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**Neoliberal Institutionalism and ASEAN States' Cooperation in
ASEAN Free Trade Area (AFTA):
An Empirical Critique**

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Abstract

The establishment of ASEAN Free Trade Area (AFTA) in 1992 represents the ubiquitous Preferential Trading Arrangement (PTA). Taking the logic of Neoliberal Institutionalism, scholars explained AFTA as a consequence of ASEAN states' mutual interests in increasing intra-ASEAN trades, attracting foreign investments, and offsetting potential trade and investment diversions brought by other PTAs and China's rise. This paper argues that the game that took place between ASEAN states in trade cooperation was not a prisoner's dilemma game, as Neoliberal Institutionalism may claim, but a coordination game. Neoliberal Institutionalism does not provide satisfactory explanation of why ASEAN states should bind themselves in AFTA despite the net negative effects of protection and defection. Risk- and Knightian-uncertainties also blunt Neoliberal explanation of why ASEAN states agreed to have a gradual and selective liberalization, and not to have full liberalization. Understanding a causal nexus of state-regime and interest provides a better explanation of state cooperation and cooperation design. Considering ASEAN states' strategic development and trade regime does not only explain why ASEAN states established in 1992, but also clarify why they agreed to have gradual and selective liberalization.

Keywords: Neoliberal Institutionalism, state cooperation, cooperation design, AFTA, gradual and selective liberalization, state-regime.

Introduction

The establishment of ASEAN Free Trade Area (AFTA) in 1992 represents the ubiquitous phenomena of Preferential Trading Arrangements (PTA). As other states (Ravenhill, 1995, 2003, 2008), ASEAN states cooperated in mutual trade liberalization and undertook a gradual and selective approach. They set Temporary Exclusion List (TEL), General Exception List (GEL), and Sensitive List (SL) to protect some trade items. The reduction of trade barriers was being phased over 15 years beginning 1 January 1993.

Taking the logic of Neoliberal Institutionalism, scholars explain that trade cooperation as a reflection of ASEAN states' interests. The formation of AFTA was intended to offset potential trade and FDI diversions brought by the establishment of the European Union (EU) and North American Free Trade Agreement (NAFTA) and the rise of China. It was also aimed to increase scale economies and intra-ASEAN trades (Ravenhill, 1995:854; Low, 1996:198; Chia, 1998:217-218) and attract foreign investments (Ethier, 1998:1150, 1156-1159; Bowles & MacLean, 1996:332-337; Athukorala and Menon, 1996:87-90).

This paper critically reviews Neoliberal Institutionalism explanations of ASEAN states' gradual and selective liberal trade cooperation in AFTA. In the earlier parts, this paper describes Neoliberal Institutionalism theoretical explanation of state cooperation and cooperation design. In

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the later parts, it empirically argues that Neorealism does not provide a satisfactory explanation of ASEAN states' cooperation in AFTA. This paper then proposes state-regimes as an independent variable and reconceptualizes the causal nexus between state-regimes and interests in order to provide a better explanation of ASEAN states' cooperation in AFTA.

Neoliberal Institutionalism, state cooperation and cooperation design

Similar with Neorealism, Neoliberal Institutionalism assumes the international system is anarchic. There is no "common government" or higher authority above the states which is capable of hierarchically organizing the state system (Axelrod & Keohane, 1985:226; Keohane, 1989:8; Keohane and Martin, 1995:39). Although international institutions have become more important, Neoliberals believe that states remain the "key actors" in world politics (Keohane, 1989:2, 14). States are instrumentally rational egoists who always pursue given self-interests and the most optimum option (George and Keohane, 1980:221-222; Keohane, 1984:27; Goldstein and Keohane, 1993:4-5; Keohane and Martin, 1995:39).¹

Despite the anarchic structure, world politics is not characterized by chaotic perpetual warfare (Waltz, 1979:114; George and Keohane, 1980:221-222; Keohane, 1989:1). This inspires Neoliberals to see the logical nexus between anarchy and war not as necessary, but as conditional. Interdependence, mutual interests and institutions dispose states to make relatively peaceful relationships (Keohane, 1989:10-11, 1993: 35).

Neoliberal Institutionalism argues that interdependence is a necessary pre-condition for state cooperation. It refers to a situation where states' attainment of self-interests is reciprocally affected by decisions, actions or changes of other states. This situation occurs among antagonistic states as well as friendly ones. The effects can be costly.² Leaving such interdependent condition uncoordinated may bring negative impacts, either by reducing the potential benefits of coordination or increasing the costs of non-coordination. It puts pressure on egoistic states to coordinate and collaborate their policies in order to avoid the undesirable effects of interdependence or attain its desirable outcomes (Keohane, 1993:35; Keohane and Nye, 2001:7-8, 270-271). A prisoner's dilemma game appears and conditions states to prefer coordination rather than acting unilaterally.

In a Neoliberal world, discords take place when states have conflicts of interests, and cooperation occurs when states share mutual interests. Mutual interest is a necessary factor for cooperation between states (Keohane, 1989:2-3). This means that state cooperation and cooperation design are considered as a reflection of state interests. State interests represent the "goals" (George and Keohane, 1980:217) and "preferences" (Goldstein and Keohane, 1993:4)³ that orient and guide states' choices and actions. The assumption that states are egoist actors leads Neoliberals to the concept of "national interests." National interests refer to that which is necessary to maintain statehood and the generalization of state citizen' interests, through which state leaders can find a guide to foreign policymaking. At a minimum, national interests reflect three "fundamental values" of a state and its citizens: life, liberty and property. They are manifest as "irreducible national interests" that comprise "physical survival," "liberty," and "economic subsistence." The first refers to a state and its citizens survival; the second, the citizens' ability to institute their own government and law, and behave according to the law; and the third, the ability

¹ Keohane (1984:108) in fact admits that those analytical assumptions are "a theoretically useful simplification of reality" and not "a true reflection of it." Simplification is necessary to understand complex and mixed realities. However, this over-simplification is at the risk of "omitting significant aspects" of realities (King, Keohane and Verba, 1994:42), which, as will be shown below, subsequently raises fundamental problems in Neoliberal Institutionalism.

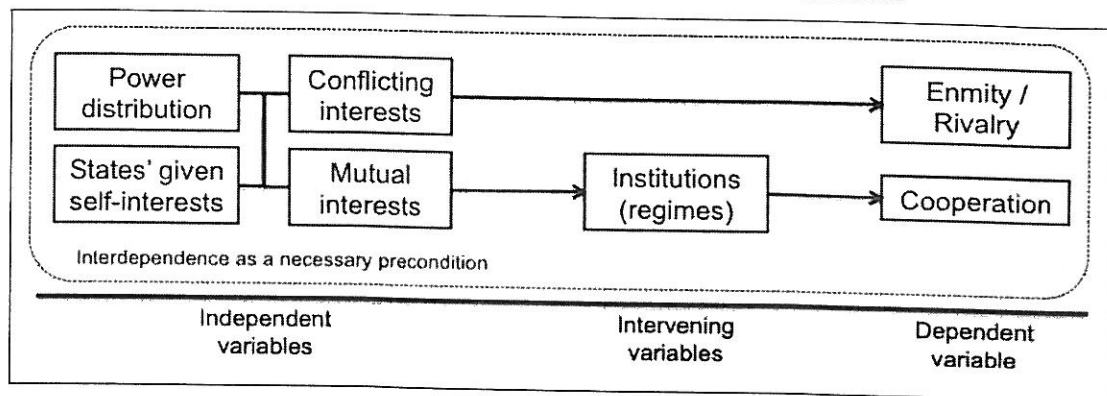
² Ravenhill (2005:422) says that interdependent relationships "[are] costly for any actor to break". This concept implies that the net effects of interdependence are always more beneficial than costly, so breaking them is costly. But, since interdependent relations "have significant costly effects" (Keohane and Nye 2001: 7-8), they can also be rather costly than beneficial. As Wendt (1999:34, 389) argues, because interdependence can be beneficial and costly, "enemies can be as interdependent as friends."

³ Interests are in fact different from preferences because the latter do not necessarily represent what states should pursue and therefore can be inconsistent with interests. Interests are not a matter of likes and dislikes, but that of legitimate values that actors idealize and should fulfill (Kratochwil, 1982:6, 9; Lukes, 2005:82).

of people to feed, clothe, and house themselves. States' foreign policies at least fulfill these minimal interests (George and Keohane, 1980:224). State leaders basically anchor their foreign policies on these three irreducible interests. States do not cooperate because they are friends, but they become friends because they share mutual interests and cooperate.

Since states are egoists, those irreducible national interests are consequently "self-regarding." States think and act for "the attainment, preservation, or extension of benefits accruing to the state and its citizens," and consider "other-regarding" and "collective interests" as secondary. States do not primarily act for the benefits of other states or their citizens (George and Keohane, 1980:221). Consequently, state cooperation and cooperation design reflect the potential gains states may mutually reap through policy coordination. Various constraints, such as scarcity of resources and outcomes, causes states to instrumentally calculate whether cooperation is really beneficial and consistent with their given-interests (Keohane, 1989:166; Goldstein and Keohane, 1993:4). States will not voluntarily cooperate if it provides no self-interested benefit, or if it demands higher costs than benefits (Keohane, 1989:166; Keohane and Martin, 1995:39, 41-42). In this way, cooperation can occur even without altruism or idealism (Keohane, 1989:159).

Figure 1. Neoliberal Institutionalism and State Interactions



Different from Neorealist states, Neoliberal states are not always concerned with relative gains. They may only focus on the maximization of their own gains, not others' (Stein, 1983:134). Given that world politics is not often simply a zero-sum game and as state interests have often been met, states can ensure their survival and relieve fears of engulfment (George and Keohane, 1980:221-222). International institutions often ensure mutually and reciprocally beneficial relations among states. As political economic issues are less risky than the security-military ones (Lipson, 1984: 14-18), concerns over relative gains are less salient in the former. Cooperation that generates substantial absolute gains and involves more than two states also abates concern over relative gains (Snidal, 1991). Concerns over distributional gains are thus not inherent in state relations, but conditional (Keohane, 1989:10-11). This consequently increases the probability and sustainability of cooperation between states.

**Table 1. Distribution of Gains from International Cooperation
(a 2 x 2 Matrix of Prisoner's Dilemma Game)**

		State B	
		Non-cooperative	Cooperative
State A	Non-cooperative	(-5 , -5)	10 , -10
	Cooperative	-10, 10	(5 , 5)*

Notes:

- This scenario envisages two states with two options: not cooperating or cooperating. In this scenario, two stable equilibriums () emerge, but only one that is also the Pareto optimum outcome ()*.
- The numbers represent ordinarily ranked benefits: -10 is worst, 10 is best. The numbers in each cell represent state A's gain and state B's gain, respectively. A bracket denotes equilibrium, and an asterisk denotes the Pareto optimum outcome.

Neoliberals often use a game-theoretic prisoner's dilemma (Table 1) to describe the benefit of cooperation over non-cooperation. In this game, the benefits of non-cooperation are lower than those of cooperation or the costs of non-cooperation are higher than those of cooperation. Facing these two choices, instrumentally rational states choose to cooperate in order to maximally meet their self-interests. Even though international agreements and cooperation reduce states' autonomy, the costs of non-cooperation and the benefits of cooperation drive states to cooperate (Keohane, 1989:166-167). By making their best choice given other's choice and through policy coordination, egoist states conform to each other's choice and cooperate (Keohane, 1984:51, 1989: 159).

The egoistic nature of states, nevertheless, prevents states from fully discarding considerations of non-cooperative gains and from abandoning their temptations to defect and free ride. The 2 x 2 matrix of prisoner's dilemma game shows that individual states can gain immediately higher benefits—or lower costs—by making a non-cooperative move while the other side is making a cooperative action. If possible, states will take this option to maximize their own interests. However, if both states make the same move and defect, the subsequent outcome will be a stable equilibrium, but not Pareto optimal (Lipson, 1984: 2-5).

A “tit for tat” iterative game stabilizes cooperation between egoist states. Because states are interdependently related, cooperation is not sustained by acting unilaterally, but by behaving reciprocally. Based on reciprocity and future expectations, one state does a tit which subsequently be responded with a tat by another state. If states have “the ability” or “power” to impose commitment, cooperative actions are rewarded with positive responses and uncooperative ones are decentrally punished by members (Axelrod and Keohane, 1985:249). Such tit-for-tat relationships are repeated frequently and form a pattern of expectations and actions. States become more certain of each other's actions and less cautious of concealed intentions and relative gains. Repeated reciprocities “overcome” treacheries and stabilize cooperation even in an anarchic situation (Axelrod, 1981; Axelrod, 1984:55-69; Axelrod and Keohane, 1985). Patterned expectations and behaviors generated in tit for tat relations are then frozen in the form of institutions (Keohane, 1989:169; Keohane and Martin, 1995:46-47).

Institutionalization thus becomes another necessary factor for state cooperation (Keohane, 1989:2-3). It is institutions and states' consideration of reputation and long-term benefits that muffle the temptations to defect and free ride. Institutions, comprising organizations, regimes and conventions (Keohane, 1989:3-4), are necessary because making and securing cooperation is not easy (Axelrod and Keohane, 1985:226; Keohane, 1989:166). Institutions have facilitative, regulative and constitutive aspects that deal with the problem of “political market failure” (Keohane, 1984:85). Institutions facilitate informational transparency and symmetries, lower transaction costs, increase efficiency, and help monitoring. They create a situation of ‘I know that you know that I know’ that increases the disincentives to defect and free ride, and the incentives for compliance (Kreps and Wilson, 1982; Lipson, 1984:5; North, 1984:256, 258; Keohane, 1989:5, 167; Garrett and Weingast, 1993:174-175, 178-179).

Institutions may formally or informally, explicitly or implicitly, represent “persistent and connected sets of rules.” They “prescribe behavioral roles, constrain activity, and shape expectations” (Keohane, 1989:3, 165-6). Institutions clarify what roles and actions are expected, what states should and should not do, may and may not do, and must and must not do. Even without stipulating clear and specified sanctions for rule-violation, institutional regulations define whether states credibly meet their commitment or not (Keohane, 1989:163-164; Keohane and Nye, 2001:279). Institutional rules bind states' actions and affect state compliance even in situations lacking a higher authority. Agreed regulations legitimate states enforcing punishments and retaliations. These subsequently help maintain cooperation and stabilize reciprocal relations between cooperative states (Keohane, 1993:23; Keohane and Martin, 1995:45-50).

Neoliberals then argue that institutions help states overcome ambiguous situations. Instrumentally rational calculation often results in multiple equilibria without a Pareto optimum choice. In this situation, shared ideas can be a “focal point” with which states make cooperative choices. When such a focal point is not available, institutions provide “road maps” or “beliefs” which shape state preferences, dispose states toward certain options, limit choices, ensure coordination (Goldstein and Keohane, 1993:7-11, 17-19; Keohane and Nye, 2001:279), and recommend “a constructed focal point” (Garrett and Weingast, 1993:176, 204, emphasis is

original; Keohane and Martin, 1995:45). Institutions constitutively help states define their interests and make choice because they “embody and perpetuate a *normative system*” (Garrett and Weingast, 1993:204, emphasis is original; Keohane and Nye, 2001:284). Institutions help states cooperate and choose a certain cooperation-design that instrumentally meets given state interests.

ASEAN states’ cooperation in AFTA: a prisoner’s dilemma game?

Taking the logic of Neoliberal Institutionalism, scholars argue that the formation of AFTA was made possible by growing economic interdependence in East Asia, in general, and in the ASEAN region, in particular (Tan, 1996:2-5; Athukorala and Menon, 1996:77-80). Between 1987 and 1992, intra-ASEAN⁴ exports grew from US\$13.8 billion (16.9% of total ASEAN5’s trades) to US\$35.2 billion (19.5%); while intra-East Asian-15 exports increased from US\$171.5 billion (35.3% of total trades) to US\$392.0 billion (44.4%) (IMF *Directions of Trades* [DOTs], various years, author’s calculation). On investment, intra-ASEAN FDI was low. FDI inflows to Indonesia, Malaysia, the Philippines and Thailand were mostly from Japan and NIEs (South Korea, Taiwan, Hong Kong, and Singapore). Those FDI inflows increased from US\$1.67 billions (67.4% of total FDI inflows) to US\$11.91 billions (71.3%) (Tan, Toh and Low, 1992:317, Table 6, author’s recalculation). Unilateral liberalization, currency appreciation, regional economic growth, and regional investment brought about deeper interdependence and created an environment conducive to the formation of AFTA (Tan, Toh and Low, 1992:317-320; Athukorala and Menon, 1996:77-78).

Regarding trade protection as a non-cooperative action and trade liberalization as a cooperative action leads Neoliberals to a game-theoretic prisoner’s dilemma. Even though Singapore has unilaterally liberalized trade before the formation of AFTA, a game theoretic cost-benefit calculation is still relevant because other four ASEAN states (Indonesia, Malaysia, the Philippines and Thailand) more or less protected their markets.

Neoliberal scholars can apply terms of trade and optimum tariff arguments in a prisoner’s dilemma game. The terms of trade argument states that even though trade protection distorts production and consumption allocative efficiency, it causes terms of trade⁵ gains. Fewer imports, for large states in particular, decrease international prices of imported goods, reduce the domestic supply of exported goods, increase international prices of export goods, and positively affect the balance of trade. If the terms of trade gains outweigh the loss of allocative efficiency, protecting states will enjoy net positive effect from trade protection (Conway, Appleyard and Field, 1989:785-786; Yang, Duncan and Vines, 2000:5-6). An optimum tariff, then, represents the degree of protection states can apply in order to attain that net positive effect. States whose market power allows them to use an optimum tariff to increase international prices, reap oligopolistic rents,⁶ and improve their economic welfare.⁷ The optimum tariff rate must be less than the prohibitive tariff rate because the latter produces net negative effects and makes state welfare worse off than with free trade (Krugman and Obstfeld, 2003:223-224; Honda *et al.*, 1994: 9-10).

In that situation, unilateral tariff liberalization can be welfare-reducing. States will prefer mutual trade liberalization because it neutralizes the negative effect of liberalization to terms of trade. Mutual liberalization becomes the Paretian equilibrium because mutual trade protection leads to welfare loss. This nevertheless does not eliminate the potential benefits that protecting states may enjoy from other states’ liberal trade policy. If a state faces no risk of retaliation, trade protection can be the best option to enhance state welfare. This subsequently provides incentive for states to defect from mutual trade liberalization. A prisoner’s dilemma game (Table 2) represents this situation. It may describe the reason why states come to liberal trade cooperation and why they maintain some protections and defect from trade agreement.

As the lower-right quadrant displays, scholars consider the formation of AFTA as an instrumentally rational move that potentially generates net overall welfare benefits for ASEAN

⁴ ASEAN5 states comprise Indonesia, Malaysia, the Philippines, Singapore and Thailand.

⁵ Terms of trade refer to international price of exports relative to that of import.

⁶ Oligopolistic rents means “excess profits of producers in an oligopolistic market”, and economies of scale refer to a condition when “costs diminish as the volume of production is increased” (Honda *et al.*, 1994:9-10, 12).

⁷ Small states, due to their inability to affect international prices, do not have any privilege to apply an optimum tariff and enjoy its net positive effects (Honda *et al.*, 1994:10).

states. AFTA would offset potential trade and FDI diversions brought by the EU, NAFTA and China's rise, and increase scale economies and intra-ASEAN trades (Ravenhill, 1995:854; Bowles and MacLean, 1996:336; Low, 1996:198; Chia, 1998:217-218). Lower trade barriers would indirectly foster ASEAN region as a production base and attract investments (Ethier, 1998:1150, 1156-1159; Bowles and MacLean, 1996:332-7; Athukorala and Menon, 1996:87-90). AFTA would "enhance the competitiveness of the [ASEAN] region for production through tariff reduction and elimination of NTBs" (*ASEAN Economic Into-View*, 1994:10, as cited in Chirathivat, 1996:36). Supplementing AFTA with other liberalization measures would make it more efficacious (Chirathivat, 1996:29-30). Domestic business actors could also exploit economies of scale at regional level and create trades. Trade liberalization would also reduce economic distortions, accelerate industrial restructuring and reallocate resources on the basis of their comparative advantage.

Table 2. Simplified Static Distributional Gains of Trade Liberalization and Protection, based on Neoclassical Trade Theory and Terms of Trade Argument (a Prisoner's Dilemma Game, 2 states, 2 options)

		State B	
		Protection	Liberalization
State A	Protection	(-5 , -5)	10 , -10
	Liberalization	-10 , 10	(5 , 5)*

Notes:

- This scenario envisages two states with two options: not cooperating or cooperating. In this scenario, two stable equilibriums () emerge, but only one that is also the Pareto optimum outcome ()*.
- The numbers represent ordinarily ranked benefits: -5 is worst, 10 is best. The numbers in each cell represent state A's gain and state B's gain, respectively. A bracket denotes equilibrium, and an asterisk denotes the Pareto optimum outcome.

Using a trade-linked econometric model simulation, Imada, Montes and Naya (1991:25-32, Table 10) shows that a 50% intra-ASEAN tariff reduction generates a positive welfare improvement. In the first year of tariff change, ASEAN states' GDP increase between 0.04% and 0.31%. Park's (1995:124, Table 5.2) trade-linked multi-country CGE simulation of 50% tariff reduction even shows the higher welfare benefits of AFTA. Even though Singapore's benefits would be relatively insignificant due to its already liberalized trade regime, Malaysia and Thailand could gain more than 1.3% welfare improvement; whereas Indonesia and the Philippines would improve their welfare at around 0.6%. The simulations also result in intra-ASEAN trade increases (Imada, Montes and Naya 1991:29, Table 12; Park, 1995:124, Table 5.2), which may subsequently create greater welfare and a regional production base in the long run.

Different from Neorealists' arguments, such a regionalism is not be interpreted as building an economic fortress that works against non-ASEAN states. Increased competitiveness enlarges ASEAN states' global trade and widens investment opportunities in ASEAN states. These integrate outward-looking ASEAN states with the world on a deeper level. AFTA is "positive" discrimination or open regionalism that strengthens regional cooperation among ASEAN states without causing serious negative effects on non-members (Ariff, 1994a:99). Since ASEAN states' margins of preferences to restrict trade were relatively low in early 1990s (Kumar, 1992:81-82; Athukorala and Menon, 1996:86-88), AFTA did not substantially divert trade. Despite the declining share of imports from the rest of the world, ASEAN5 states' import values increased from US\$186.3 billion (68.3% of ASEAN-5's total imports) in 1993 to US\$298.9 billion (68.0%) in 1996 (IMF *DOTs*, various years, author's calculation).

Using a prisoner's dilemma game, as the upper-right and bottom-left quadrants of Table 2 display, Neoliberals may explain trade defections that occurred after the formation of AFTA. Indonesia, for example, delayed moving fifteen agricultural products from TEL to SL, which means putting the products under indefinite protection. Negotiation with Thailand resulted in the postponement of those products liberalization until 2010. Malaysia also delayed the transfer of its automobiles from the TEL to the Inclusion List (IL) until 2005, five years later than the agreed

commitments (Nesadurai, 2003:154-7). These defections seem to confirm the terms of the trade argument that trade protection provides higher benefits for ASEAN states.

The institutionalization of AFTA is thus considered necessary to bind ASEAN states' commitment to trade liberalization and to prevent defection. Several committees, such as the High Level Task Force and the Interim Technical Working Group (ITWG), were built to facilitate bargaining processes and help in formulating the cooperation design. Several aspects of AFTA served as facilitative and regulative functions. Product lists stipulated the coverage of liberalization and described specific products to be included, temporarily excluded and generally excluded. Rules of Origins (ROO) assured the preferentiality of liberalization for ASEAN states and prevented non-ASEAN states from rerouting exports via Singapore who has zero external tariff barriers. The liberalization schedule rules the timeline of liberalization. A Dispute Settlement Mechanism (DSM) was proposed in 1995 and implemented in 1998 to prevent defection. Sustained and deepened AFTA cooperation more or less confirms a tit-for-tat iterative game. Repeated reciprocities stabilized the cooperation and assured ASEAN states of the benefits of regional trade liberalization.

Nevertheless, such Neoliberal analyses have several problems. Although interdependence is a necessary pre-condition for state cooperation, it is not clear at what level of interdependence state cooperation will emerge (see also Nesadurai, 2003:11). IMF *Directions of Trades* (1990) data show that in 1990, intra-ASEAN5 trade covered 16.1% of the total ASEAN5 states' trade. In the same year, Japan shared 34.3% of Indonesia's total trade, 19.7% of Malaysia's trade, and 25.0% of Thailand's trade. The US also had higher shares than intra-ASEAN trades. It shared 16.9% of Malaysia's trades, 26.6% of the Philippines' trades, and 18.5% of Singapore's trades. Japan and the US even shared 20.5% and 17.2% of ASEAN 5 states' aggregate trade, respectively (see also Mattli, 1999:169-170). These facts raise questions about why ASEAN states did not build liberal trade cooperation with Japan and the US who had high trade shares with ASEAN states.

Although the formation of AFTA reflected ASEAN states' mutual interests, some still question the reasons why ASEAN states established AFTA. Scholars argue that ASEAN states did not really need to form AFTA and expand their economies of scale regionally because they had traded extensively with non-ASEAN states and because the world market was relatively open (Oman, 1994:23; Panagariya, 1999:121). Moreover, rather than using resources for establishing AFTA, ASEAN states could have concentrated their effort on APEC-wide trade liberalization that could have produced greater benefits than AFTA (Low, 1996:200-205). Relatively small potential gains, limited liberalization, and ASEAN states' growing economies made AFTA "not a big deal", and meaning ASEAN states "[did] not need AFTA" economically (Ariff, 1994b:226-229). Limited market-led demand for regionalism, the absence of mechanisms to guarantee institutional convergence, and unequal distribution of benefit made some scholars pessimistic about the prospects of AFTA (De Simone, 1996:111-114; Mattli, 1999:169). These points question whether AFTA was really instrumental in ASEAN states' mutual interests, as Neoliberal Institutionalism would argue.

Also, the game that took place between ASEAN states in trade cooperation was not a prisoner's dilemma game,⁸ but a coordination game. Due to terms of trade loss, unilateral trade liberalization may generate net negative welfare effects. However, if the allocative efficiency gains are greater than the terms of trade loss, unilaterally liberalizing states will enjoy net positive welfare effect (Conway, Appleyard and Field, 1989:785-786; Yang, Duncan and Vines, 2000:5-6). This suggests that trade protection may produce welfare loss, rather than generating welfare improvement.

Despite their free market assumption, econometric simulation results can show those points. The results are applicable because in Neoliberalism states prefer trade protection and celebrate other states' unilateral liberalization.⁹ Park's (1995:120, Table 5.1A) trade-linked multi-country

⁸ Krugman and Obsfeld (2003: 236) says that prisoner's dilemma situation is not necessarily true, and many economists argue that "free trade is the best policy for nation, regardless of what other governments do."

⁹ Econometric simulation results can be used for a game theoretic analysis. It is right that a game theoretic approach analyzes state choice and action given other states' behavior. However, a game theoretic approach *does not have any instruments to calculate the economic gains and losses* for every choice. It must rely on economic simulation results in order to be able to describe the distribution of gains and losses in each matrix cell. Without

CGE simulation shows that the unilateral trade liberalization implemented by ASEAN states would generally increase trade deficits, the exception being Malaysia which would suffer smaller deficits. However, all ASEAN states would still have overall welfare improvements by unilaterally liberalizing their trades toward other ASEAN states.¹⁰ In different way, Ariff (1994a:100-111) shows that unilateral liberalization in ASEAN states deepened regional economic integration and gave the benefits of integration without risking the negative impacts of preferential trade agreements. Vézina (2010:9-10) also argues that ASEAN states had unilaterally reduced tariff rates in order to attract Japanese FDI, which was important for their economic development. The benefit of unilateral trade liberalization infers that trade protection reduces ASEAN states' welfare. Consequently, the lower-left and upper-right quadrants of table 3 do not display [-10, 10] and [10, -10] distributional gains, respectively, as in a prisoner's dilemma game (table 2); they display [3, -2] and [-2, 3] distributional gains, respectively. A coordination game is more suitable to represent the distributional gains of ASEAN states' trade relations.

Table 3. Simplified Static Distributional Gains of Trade Liberalization and Protection, based on Neoclassical Trade Theory and Terms of Trade Argument (a coordination game, 2 states, 2 options)

		State B	
		Protection	Liberalization
State A	Protection	(-5 , -5)	-2 , 3
	Liberalization	3 , -2	(5 , 5)*

Notes:

- This scenario envisages two states with two options: not cooperating or cooperating. In this scenario, two stable equilibriums () emerge, but only one that is also the Pareto optimum outcome ()*.
- The numbers represent ordinarily ranked benefits: -5 is worst, 5 is best. The numbers in each cell represent state A's gain and state B's gain, respectively. A bracket denotes equilibrium, and an asterisk denotes the Pareto optimum outcome.

In this coordination game, defecting from liberal trade cooperation reduces state welfare, rather than increase it. If Neoliberal states truly pursue welfare interests, such defection will be considered as instrumentally irrational.¹¹ However, facts show ASEAN states made a number of defections after the conclusion of AFTA. This is inconsistent with Neoliberal assumption of instrumentally rational states and proves Neoliberalism inadequate to understand ASEAN states' defections from AFTA. Explaining this instrumental irrationality as a consequence of "indeterminacy of rationality principle," limitation of state leaders' cognitive capacities (Keohane, 1989:160) and incomplete information is unsatisfactory.

Based on that coordination game, even without binding themselves in AFTA, Neoliberal Institutionalism would have predicted that ASEAN states would liberalize their trades and would not defect from cooperation. Since protection and defection are instrumentally irrational, Neoliberal Institutionalism would have argue that institutionalization of AFTA was an inefficient measure.

In summary, Neoliberalism does not satisfactorily explain ASEAN states' cooperation is AFTA. It is not clear why ASEAN states did not prefer to cooperate with more interdependent states, why they did not prefer a more statically beneficial unilateral liberalization, and why they

doing this, which optimum choice states may have cannot be known and the states' action-reaction behavior cannot be understood. Moreover, the economic simulations used in the paper also include the terms of trade argument that Neoliberals used for their game theoretic analysis. Because the simulations also calculate the effect of states' export relative to their imports, the simulations imply action-reaction consideration.

¹⁰ Similarly, Conway, Appleyard and Field (1989:789-791) simulate unilateral reduction of tariff rates by 30% by three complementary states. They find that in all states, the unilateral liberalization would produce net welfare gains for the liberalizing state and often for the protecting states.

¹¹ The coordination game and irrationality of defection therefore also undermine perpetual trade liberalization theory. This theory assumes that states are instrumentally rational and argues that gradualism is necessary to maintain states' commitment to liberal trade cooperation and negotiation (Lockwood, Whalley and Zissimos, 2001; Zissimos, 2001). If partial and gradual liberalizations generate fewer benefits, and if defection is irrational, why should states waste their scarce resources on perpetual negotiation?

sacrificed their overall economies by defecting from the liberal trade cooperation.

ASEAN states' gradual and selective liberal trade cooperation: an instrumentally rational cooperation design?

ASEAN states took a gradual and selective approach as their liberal trade cooperation design. Based on CEPT-AFTA, ASEAN states were to reduce import tariffs, quantitative restrictions, and other Non-Tariff Barriers (NTBs) within a period of 15 years beginning 1 January 1993. They were to reduce the initial existing tariff rates to 20% within the first reduction phase of 5 to 8 years, and to 0-5% within the second phase of 7 years, with a minimum of 5% quantum per reduction. Goods with existing tariff rates of 20% or below automatically enjoyed concessions and would also be reduced gradually. Quantitative restrictions and other non-tariff barriers would also be eliminated within 5 years after the goods enjoyed concessions (ASEAN Secretariat, 1992, 1995). The liberalization phases were then accelerated and would be completely realized by the year 2002.

Despite substantive liberalization, ASEAN states selectively liberalized their trades. They set the Temporary Exclusion List (TEL), Sensitive List (SL) and General Exception List (GEL) for protecting sensitive products and other reasons. While the tariff rates of products in Inclusion List (IL) would be reduced to 0-5% within the reduction periods, products in TEL would only enjoy the concession until being included into IL (ASEAN Secretariat, 2000). Even in 2005, ASEAN states still maintained various trade measures that inhibit trade flows among them (Lloyd, 2007:23).

Neoliberals may apply the infant industry promotion theory¹² to explain the gradual and selective liberalization choice. As a part of development policy, states can use infant industry protections, and thus gradual and selective trade liberalization, as instruments to help domestic industries reap economies of scale, learn-by-doing, upgrade industrial productivity, increase efficiency, and become more competitive against other states' large industries. When not designed as permanent and excessive protections covering all industrial sectors, temporary protections may change the pattern of comparative advantage and enhance long-term domestic economic welfare. Moreover, excessive immediate liberalization may even result in deindustrialization that deteriorates the economy over the long-term. Because the local industries are unable to compete with other states' competitive large industries, states with uncompetitive infant industries are disposed to only produce and export primary commodities or simple processed and assembled goods (Honda *et al.*, 1994:8-15, 73; Shafaeddin, 2000:12-18). Thus, in order to win larger gains over the long-term, instrumentally rational states prefer to implement infant industry protections, and gradually and selectively liberalize them as the industries become more competitive. States can utilize trade protections as a strategic trade policy¹³ and as an instrument to develop their economy.

Nevertheless, even though infant industry protection and gradual and selective liberalization may result in higher long-term benefits than full liberalization, Neoclassical economists make several arguments against these ideas.¹⁴ First, without having sufficient

¹² The infant industry promotion theory has different theoretical assumptions from the neoclassical trade theory. Neoclassical theory assumes that (1) markets are perfectly competitive so that economic actors have no market power, take prices as given and set production volume accordingly, and that (2) productivity growth is an exogenous variable. Contrary to these assumptions, optimum tariff theory assumes that markets are oligopolistic, and infant industry promotion theory assumes productivity growth as an endogenous variable. For a brief discussion on this, see Honda *et al.*, (1994: 8).

¹³ Okuna and Suzumura (1993, as cited in Honda *et al.*, 1994:9) define strategic trade policy as "a policy approach designed to secure a country's economic welfare by providing for the strategic protection, fostering and encouragement of selected industries which may not otherwise achieve the required measure of development under competitive market mechanisms." This differs from "corrective" policies which increase economic welfare by compensating market failures.

¹⁴ Gradual and selective liberalization doesn't only characterize ASEAN states' trade liberalization, but almost all international trade liberalization, including GATT. This has been a puzzle which economists have been attempting to explain since late 1970s. Unilateral gradualism theory explains this puzzle as a consequence of states'

information, governments cannot accurately predict the responses of industries and ensure the efficacy of protections. The failure of import substitution trade policy is one example of this problem. Secondly, there is no guarantee that government policies will continue and make the protections efficacious as previously expected. Thirdly, without calculating the effects of protections on other industries, the actual benefits may be smaller or even turn out to be negative. Fourthly, the protections distort resource allocation and income distribution. Infant industry protection and gradual liberalization may be statically less beneficial than full liberalization because domestic consumer loss is higher than producer surplus, government revenue, and terms of trade gains. Finally, protections may trigger other states' countermeasure and retaliation, which may have negative impacts. In short, even though a strategic trade policy may alter the pattern of comparative advantage and optimally improve welfare over the long-term, these criticisms suggest that it is costly because it requires complicated calculation and effective management, and may also not be efficacious (Honda *et al.*, 1994:27-36, 74-76; Krugman and Obstfeld, 2003:261-262, 281-2; Suranovic, 2007:ch.11).

According to the Neoclassical trade theory,¹⁵ gradual and selective liberalization decreases distorted import prices, but does not return it to free trade level. The net negative welfare effects that importing and exporting states suffer from are only reduced, not eliminated. Full liberalization returns distorted prices to free trade levels and eliminates the overall negative impact of protection. In this way, full liberalization generates more static benefits than gradual and selective liberalization option (Table 4).

Table 4. Simplified Static Distributional Gains of Trade Liberalization and Protection, based on Neoclassical Trade Theory and Terms of Trade Argument (a coordination game, 2 states, 3 options)

		State B		
		Protection	Gradual & selective liberalization	Full Liberalization
State A	Protection	(-5 , -5)	-4 , 1	-2 , 3
	Gradual & selective liberalization	1 , -4	(2 , 2)	3 , 4
	Full liberalization	3 , -2	4 , 3	(5 , 5)*

Notes:

- This scenario envisages two states with two options: not cooperating or cooperating. In this scenario, two stable equilibriums () emerge, but only one that is also the Pareto optimum outcome ()*.
- The numbers represent ordinarily ranked benefits: -5 is worst, 5 is best. The numbers in each cell represent state A's gain and state B's gain, respectively. A bracket denotes equilibrium, and an asterisk denotes the Pareto optimum outcome.

Once again, since in Neoliberals' analysis states prefer trade protection and celebrate other states' unilateral liberalization, an econometric simulation result which includes a terms of trade argument can be utilized in this analysis.¹⁶ A partial equilibrium analytical simulation conducted by Imada, Montes and Naya (1991:17-21, Table 8) shows that a 50% tariff reduction would grow intra-ASEAN trade by US\$538 million to account for 0.99% import and 1.48% export increase, whereas a complete tariff elimination would raise intra-ASEAN trade by US\$1.3 billion to account for a 2.31% import and a 3.40% export increase. These results are an indication that full

consideration of adjustment costs and the optimal gradual rate of trade liberalization. Multilateral gradualism theory argues that the benefits of deviating from free trade discourage states from adopting a full liberalization approach. Multilateral negotiation of trade liberalization is necessary to deal with the adjustment costs and terms-of-trade benefit. Bicycle theory of trade liberalization then emphasizes the continuation of negotiation as a way to preclude states from returning to protectionism. Perpetual trade liberalization theory argues that gradualism is necessary to maintain states' commitment to liberal trade cooperation. For an overview on these theories, see Zissimos (2001).

¹⁵ Neoclassical economic theory of trade takes David Ricardo's comparative advantage theory and Heckscher-Ohlin's relative endowment theory as its bases. The theories argue that free trade is the best policy and government intervention reduces economic welfare. On this, see Krugman & Obstfeld (2003: ch.2-5); Suranovic (2007: ch.2-5).

¹⁶ See n.9 above

liberalization would generate larger welfare improvements than gradual and selective liberalization.

This means that ASEAN states' decision to adopt gradual and selective trade liberalization would be a non-optimum choice. ASEAN states should have mutually and fully liberalized their trade in order to instrumentally-rationally meet their national economic interests of welfare improvement. Following Singapore by unilaterally embracing a liberal trade regime might have even been the better choice. The non-optimum choices made represents states' instrumental irrationality, which is inconsistent with the theoretical assumption of Neoliberal Institutionalism. Because gradual and selective trade liberalization may not generate optimum welfare benefits, it is unclear why ASEAN states decided to adopt a gradual and selective liberalization approach. ASEAN states even diverge on this issue. Singapore, that almost fully liberalized its trade before the formation of AFTA, chose the first subgoal, whereas Indonesia, Malaysia, the Philippines and Thailand chose the second one, although it may not lead to optimum welfare improvement (Ravenhill, 1995:863).

Moreover, the irreducible national interests are "nonoperational" (George and Keohane, 1980:219). They only refer to the minimum requirements states need to sustain their statehood. Although Neoliberals argue that "the chief function of the concept of national interest is to specify a means by which policymakers can make" an optimum choice, the concept does not really clarify what specific actions state leaders should will take. Either selective liberalization or full liberalization may maintain "economic subsistence." State leaders need "instrumental" goals or "subgoals" which specify choices for action (George and Keohane, 1980:219). In short, despite the central position of the concept of given national interests in Neoliberal Institutionalism, the concept lacks clear descriptive meanings and thus lacks a normative function which guides state leaders to justifiable and sound policymaking (Kratochwil, 1982:25).¹⁷

Theoretical disputes between the proponents of strategic trade theories and those of free trade thus create ambiguous situations within which states cannot make an optimum choice. A situation of risk-uncertainty occurs in this case. Those theoretical disputes provide states with two ambiguous choices: whether to (1) take an easy path by fully liberalizing trade barriers and having a bigger probability of reaping the positive benefits of full liberalization, or to (2) take a difficult and risky path by developing infant industries and gradually and selectively liberalizing trade barriers that may, if successful, generate larger long-term benefits. Instrumentally rational calculation does not solve this problem by providing states with a unique optimum choice and there is no instrumental reason to arbitrarily prefer one option over another (Garrett and Weingast, 1993:175-176). A tit-for-tat iterative game does not also solve this problem because the game assumes an unambiguous situation.

Leaving the formulation of specific interests and ambiguity problem to state leaders does not make Neoliberal explanation become satisfactory. Facing multiple "competing values and interests," state elites are responsible for calculating the relative weight of various available subgoals and making an "authoritative (but subjective) judgment" (George and Keohane, 1980:217-219, 226). Hence, what Neoliberals consider as state interests is in fact state elites' subjective interpretation of state interests. As political economic studies show, state elites are disposed to bias toward a certain regime, which prevents them from becoming "policy neutral" (Evans, 1993:403). In foreign trade policymaking, the policies state leaders make often also reflect domestic conflict of interests—rather than the international one (Baldwin and Magee, 2000; Krugman and Obstfeld, 2003:6, 229-234; see also WTO, 2007:55-56, box 1). Governments, as economic historians know, often act inefficiently in promoting economic growth (North, 1984:256), or in other words, violate the "irreducible national interests" which Neoliberals

¹⁷ Without a specific descriptive meaning of national interests, saying a certain action or act of cooperation is in a state's interest raises methodological issues. Neoliberals can only assume that a particular cooperative action is consistently and rationally caused by a particular interest.¹⁷ Making such an assumption infers the cause from the effect, and engages in the *post hoc ergo propter hoc* logical fallacy. Rather than describing realities, the descriptive meaning of interests inducted from Neoliberals' studies reflects the observers' "own values" and "evaluative framework" (Rosenau, 1968:37-39). To understand specific state interests, Neoliberals need to understand the ideational regimes that define specific state interests (North 1984:256-257). Without clarifying state interests beforehand, Neoliberal Institutionalism cannot adequately explain why states make certain actions, or in the context of state cooperation, why states undertake certain cooperation design.

conceptualize.

Such an ambiguous situation can even deteriorate and become a situation of Knightian uncertainty, within which states are “unsure” not only about how to solve the problems, but also about the specific interests they should pursue (Blyth, 2002:9). To improve welfare, specific interests or subgoals are necessary as an operational guidance. Hence, states face two different specific interests or subgoals in relation to trade liberalization: (1) the general allocative efficiency and comparative advantage that can be achieved immediately and fully liberalizing trade barriers at the risk of deindustrialization, and (2) industrialization that can be realized by gradually and selectively liberalizing trade barriers at the cost of overall allocative efficiency. As both are potentially beneficial and costly, states cannot be certainly sure which subgoals they should pursue. Without formulating a specific interest, the choice will be a “shot in the dark” (Blyth 2002: 36).

Neoliberal scholars may incorporate a strategic development and trade regime, which ASEAN states have adopted before the formation of AFTA, as a road map that guides ASEAN states in specifying their interests and reducing uncertainties. A (constructed) focal point of strategic trade may then converge ASEAN states’ preferences and choices towards a gradual and selective liberalization approach.

Nevertheless, inserting institutions as an intervening or residual variable raises other fundamental problems. If the strategic development and trade regime had existed prior to the formation of AFTA and had a path-dependence effect, why didn’t the state-regime function as a road map that affected ASEAN states’ preferences and choices in AFTA gradual trade liberalization from the first? Why does the state-regime merely function as a residual variable and *deus ex machina* (Blyth, 1997:231; Gofas and Hay, 2008:10)? This problem requires Neoliberal Institutionalism to reconceptualize the causal nexus between interests and institutions.

Moreover, for Neoliberals, institutions “merely reflect interests” (Keohane and Nye 2001:280) and there might be more than one institution that is instrumentally consistent with the Neoliberals’ three basic interests (physical survival, liberty, and economic subsistence). Both trade protectionism and liberalism may generate economic gains and states have historical experiences with both institutions. Consequently, as Goldstein and Keohane (1993:19) admit, Neoliberal explanation does not clarify which institution serves as a road map or focal point for cooperative solutions.

Incorporating domestic variables to solve these problems is also theoretically problematic. In this logic, ASEAN states exploit the loophole of WTO rules and make “liberalization without political pain” (Ravenhill, 2003: 307-308, 1995:863, 2008:144-145). Explaining gradual and selective liberalization as a way to avoid political pains shifts the analysis to domestic political economic analysis. Rather than considering the state as a unified actor, domestic political economic analysis assume that states are a place where state leaders and interests groups compete in making state policies. Doing this will transform Neoliberal analysis into a two-level game analysis which entangles domestic and international political economy (Putnam, 1988). This is inconsistent with Neoliberal assumption of methodological individualism, which assumes states are unified individual actors and regards domestic political economy as an exogenous factor. Consequently, such inconsistency makes Neoliberal Institutionalism unsatisfactory in explaining ASEAN states’ cooperation in AFTA.

Neoliberal Institutionalism is correct to argue that mutual interests and institutions are necessary for states to cooperate. However, the problem of under-specification of state interests and that of instrumentally rational selection of institutions keep Neoliberal Institutionalism from providing an adequate explanation of cooperation design. The arguments above should compel Neoliberal Institutionalism to reconceptualize the causal nexus of institutions and interests, and change their over-simplistic assumptions of states’ given national interests and instrumental rationality. The seminal question of why states agree to have a certain cooperation design can be answered only by doing these things.

Postscript: Bringing state-regime back in

Neoliberal Institutionalism is correct to argue that mutual interests and institutions are

necessary for states to cooperate. However, its theoretical assumptions and arguments (i.e., given national interests, instrumental rationality, interdependence, prisoner's dilemma game, a residual function of institution) preclude Neoliberal Institutionalism from making an satisfactory explanation of ASEAN states' cooperation in AFTA. It is not clear why ASEAN states should bind themselves in AFTA despite the net negative effects of protection and defection. Risk- and Knightian-ambiguities also blunt Neoliberal explanation of why ASEAN states agreed to have a gradual and selective liberalization, and not to have full liberalization.

Those analytical problems indicate that reconceptualization of interests and institutions, or state-regimes,¹⁸ in particular, are necessary to understand state cooperation and cooperation design. The problem of institutions are not "in what domains they [institutions] matter most [or] under what conditions" they "sometimes" matter (Keohane and Martin, 1995:50; see also Keohane and Nye, 2001:280), but what or which institutions matter. The question of "which ideas are available and persuasive" (Goldstein and Keohane, 1993:12) does not indicate the inexistence of ideas, but merely that of certain ideas in particular. "[N]onregime situations" (Keohane and Nye, 2001:278) do not exist. The unavailability of particular state-regimes does not negate the availability and the effect of state-regimes in general. It only suggests that particular state-regimes are not available in a certain time and space that is colored by other particular state-regimes. While ideas in general permeate reality "all the way through" and imbue it with meanings (Blyth, 2002:29-30, 271),¹⁹ a certain idea represents reality with certain interpretations and, as Neoliberals admit, "excludes other interpretations of reality" (Goldstein & Keohane, 1993:12). The problem, once again, is not whether institutions matter, but which particular institutions matter in state interaction.

In this way, institutions or state-regimes are not treated as an intervening or residual factor (Blyth, 1997: 230), but independently affect state action and interaction. They set a corridor of actions and determine what interests and actions are normatively legitimate and illegitimate. Since power and interests are value dependent (Lukes, 2005:30; Rosenau, 1968:36; George and Keohane, 1980: 217, 220, 224; Wendt, 1999:398), states' instrumental rationality is always based on value-rationality (Weber, 1978:24). Based on state-regimes, states can specify their "nonoperational" national interests. Rather than being considered as given, state interests are defined according to "sets of implicit or explicit principles, norm [and] rules" (Krasner, 1983:2) which states institutionalize in state-regimes.

Incorporating state-regimes into analysis does not make the analysis to be a unit-level one. As state power, state-regimes are also distributed at structural level. While states are distributed vertically according to their relative powers, they are distributed horizontally according to their state-regime typicalities and untypicalities. Interactions between states thus reflect state-regimes distributions.²⁰ State-regime typicalities represent the extension of state identity across state boundaries. States thus share not only state-regime identity, but also interests. These state-regime and interest typicalities are the permissive factors for state cooperation, and even integration. The more typical their regimes, the less likely regime- and power-struggles in interactions between states.

In this framework, the formation of AFTA is permissively allowed by the typical export-oriented industrialization regime that all ASEAN states started to share in the latter half of 1980s. Even though this export-oriented industrialization regime does not represent a general regime of free market economy and still derives from that of strategic development and trade, it shifted some

¹⁸ The term "institutions," "state-regimes," and "ideas" are used interchangeably because they all basically ideational and "prescribe behavioral roles, constrain activity, and shape expectations" (Keohane, 1989:3, 165-166).

¹⁹ Hence, ideas are not deterministically "all the way down." Ideas "permeate all aspect of materiality" and signifies objects with certain meanings that determine actors' understanding of and orientation to realities.

²⁰ International system is thus a place for regime struggle and power struggle. While untypical state-regimes may create horizontal conflicts and vertical conflicts, typical state-regimes may only create vertical conflicts. For states that share typical state-regime, vertical conflicts represent their self-orientation and competitions for a top position. Since power is "a capacity" which enable state to act (Lukes, 2005:12, 60), becoming the most powerful state allows the state have the most probability in manifesting its state-regimes internationally. State-regime typicalities reduce the probability of regime struggle and consequently, since power is utilized to implement state-regimes, reduce that of power struggle.

ASEAN states' disposition from trade protection to trade liberalization. ASEAN states then unilaterally liberalized their economies, including their trades (Chintayarangsan, Thongpakdee, and Nakornchai, 1992:356-371). This regime gradually replaced the import-substitution industrialization regime that still colored some ASEAN states prior to 1990s and impeded the establishment of the wider and deeper liberal trade cooperation in AFTA (Pangestu, Soesastro and Ahmad, 1992:335). Based on the regimes' value-rationality, ASEAN states specified the nonoperational basic state interests of economic growth, and redefined their trade interests in 1990s. This explains why ASEAN states generally changed their attitudes toward trade liberalization in 1990s and just agreed to establish AFTA in 1992.

The general regime of strategic development and trade then define the legitimate action ASEAN states should take and stay them away from a Knightian uncertainty and risk-uncertainty. Based on the regime, ASEAN states consider full trade liberalization choice as illegitimate. Although full trade liberalization may instrumentally generate static overall welfare improvement, it may disrupt the long-term industrial development and severely threaten some people's economy. Based on that general regime of strategic development and trade, ASEAN states preferred to take a difficult and risky path of gradual and selective trade liberalization that may, if successful, generate larger long-term benefits. Rather than achieving the overall allocative efficiency and comparative advantage at the risks of deindustrialization and severe negative effects, ASEAN states prefer to gradually and selectively liberalizing trade barriers at the cost of overall allocative efficiency.

Understanding a causal nexus of state-regime and interest may provide a better explanation of state cooperation and cooperation design. Considering ASEAN states' strategic development and trade regime does not only explain why ASEAN states established in 1992, but also clarify why they agreed to have gradual and selective liberalization.

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