)
Myanmar	0.537***	0.712***	0.647***	0.486***	0.684***
	(0.185)	(0.208)	(0.188)	(0.183)	(0.206)
Philippines	2.175***	2.397***	2.064***	2.152***	2.349***
	(0.186)	(0.206)	(0.190)	(0.183)	(0.207)
ROK	3.097***	3.482***	2.684***	3.212***	3.409***
	(0.187)	(0.205)	(0.200)	(0.183)	(0.209)
Singapore	2.979***	3.453***	2.964***	3.000***	3.394***
	(0.188)	(0.205)	(0.192)	(0.185)	(0.207)
Thailand	2.595***	2.842***	2.424***	2.462***	2.793***
	(0.186)	(0.206)	(0.191)	(0.184)	(0.207)
Viet Nam	1.465***	1.712***	1.285***	1.366***	1.666***
	(0.186)	(0.206)	(0.191)	(0.184)	(0.207)
ln_RTAsTN	1.948***				
	(0.149)				
ln_PTAsTN		0.125			
		(0.198)			
ln_BITsTN			1.198***		
			(0.101)		
ln_TIPsTN				1.972***	
				(0.140)	
ln_IRIsTN					0.277*
					(0.144)
Observations	741	741	741	741	741
R2	0.793	0.745	0.786	0.800	0.746
Adjusted R2	0.789	0.740	0.782	0.796	0.741
Residual Std. Error (df = 727)	1.394	1.549	1.418	1.373	1.545
F Statistic (df = 14; 727)	199.453***	151.743***	191.119***	207.133***	152.665***
Note:			*p<0.1; **p<0.05; ***p<0.01		

Table 6a – Models of the Multiple Linear Regression for the Trade in Services – Export Services

	Dependent variable:				
	ln_ExportServices				
	Model21	Model22	Model23	Model24	Model25
Brunei	-0.005	0.130	0.079	-0.092	0.061
	(0.159)	(0.168)	(0.155)	(0.155)	(0.169)
Cambodia	0.106	0.208	0.106	0.028	0.151
	(0.158)	(0.171)	(0.155)	(0.155)	(0.169)
China	1.563***	1.797***	1.047***	1.553***	1.731***
	(0.160)	(0.169)	(0.168)	(0.156)	(0.169)
Indonesia	0.388**	0.520***	0.095	0.324**	0.450***
	(0.159)	(0.169)	(0.159)	(0.155)	(0.170)
Japan	2.247***	2.438***	2.237***	2.188***	2.343***
	(0.159)	(0.168)	(0.156)	(0.156)	(0.171)
Lao PDR	-0.082	0.068	-0.131	-0.124	0.013
	(0.159)	(0.171)	(0.156)	(0.155)	(0.169)
Malaysia	1.164***	1.362***	0.938***	1.098***	1.287***
	(0.159)	(0.169)	(0.159)	(0.156)	(0.170)
Myanmar	-0.007	0.112	0.051	-0.055	0.062
	(0.159)	(0.171)	(0.155)	(0.155)	(0.169)
Philippines	0.726***	0.873***	0.602***	0.695***	0.805***
	(0.159)	(0.169)	(0.157)	(0.155)	(0.169)
ROK	1.628***	1.879***	1.239***	1.686***	1.788***
	(0.160)	(0.168)	(0.165)	(0.155)	(0.171)
Singapore	1.612***	1.919***	1.527***	1.597***	1.847***
	(0.161)	(0.168)	(0.158)	(0.157)	(0.169)
Thailand	1.300***	1.463***	1.123***	1.189***	1.395***
	(0.159)	(0.169)	(0.158)	(0.156)	(0.169)
Viet Nam	0.435***	0.598***	0.251	0.348**	0.534***
	(0.159)	(0.169)	(0.158)	(0.156)	(0.169)
ln_RTAsTN	1.262***				
	(0.127)				
ln_PTAsTN		0.049			
		(0.162)			
ln_BITsTN			0.958***		
			(0.083)		
ln_TIPsTN				1.399***	
				(0.119)	
ln_IRIsTN					0.330***
					(0.118)
Observations	741	741	741	741	741
R2	0.573	0.516	0.591	0.593	0.521
Adjusted R2	0.565	0.506	0.583	0.586	0.512
Residual Std. Error (df = 727)	1.193	1.271	1.168	1.164	1.264
F Statistic (df = 14; 727)	69.758***	55.322***	74.881***	75.785***	56.470***
Note:			*p<0.1; **p<0.05; ***p<0.01		

Table 6b – Models of the Multiple Linear Regression for the Trade in Services – Import Services

	Dependent variable:				
	ln_ImportServices				
	Model26	Model27	Model28	Model29	Model30
Brunei	0.065	0.204	0.150	−0.031	0.130
	(0.166)	(0.176)	(0.162)	(0.162)	(0.177)
Cambodia	0.051	0.157	0.050	−0.034	0.095
	(0.166)	(0.179)	(0.162)	(0.162)	(0.177)
China	1.575***	1.817***	1.026***	1.558***	1.746***
	(0.168)	(0.177)	(0.176)	(0.163)	(0.177)
Indonesia	0.489***	0.625***	0.178	0.418**	0.550***
	(0.166)	(0.177)	(0.166)	(0.162)	(0.177)
Japan	2.489***	2.687***	2.475***	2.421***	2.585***
	(0.167)	(0.176)	(0.163)	(0.163)	(0.179)
Lao PDR	−0.122	0.034	−0.176	−0.170	−0.026
	(0.167)	(0.179)	(0.163)	(0.162)	(0.177)
Malaysia	1.305***	1.510***	1.063***	1.230***	1.429***
	(0.167)	(0.177)	(0.166)	(0.163)	(0.178)
Myanmar	0.002	0.126	0.061	−0.052	0.071
	(0.166)	(0.179)	(0.162)	(0.162)	(0.177)
Philippines	0.640***	0.792***	0.506***	0.603***	0.719***
	(0.166)	(0.177)	(0.164)	(0.162)	(0.177)
ROK	1.599***	1.859***	1.184***	1.654***	1.761***
	(0.168)	(0.176)	(0.172)	(0.162)	(0.179)
Singapore	1.485***	1.803***	1.390***	1.461***	1.726***
	(0.169)	(0.176)	(0.166)	(0.164)	(0.177)
Thailand	1.339***	1.507***	1.150***	1.217***	1.434***
	(0.167)	(0.177)	(0.165)	(0.163)	(0.177)
Viet Nam	0.469***	0.638***	0.272*	0.373**	0.569***
	(0.167)	(0.177)	(0.165)	(0.163)	(0.177)
ln_RTAsTN	1.308***				
	(0.134)				
ln_PTAsTN		0.052			
		(0.170)			
ln_BITsTN			1.011***		
			(0.087)		
ln_TIPsTN				1.485***	
				(0.124)	
ln_IRIsTN					0.355***
					(0.123)
Observations	741	741	741	741	741
R2	0.566	0.509	0.586	0.590	0.514
Adjusted R2	0.558	0.499	0.578	0.582	0.505
Residual Std. Error (df = 727)	1.251	1.330	1.222	1.216	1.323
F Statistic (df = 14; 727)	67.685***	53.784***	73.404***	74.602***	54.977***

Note: *p<0.1; **p<0.05; ***p<0.01

Notes

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