

1. Asia's New Institutional Architecture: Evolving Structures for Managing Trade, Financial, and Security Relations

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1.1 Introduction

During the Cold War, the Asian region consisted of three distinct sub-regions—Northeast, Southeast, and South Asia. Aside from the geographical constraints of the region itself, this subdivision of Asia was a product of culture, economics, history, and superpower rivalry. From one perspective, Asia remains too heterogeneous to permit the invocation of a distinct Asian identity. Southeast Asia is divided deeply along ethnic, linguistic, and religious lines. In Northeast Asia, the effects of Japanese colonialism and imperialism have left sharply diverging historical memories and interpretations. And conventional analysis has separated South Asia from its “East Asian” counterpart. Such divisions and heterogeneity have inhibited the emergence of a common Asian identity let alone broad-based, effective Asian institutions.²

¹ We would like to thank Jin-Young Kim and Peter Petri for their valuable comments. We are deeply indebted to Jonathan Chow for his editorial assistance.

² International regimes have been defined broadly as “sets of implicit and explicit principles, norms, rules and decision-making procedures around which actors’ expectations converge” (Krasner 1983). To refine this definition, we can distinguish between the principles and norms—the “meta-regime” (Aggarwal 1985)—and the regime itself, defined as the rules and procedures to allow us to distinguish between two very different types of constraints on the behavior of states. We use the term institution to refer to the combination of a meta-regime and a regime—rather than Krasner’s definition. Note that an institution is *not* the

Today, however, the acceleration of globalization and the rise of absolute power available within Asia have made superpower rivalry and geography matter less than underlying structural changes in regional economic and security orders. While *global* structural conditions have become less determinative of regional economic and security outcomes, *regional* structural conditions will likely become even more significant, particularly in light of the “triple shocks”, which we identify as the end of the Cold War, the 1997-98 Asian financial crisis, and the attacks of September 11, 2001.

The question now at the forefront of the minds of both academics and policymakers is whether or not regional and interregional institutions can better manage the increasing complexity of trade, financial, and security ties among the states in Asia. This chapter theorizes about the emerging institutional architecture by systematically taking into account the role of state and non-state actors across the Asian region. Falling communication costs due to globalization have increased the number of participating actors and increased the relevance of “complex interdependence.” In addition to the traditional actors at the sub-national and national levels, transnational actors are increasingly leaving their mark on the international system. Still, increased participation at a distance and a move toward complex interdependence do not necessarily imply the end of politics among “territorial” states. Globalization shrinks distances but does not make geography irrelevant; the filters provided by domestic politics and political institutions play a major role in determining the actual effects of globalization and how well various countries adapt to it. We thus analyze the roles of both national and transnational actors in forming regional institutions in Asia.

In investigating the origins and evolution of Asia's new institutional architecture in trade, finance, and security, this book focuses on three sets of distinct but related issues. The first concerns the evolution of a new institutional equilibrium in trade and finance. The second examines the changing paths toward security cooperation. The final set of issues addresses the strategic

same thing as an international organization: one can find areas of international collaboration where there are well-defined principles, norms, rules, and procedures for actors' behavior in the absence of an organization such as the International Monetary Fund (IMF).

interaction between trade, financial, and security arrangements. Each set of questions will be investigated along the three sub-regional lines with attention to linkages among Northeast, Southeast, and South Asia through interregional arrangements.

As we discuss below, the traditional institutional equilibrium in Asia has come under heavy strain in the post-“triple shocks” period. The new dynamics of rivalry and cooperation among states at both the intraregional and transregional levels are now shaping new institutional pathways. Political and business leaders from Northeast and Southeast Asia interact with each other more frequently. South Asia's engagement with East Asia in recent years has been truly impressive. The future institutional trajectory of Asia is still open, but we believe that it is now timely to examine the shift. An academically informed approach to the links between economic and security institutions and issues will give us a unique perspective on the types of institutional solutions that may be feasible in Asia.

The remainder of this chapter proceeds as follows. Section 1.2 presents an overview of the shifting institutional balance in Asia. Section 1.3 categorizes of different modes of trade, financial, and security governance. Section 1.4 develops an institutional bargaining game approach and analyzes the process through which various types of trade, financial, and security arrangements have been pursued in Asia. Section 1.5 lays out the structure of the book, highlighting the institutional developments in Northeast Asia, Southeast Asia, and South Asia. Finally, Section 1.6 summarizes the argument.

1.2 Traditional and Emerging Institutional Balances in Asia

At the outset of the Cold War, hostile geo-strategic circumstances and historical animosities shaped unique institutional pathways for Asian countries to manage their economic and security ties. In the virtual absence of an alternative mechanism at the regional level, trade, financial, and security relations were governed through a combination of U.S.-centric bilateral and multilateral arrangements

and informal networks based on corporate and ethnic connections in the economic arena.³

The so-called “San Francisco system,” codified largely through the 1951 San Francisco Peace Treaty between the Allies and Japan, provided Asian countries with a unique institutional mix of bilateralism and multilateralism. It offered America’s Asian allies access to the U.S. market in return for a bilateral security alliance with the U.S. It also encouraged Asian countries to participate in broad-based multilateral forums in both economics—e.g., the General Agreement on Tariffs and Trade (GATT), the World Trade Organization (WTO), and the IMF—and security—e.g., the United Nations (UN).⁴ This system, which proved relatively beneficial for most Asian countries, created few incentives for them to develop regional arrangements until the mid-1990s. At the same time, bitter memories of Japanese and Western colonialism, heterogeneous policy preferences and strategies, and cultural diversity also reinforced the preference against formalized regional organizations.⁵

For example, since its creation in 1967, the Association of Southeast Asian Nations (ASEAN) has shown a certain degree of institutional capacity in both security and trade matters. Yet ASEAN remains a remarkably modest organization with only scattered signs of institutional deepening and widening. The ASEAN Free Trade Area (AFTA) is a collective effort by ASEAN members to eliminate tariffs on intra-ASEAN trade on a voluntary basis, but relatively slow progress has impeded movement toward a true free trade area since the idea was first formulated in 1991. Asia-Pacific Economic Cooperation (APEC) remains an essentially consultative forum more than fifteen years after its birth, with most members continuing to prefer “loose family-type linkages” to more formal institutional

³ Cumings (1997); Grieco (1997); Katzenstein (1997)

⁴ Calder (2004: 138-140) outlines the key defining features of the San Francisco system: 1) a dense network of bilateral security alliances; 2) an absence of multilateral security structures; 3) strong asymmetry in alliance relations, both in security and economics; 4) special precedence to Japan; and 5) liberal trade access to American markets, coupled with relatively limited development assistance.

⁵ Cumings (1997); Grieco (1997); Katzenstein (1997)

structures.⁶ Several proposals for a more exclusive Asian economic club failed throughout the 1990s.⁷

On the security front, Asia lacks an equivalent to the North Atlantic Treaty Organization (NATO) for Europe and the U.S. Alliances in Asia tend to be bilateral, leaving security coordination at the minilateral level under-institutionalized. Together with large U.S. military forces stationed in Japan, South Korea, the Philippines, South Vietnam, and Guam, these bilateral security treaties became the backbone of the U.S. “hub and spoke” strategy to contain communist forces in Asia.⁸ The ASEAN Regional Forum (ARF), which was launched in 1994, is virtually the only intergovernmental forum for security dialogue in Asia.

The U.S. was relatively passive and more concerned about how such a transregional security dialogue might constrain U.S. military forces and weaken bilateral alliances in the region. For its part, although an early proponent of multilateral security dialogues, Japan shied away from pushing hard for more substantive discussions and negotiations. China obstructed any moves in this direction for fear of international intervention and pressure on its domestic affairs such as human rights and civil justice. And the two South Asian giants, India and Pakistan, were left out of the regional scene. As a result, the conventional wisdom was that the development of cooperative security norms among Asian countries would likely have to rely on so-called “concerted bilateralism”—the structuring of a formal bilateral summit process in which major regional powers interact systematically with each other—rather than explicit multilateralism.⁹

Although one might argue that the San Francisco system served much—if not all—of East Asia well for the postwar era by obviating the need for any significant regional arrangements to manage economic and security relations, this mix of institutions now faces

⁶ Aggarwal and Morrison (1998); Ravenhill (2002); Tsunekawa (2005)

⁷ The most oft-cited example is the fate of the East Asian Economic Group (EAEG), proposed by former Malaysian Prime Minister Mahathir bin Mohamad. Strong U.S. opposition, Japan's hesitation, and lukewarm support from most East Asian neighbors led to a downgrading of his idea to the creation of an East Asian Economic Caucus (EAEC) in 1993.

⁸ Tsunekawa (2005: 108)

⁹ Buzan (2003); Evans and Fukushima (1999); Mochizuki (1998)

severe challenges. With respect to trade, many Asian countries' commitment to a broad-based, multilateral trade regime is currently in question as the Doha Round of WTO negotiations have made little progress thus far since its inception in 2001. At the transregional level, APEC, as a formal mechanism to facilitate economic integration, has been unsuccessful.¹⁰ With respect to informal market integration, the unprecedented economic shocks at the end of the 1990s have demonstrated that the seemingly dense networks of Japanese and overseas Chinese business are quite vulnerable.¹¹ As a result, a growing number of Asian countries are now actively pursuing greater institutionalization at the sub-multilateral level, actively weaving a web of preferential trade agreements (PTAs) with each other.¹²

With respect to financial cooperation, the current process of regional financial institution building in Asia revolves around three motives. First, it is a response to the Asian region's dissatisfaction with the global financial regime, as manifested during the Asian financial crisis. The perceived injustice or unfairness of the global financial architecture enshrined in the IMF has made it politically easier for the leaders of crisis-ridden countries to seek regional solutions.¹³ Indeed, the Asian financial crisis had a profound affect on the way in which Asian countries perceive the global and regional financial institutions. The regional attempt to create an "Asian Monetary Fund (AMF)" during the early stages of the Asian financial crisis was immediately rejected by the U.S., owing to fears that an AMF could undermine the leadership role of the IMF and foster a split between East Asia and North America. Instead of directly confronting American opposition, the APT countries, therefore, set up a currency swap scheme in Chiang Mai, Thailand, in 2000 as a "firewall"

¹⁰ Aggarwal (2000)

¹¹ Aggarwal and Koo (2005)

¹² The conclusion of Japan's first post-World War II free trade agreement (FTA), the Japan-Singapore Economic Partnership Agreement, came at this critical juncture in October 2001. The other economic giant in Asia, China, also signed a framework FTA with its neighbors in Southeast Asia in February 2003. In addition, other Asian countries have wasted no time in moving toward PTAs, departing from their traditional commitment to the WTO. See Aggarwal and Urata (2006)

¹³ Katada and Solis (2006:7-8); Higgott (1998)

against future financial crises.¹⁴ Looking beyond the Chiang Mai Initiative (CMI), which only allows for country-to-country currency swaps, ASEAN Plus Three (APT) finance ministers met in Kyoto in May 2007 to discuss combining some of region's \$2.7 trillion in foreign reserves to help central banks shield their currencies from speculative attacks.¹⁵ Although these arrangements are at a very early stage and details have yet to be worked out, this represents a serious move toward an Asian Currency Unit (ACU).

With respect to security, the San Francisco system has been gradually modified since the early 1970s by the inclusion of China and other communist countries, but until recently has hewed remarkably closely to its original Japan-centric, Washington-dominated form.¹⁶ In the post-9/11 era, however, the fissure in the system has become increasingly visible, primarily due to changes in America's alliance policy. With its counterterrorism initiatives, the U.S. is now reconfiguring its traditional security policy in Asia for strategic and logistical reasons while soliciting multilateral cooperation against terrorism and scaling down its forward deployment. In order to maintain its strategic strength despite a smaller physical presence, Washington has begun to urge its Asian allies to expand their regional security missions, leading to a number of regional cooperation initiatives. APEC and the ARF, encouraged by the U.S., have adopted a series of counterterrorism measures. Although counterterrorism cooperation undertaken by regional organizations focuses on intelligence and information exchanges rather than substantive measures, there has increasingly been exploration of more rigorous efforts to institutionalize security affairs at the regional level.

What might these developments imply for Asia? How are they likely to affect U.S. relations with China, Japan, and India? Will new developments undermine or enhance the WTO and the IMF, and efforts to manage security concerns on a broader basis? To examine these questions, we first begin by outlining Asia's current institutional landscape.

¹⁴ Amyx (2003)

¹⁵ Kim and Li (2007)

¹⁶ Calder and Ye (2003)

1.3 Modes of Economic and Security Governance in Asia

Asian countries have utilized a host of measures to regulate trade and financial flows and assure security in an anarchic world, yet the literature on Asian regionalism fails to distinguish among various modes of governance of economic and security issues. While lacking well-institutionalized organizations like the European Union (EU) and NATO, Asian countries have relied on a *mélange* of institutional and semi-institutional measures to manage their economic and security relations.

Such measures can be characterized according to various criteria, but four main features are particularly important. First, in terms of the *number of participants*, Asian economic and security institutions include unilateral, bilateral, minilateral, and multilateral arrangements. Second, in terms of *geography*, their membership is either concentrated within Asia or includes other actors outside of the region. Third, agreements can be classified according to their *strength*—while some agreements are strictly binding, others lack strong enforcement and are weakly institutionalized. Finally, the *issue scope*—that is, the range of issues that an institution deals with—can run from narrow to broad.¹⁷ One could also examine the *nature* of agreements,¹⁸ but our primary focus here with respect to economics is on trade-liberalizing measures. Naturally, some agreements are more preferential in nature than others and may exclude sectors, making them protectionist in orientation. And in security, we can refer to agreements as security-enhancing or security-reducing, which can refer to their impact on countries not party to the agreement. To keep the analysis in our tables manageable, we do not include “nature” as a characteristic, but individual authors in their empirical chapters discuss this aspect in detail.

1.3.1 The Membership and Geography of Arrangements

Of these four dimensions, we first focus on the two most salient features that characterize Asia's emerging institutional architecture, namely the *number of participants* and *geography*. This approach allows us to systematically classify the types of arrangements that have been pursued in Asia as a basis for further analysis. Table 1.1 illustrates different modes of trade, financial, and security arrangements. Note that although we include the possibility of unilateral actions, these are clearly not “arrangements”.

¹⁷ For details of these criteria, see Aggarwal (1985)

¹⁸ *Ibid.*

1) The first column of the table consists of *unilateral actions*. Unilateral economic liberalization includes measures such as those by Singapore and Hong Kong, as well as APEC-led initiatives such as Individual Action Plans (IAPs). Outside of these few cases, however, unilateral economic liberalization efforts have been as relatively rare in Asia as in other regions. Unilateral security management often involves actions that are detrimental to overall regional security although a credible threat may also be stabilizing. For example, North Korea's unilateral show of force as seen in the missile and nuclear weapons tests in 2006 has frustrated its neighbors as well as the U.S., destabilizing relations in the region.

2) Along with the bilateral currency swap agreements between China, Japan, and South Korea, the prospective Japan-South Korea and South Korea-China FTAs fall into the category of *geographically concentrated bilateral subregionalism*. More often than not, such agreements indicate not only geographic, historic, and cultural affinity but also complementary industrial structures. Their counterpart in the security realm can be found in the "spider web" of bilateral military ties that links together the states of Southeast Asia, with the majority of joint military exercises taking place between Indonesia, Malaysia, and Singapore.¹⁹

3) The second category of bilateral arrangements consists of *geographically dispersed bilateral transregionalism*. Trade arrangements that fall under this category include the bilateral FTAs between Singapore and New Zealand (2000), Japan and Singapore (2002), South Korea and Chile (2002), Singapore and the U.S. (2003), Japan and Mexico (2004), and South Korea and the U.S. (2007), to name just a few. Various bilateral currency swap agreements between Japan/South Korea and individual ASEAN countries represent bilateral financial transregionalism. Meanwhile, the most significant transregional-bilateral defense ties exist between Asian countries and the U.S. As noted above, the postwar U.S. grand strategy has revolved around bilateral security and economic ties with its allies in the region.

Table 1.1: Modes of economic and security arrangements in Asia*

¹⁹ Acharya (2003)

	Bilateral		Multilateral		Multilateral	
	<i>Geographically Concentrated</i>	<i>Geographically Dispersed</i>	<i>Geographically Concentrated</i>	<i>Geographically Dispersed</i>		
Trade and Financial Arrangements	<p>(1) Various trade liberalization measures taken by Singapore and Hong Kong</p> <p>APEC Individual Action Plans (IAPs)</p> <p>China-South Korea FTA (under study)</p>	<p>(2) Japan-China, Japan-South Korea, and China-South Korea currency swap agreements</p> <p>Japan-South Korea FTA (under negotiation)</p>	<p>(3) Singapore-New Zealand CEP (2000)</p> <p>Japan-Singapore EPA (2002)</p> <p>Korea-Chile FTA (2002)</p> <p>U.S.-Singapore FTA (2003)</p> <p>Taiwan-Panama FTA (2003)</p> <p>Japan-Mexico FTA (2004)</p>	<p>(4) AFTA (1991)</p> <p>BIMSTEC (1997)</p> <p>ASEAN-China FTA (2003)</p> <p>NEAFTA (proposed)</p>	<p>(5) PAFTAD (1968)</p> <p>PBEC (1980)</p> <p>APEC (1989)</p> <p>EAEC (1994)</p> <p>ASEM (1996)</p> <p>ASEAN Plus Three (1998)</p> <p>CMI (2000)</p> <p>ABMI (2003)</p> <p>South Korea-EFTA FTA (2005)</p>	<p>(6) IMF (1947)</p> <p>World Bank (1947)</p> <p>GATT/WTO (1947/1995)</p> <p>ITA (1997)</p> <p>BTA (1998)</p> <p>FSA (1999)</p>

*Adapted from Aggarwal (2001); Updated as of June 2007 with illustrative examples.

	Unilateral	Bilateral		Minilateral		Multilateral
		<i>Geographically Concentrated</i>	<i>Geographically Dispersed</i>	<i>Geographically Concentrated</i>	<i>Geographically Dispersed</i>	
Trade and Financial Arrangements (cont'd.)			Korea-Singapore FTA (2005) Japan-Malaysia FTA (2005) China-Chile FTA (2005) Korea-U.S. FTA (2007)		South Korea-ASEAN FTA (2006) ASEAN-Japan CEP (under negotiation) ACU (under study)	
Security Arrangements	Unilateral use or show of force Arms acquisition	Joint military exercises	U.S. military treaties with Japan, South Korea, and others in Asia	ASEAN (1967) ASEAN TAC (1976) SAARC (1985) ASEAN-ISIS (1988) South China Sea Code of Conduct (2002)	ARF (1994) CSCAP (1993) NEACD (1993) Six-Party Talks (2003)	UN operations (1945) NPT (1970) PSI (2003)

4) Expanding the number of actors, the next category consists of *geographically concentrated minilateral agreements*. In the trade realm, such agreements include Southeast Asian initiatives at the minilateral level such as AFTA and the 2002 ASEAN-China Free Trade Area (ACFTA) framework agreement. In Northeast Asia, Japan, China, and South Korea are increasingly discussing the potential benefits of institutionalizing economic and (less enthusiastically) security relations at the subregional level. In 1997, Bangladesh, India, Myanmar, Sri Lanka, and Thailand formed a sub-regional grouping called the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). Nepal and Bhutan joined the organization in 2003. In the security area, ASEAN as a geographically focused body was originally created in 1967 to promote regional peace and stability in the wake of the Vietnam War. In 1976, ASEAN countries signed a Treaty of Amity and Cooperation (TAC). At their summit in Phnom Penh on November 4, 2002, the ten member states of ASEAN along with China signed a Declaration on the Conduct of Parties in the South China Sea with the aim of preventing conflict and promoting cooperation in the region. Another security arrangement is the ASEAN Institutes for Strategic and International Studies (ASEAN-ISIS), which networks various non-governmental organizations (NGOs) in developing strategies for regional security management. On the Indian subcontinent, the South Asian Association for Regional Cooperation (SAARC) aims to promote cooperation not only on security, but also on non-security issue areas like tourism and agriculture.

5) The next category refers to *geographically dispersed minilateral arrangements*. Transregional or interregional ties define these arrangements. These include arrangements such as the East Asian Economic Caucus (EAEC, 1994), APEC (1989), the Asia-Europe Meeting (ASEM, 1996), the APT (1998), the South Korea-ASEAN FTA (2006), and the ASEAN-Japan Closer Economic Partnership agreement (under negotiation). The creation of semi-institutionalized, non-governmental institutions as confidence-building instruments and icebreakers prior to the founding of official transregional/interregional institutions has become an established practice in the Asian region. For instance, the Pacific Trade and Development Forum (PAFTAD), Pacific Economic Cooperation Council (PECC), and Pacific Basin Economic Council (PBEC)

preceded the establishment of APEC. In the financial issue area, various transregional, minilateral arrangements include the CMI (2000), an Asian Bond Market Initiative (ABMI, proposed), and an Asian Currency Unit (ACU, proposed).²⁰ The best example of a transregional security forum is ARF, consisting of twenty-four countries including the ASEAN member countries, China, Japan, South Korea, and the U.S. The ARF follows ASEAN's pattern of gradual institutionalization and provides a setting for preventive diplomacy, confidence-building measures, and conflict resolution.²¹ Though an economic forum, APEC has also been used recently as a transnational forum in which to discuss security matters, particularly since the 9/11 terrorist attacks. Yet the weakness of both the ARF and APEC as security forums has led to regional efforts at launching unofficial "Track Two" dialogues such as the Council for Security Cooperation in the Asia-Pacific (CSCAP) and the Northeast Asia Cooperation Dialogue (NEACD), both of which are specifically designed to provide a non-governmental forum for experts from the academic and policy analysis communities as well as government officials.²² For some observers, the Six-Party Talks process to resolve the second North Korean nuclear crisis serves as an early indication of a more permanent regional security forum in Northeast Asia.²³

6) The final category includes *global arrangements*. Trade organizations in this realm include broad-based multilateral arrangements such as the GATT (1947) and its successor, the WTO (1995). Their financial counterpart has been the IMF (1945). East Asian countries have also been participants in multilateral sectoral market-opening agreements such as the Information Technology

²⁰ The region's holdings of foreign reserves have dramatically increased since the early 2000s. China's foreign-currency holdings reached \$1 trillion in 2006, the most in the world. Japan's foreign reserves have doubled since 2000 to \$888 billion as of early 2007. South Korea's reserves are now the world's fifth largest, surging to \$244 billion. The three countries are cautiously working on the development of an Asian bond market to tap the region's \$1.5 trillion of savings and other financial resources to fund regional projects in lieu of investing the funds in the U.S. bond market (Kim and Li 2007).

²¹ Buzan (2003)

²² Job (2003)

²³ Aggarwal and Koo (2006)

Agreement (ITA, 1997), the Basic Telecom Agreement (BTA, 1998), and the Financial Services Agreement (FSA, 1999). In pursuit of security assurances, all the South, Southeast, and Northeast Asian countries—with the exception of Taiwan—have become UN members in the postwar period. From one perspective, the UN has never been a prominent place for mediating, managing, or resolving some of the major conflicts that have wracked the Asian region. The continuing tension between North and South Korea and between China and Taiwan, the earlier wars between North and South Vietnam, China and India, and India and Pakistan—to name but a few of the most serious instances of violence—have been dealt with largely in the absence of major UN initiatives. Nevertheless, the UN has often provided vital support, acting sometimes as a third-party facilitator or neutral mediator, and sometimes intervening in important ways behind the scenes.²⁴ In the meantime, the Nuclear Non-proliferation Treaty (NPT, 1968) and the Proliferation Security Initiative (2003) are good examples of issue-specific multilateral arrangements with broad membership.

1.3.2 The Strength and Scope of Arrangements²⁵

It is also important to classify Asia's various institutional arrangements according to their strength and scope. As noted, strength refers to both the precision and obligation of rules. From this perspective, authors have often contrasted the so-called European and Asian models of regional economic integration. The first one is built upon a wide set of specific and binding rules (called the *acquis communautaire* in the jargon of European integration) whereas the second is built upon declarations, intentions and voluntary commitments. In the monetary area, for example, the lack of any precise and concise definition of a balance of payments problem in the IMF severely affected the constraining power of this institution on preventing its members from running imbalances.

²⁴ Foot (2003)

²⁵ Portions of this discussion draw on Aggarwal and Dupont (forthcoming). That work also considers other characteristics such as institutional centralization and delegation.

Second, we consider the *scope* of agreements defined as issue coverage. The evolution of the GATT from its origins in 1947 to the creation of WTO in 1995 reveals an important increase in the scope of the agreements. Whereas the GATT initially focused on the liberalization of trade in goods, the WTO covers services, agriculture, as well as trade-related aspects of intellectual property rights and investment. And in the Asia-Pacific region, APEC scope has dramatically widened over time to include not only trade liberalization, but security, environmental issues, finance, and the like. At the other end of the spectrum, one finds sector-specific institutions such as the International Organization of Securities Commissions (IOSCO), the International Associations of Insurance Supervisors (IAIS), and International Accounting Standards Board (IASB) as well as product-specific organizations such as the International Coffee Organization (ICO), the International Cocoa Organization (ICCO), the International Copper Study Group (ICSG), and the International Sugar Organization (ISO).

The authors of the empirical chapters trace the evolution of strength and scope of the key accords in their region to examine how they have changed and the causal factors underlying this shift. In our conclusion, we also classify the key arrangements in Asia along these lines in view of the empirical findings. Here, we simply illustrate the idea of change in the number of countries in accords, their strength, and scope (see Table 1.2).

Table 1.2: The evolving strength and scope of arrangements

Arrangement	Number of members t=0	Current members	Issue Scope t=0	Issue scope now	Strength t=0	Strength now
ASEAN	5	10	Medium	Broad	Weak	Medium
APEC	12	21	Narrow	Broad	Weak	Weak

1.4 Analyzing Asia's Institutional Architecture

A number of factors have driven changes in the institutional equilibrium in Asia. Much ink has been spilled over the uniqueness of Asian regionalism that has formed during the postwar period, but little progress has been made in our understanding of the shifting

dynamic between economic and security ties among Asian countries in the post-“triple shocks” period. To bridge this gap and more adequately analyze the process by which various types of trade, financial, and security arrangements have been pursued in Asia, we offer an institutional bargaining game approach.

An institutional bargaining game approach begins by identifying the initial impetus for a new economic and security strategy. The process of a shift from an initial institutional equilibrium to a new one generally comes about with some external shocks that create pressure for change. Countries respond to such external shocks in various ways based on their individual political-economic situation. To systematically analyze why different countries respond in different ways, we focus on the interplay of three interrelated elements, namely goods, individual bargaining situations, and the existing institutional context. As countries attempt to meet their economic and security needs in a new environment, they negotiate new arrangements or modify existing ones while interacting strategically within the context of broader institutional arrangements such as the WTO, the IMF, and the UN. Strategic considerations and institutional constraints are likely to lead countries to “nest” their arrangements, meaning that they bring lower-level arrangements into conformity with broader-level ones. Determining whether such nesting is actually possible for sub-multilateral arrangements is critical for understanding the interaction of different types of economic and security accords. Figure 1.1 illustrates the key elements and processes of our institutional bargaining game approach.

1.4.1 Initial Impetus for New Economic and Security Strategies

We believe that the pressure for a shift from traditional institutional pathways to new ones in Asia has been partly driven by three major external shocks since the turn of the 1990s. As noted, we refer to these three shocks as the “triple shocks”, which include the end of the Cold War, Asian financial crisis of 1997-98, and the 9/11 attacks. Of course, an impetus for change can also come through more secular long-term trends. Examples of such shifts include the increasing importance of China as a global competitor, or rapid

changes in technology that have affected the ease with which companies can create production networks across the region. In the empirical analysis, authors use these three shocks as an organizing device, but they also explore the extent to which other key shifts might be driving institutional change in their region (and assess if these three shocks are indeed relevant to their region of analysis).

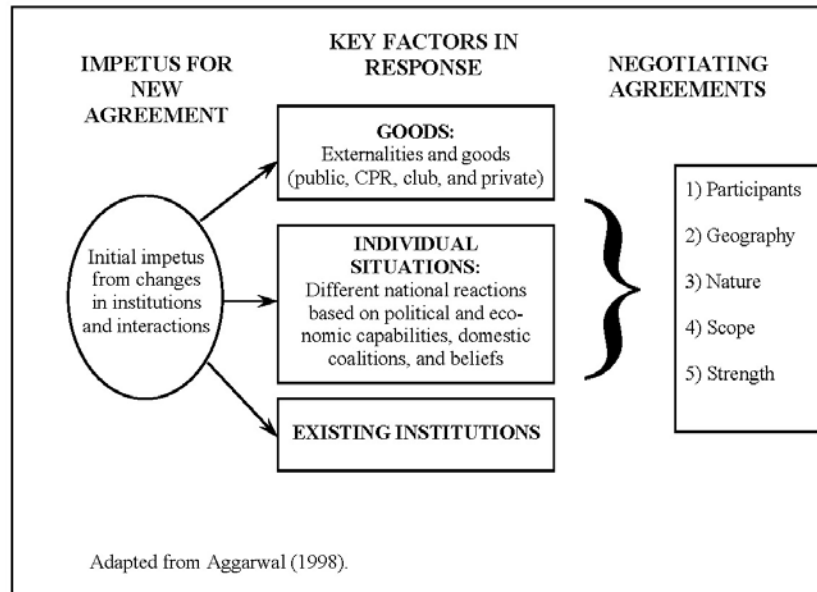


Fig. 1.1: The origins of security and trade arrangements

Turning to the shocks themselves, the end of the Cold War has made it politically easier for Asian countries to consider regional institutionalization. The end of bipolarity has reduced the significance of Cold War perceptions and divisions, breaking down barriers that had previously precluded regional economic and security cooperation between capitalist, communist, and non-aligned countries. In addition, the U.S. has adopted a more receptive position toward regional organizations.²⁶

The second turning point was the Asian financial crisis. This crisis revealed a number of institutional weaknesses that Asian countries shared. Most importantly, Asian economies continued to export to

²⁶ Breslin and Higgott (2000); Buzan (2003)

the U.S. and other developed country markets where they could sell the investment-fueled output that vastly exceeded the absorption capacity of domestic consumers. It was not until the financial crisis, which exacted heavy tolls, that many in Asia came to recognize that tighter institutionalization of intraregional commercial and financial ties might be a better commitment mechanism for providing economic security, and thus began to actively weave a web of PTAs and bilateral currency swap agreements.²⁷

The third critical turning point is the 9/11 terrorist attacks. Among the more fundamental shifts produced by the 9/11 attacks, the American global war on terror has called into question the fate of the Asian balance of power system, which has been long credited by conventional strategic thinking for the maintenance of the region's peace and prosperity.²⁸ As will be discussed below in more detail, post-9/11 developments have placed unpredictable pressures on the balance of power politics among the principal powers in the region: the U.S., China, Japan, and India.

1.4.2 Key Factors in Response: Goods, Individual Situations, and Institutional Context

The three elements of the institutional bargaining game—goods, individual bargaining situations, and existing institutional context—determine how different countries respond in different ways to external shocks.

Goods

An external shock may create either positive or negative externalities on countries that are not immediate participants in the precipitating event, thereby stimulating or impeding the supply of trade liberalization, financial stability, and/or national security as goods. Broadly speaking, there are four types of goods: public goods, common pool resources, club goods, and private goods. Differences among goods can be characterized along two dimensions: jointness, which refers to the extent to which goods are affected by consumption; and by the possibility of exclusion, which refers

²⁷ Aggarwal and Urata (2006)

²⁸ Acharya (2003)

to whether non-contributors to the provision of the good can be kept from consuming it (see Table 1.3).

In the case of public goods, actors face a collective action dilemma because all can benefit from the joint nature of the good (e.g., national defense). However, because exclusion is not possible, beneficiaries need not contribute to its creation or maintenance. In such cases, analysts have focused on the incentives for differently situated states to provide public goods. The classic representation of the provision problems for public good is the n-person prisoners' dilemma (PD): in such cases, cooperation can potentially help all players, but actors have a dominant strategy to defect and the good may not be provided.

Table 1.3: Types of goods

Exclusion Possible?	Jointness		
		Yes	No
	No	Public Good	Common pool resource
Yes	Inclusive club good	Private good	

Common pool resource goods include global commons concerns such as fishery resources or goods where exclusion of noncontributors from consumption of the good is not feasible. In such cases, providers of goods risk being exploited since they will not only end up paying for the cost of the good, but will also suffer from free riding that will diminish the good due to its lack of jointness. Thus, at least in principle, the provision of such goods will be a more severe form of a PD.

Inclusive club goods refer to the case of goods that exhibit jointness (not diminished by use), but where exclusion is possible. Two examples of this type of good are the provision of satellite transmission of television and the use of scrambling technology to prevent noncontributors from accessing the good. Because of the benefits of having additional consumers of the good that one produces, we might expect that in the case of international institutions, actors will compete to have their institutional approach adopted as the standard by all participants to maximize their revenue possibilities.

Finally, private goods, which reflect the possibility of exclusion but not jointness, include the consumption of goods diminished by use. Individual actors will have an incentive to produce these goods and to charge according to their marginal cost of extending these goods.

Turning to how goods have shifted over time, Asia's new appetite for PTAs and regional security dialogues reflects a convergence of interests in securing inclusive club goods in the face of growing economic and security uncertainties. Put differently, the political initiatives and intrinsic interest in creating regional economic and security arrangements reflect the growing need for an insurance policy to realize free trade, financial stability, and collective security when traditional mechanisms under the San Francisco system stall or dismantle steadily in the post-"triple shocks" period. Table 1.4 summarizes the shifting pattern of the provision of trade liberalization and national security as goods in the postwar period.

Table 1.4: The provision of goods in Asia (1951-2007)

	Period I (1951-1989)	Period II (1990-1996)	Period III (1997-2000)	Period IV (2001-2007)
Trade liberalization and financial stability	Multilateral club goods with a strong public good characteristic	Multilateral club goods with a declining public good characteristic	Multilateral club goods in trouble; pursuit of bilateral club good	Proliferation of bilateral and unilateral club goods
National security and regional stability	Bilateral club goods with a strong public good characteristic	Bilateral club goods with a declining public good characteristic	Bilateral club goods with a declining public good characteristic	Pursuit of bilateral and unilateral club goods

During the Cold War period, the GATT and the IMF were Asian countries' primary providers of trade liberalization and financial stability, respectively. To the extent that these global multilateral institutions required membership, trade liberalization and financial stability were multilateral club goods, but they contained a strong public good characteristic since Asian countries were allowed to pay less to get more out of the system. In the security realm, the San Francisco system provided Asian countries with security as a bilateral club good, made available through their alliances with the U.S. or the Soviet Union, but the provision also contained a strong public good characteristic, since the costs and benefits from the

alliances were skewed in favor of the two superpowers' respective Asian allies.

The shocks of the postwar period modified the nature of the goods being provided in significant ways. In the early years after the Cold War, trade liberalization, financial stability, and national security remained club goods, but their public good characteristics began to decline in significance. The stalemated Uruguay Round of WTO talks, the controversial role of the IMF during the Mexican peso crisis in the early 1990s, and some early indications of U.S. disengagement from the region were the main causes.

In the aftermath of the Asian financial crisis, Asia's new appetite for PTAs and currency swap agreements reflects a convergence of interests in securing bilateral club goods. Except for China, Asian countries benefiting from the seemingly endless export boom of the 1980s and early 1990s began to face problems in the mid-1990s. At the end of 1995 the "trade triangle" that had linked Japanese (and overseas Chinese) capital, developing Asian manufacturing capacities, and Western markets appeared to be in trouble.²⁹ Among others, Indonesia, Thailand, and South Korea were severely hit. The unsuccessful defense of their plunging currencies promptly depleted their foreign reserves, forcing them to turn to the IMF's \$100 billion rescue loans to shore up their finances. Yet the IMF loan package developed into a region-wide resentment of the Washington-dominated agency.³⁰ One major option for the crisis-ridden countries and their affected neighbors was to secure preferential access and create a more diversified export market and financial resources. With traditional mechanisms in the WTO, APEC, and the IMF offering no salient solutions, these countries quickly turned toward preferential arrangements to assure a market for their products, on the one hand, and secure a financial firewall, on the other.

²⁹ For example, Thailand experienced a drastic drop in its export market growth rate from 31.6 percent in 1995 to 4.1 percent in 1996. As a result, its current account deficit reached 8.1 percent of GDP and remained at that high level in 1996. Other Southeast Asian economies faced similar threats.

³⁰ The IMF, in a 1999 assessment of its handling of the crisis, said it "badly misgauged" the severity of the collapse and acknowledged its fiscal prescriptions for the three countries were too harsh (Kim and Li 2007).

Finally, in the post-9/11 era, the multilateral mechanism for trade liberalization and financial stability has yet to regain the full confidence of participating countries, while the pursuit of alternative trade and financial mechanism through bilateral and minilateral channels has proliferated. In the meantime, the provision of security as a bilateral club good is in trouble since the U.S. began to reconfigure its alliance politics in Asia. These new developments do not necessarily mean that the hub-and-spoke system promoted under the San Francisco system will be terminated any time soon. Nevertheless, it has prompted Asian countries to recognize the need for the provision of collective security at the regional level. As such, regional solutions are now being considered, though they fall short of a collective security mechanism, mainly due to the unresolved antagonism and rivalry among the regional giants: China, Japan, and India.³¹

Individual Situations

While there are many factors that might affect state actors' individual preferences and situations, the most significant elements that determine national responses to an external shock include: (a) an actor's international position;³² (b) the makeup of its domestic coalitions and regime types;³³ and (c) elite beliefs and ideologies.³⁴

International Positions. Among others, two aspects of the international context have been the basis for theorizing about economic and security relationships. The first aspect concerns a

³¹ The tug of war in Kuala Lumpur in 2005 indicates the persistence of such antagonism and rivalry despite an emerging consensus on broader East Asian regionalism. In December 2005, Japan and China made dueling claims in Kuala Lumpur at the ninth APT summit followed by the first East Asia Summit (EAS). Japan succeeded with support from Indonesia and Singapore in getting ASEAN to invite India, Australia, and New Zealand to be members in the EAS as part of its push for universal values and open regionalism. Then, China with backing from Malaysia gained ASEAN's consent for entrusting APT with primary responsibility for building the East Asian Community (EAC), leaving the EAS with just a secondary agenda while raising the prospect for a narrow vision of community that would not try to bridge gaps in values (Rozman 2006).

³² Aggarwal (1985); Gowa (1995)

³³ Grossman and Helpman (1995); Milner (1997)

³⁴ Haas (1992)

country's relative position within the international continuum of economic development. For instance, a country with a large market—either actual or potential—is more likely to entice others to seek it out as a trading partner rather than the other way around. The way in which many Asian countries approach China as an FTA partner illustrates this point. In turn, this attractiveness may afford the country with the larger market greater political leverage.

The second aspect concerns the degree to which security concerns drive interest in new economic and security agreements as a means of linking one's fate to those of other countries. Countries may prefer trade with their (potential) allies, avoiding trade with enemies because the relative gains realized from free trade can cause changes in the relative distribution of power in politics and military affairs. For example, the ACFTA is clearly driven by security concerns as well as economic considerations held by both Chinese and ASEAN political leaders.³⁵ Therefore, one might hypothesize that trade accords are more likely to overlap with alliance relationships. Alternatively, countries in alliance relationships are more likely to be successful in realizing trade expansion.³⁶

In theory, rapid shifts in major powers' relative positions can complicate the task of balancing against threatening or rising countries. One danger is that the more advanced powers will not make the necessary adjustments fast enough to sustain a stable balance of power. This could then embolden the rising power to become more assertive, especially if it has a revisionist agenda of challenging the territorial status quo.³⁷ The other danger is that more advanced powers will overreact. Rather than being inhibited by this response, a rising power may then devote more of its resources to building up its military, thus fueling an arms race that increases the possibility of military miscalculation. What emerges is a security dilemma in which efforts by countries to maximize their own security provoke hostile responses by others that ultimately make all the countries in the system more insecure.³⁸

³⁵ Kwei (2006)

³⁶ Gowa (1995); Mansfield, Milner, and Bronson (1997)

³⁷ Organski (1968); Organski and Kugler (1980)

³⁸ Jervis (1978)

For these reasons, many countries in the Asian region are increasingly concerned about China as a potential threat and have begun to reformulate their security policies in accordance with that perception. In this regard, the ARF usefully binds both China and its neighbors into a regional institutional framework, allowing China to address the fears of its neighbors and its neighbors to avoid conspicuous balancing behavior toward China. After initially being uncomfortable with multilateralism, China quickly adjusted to the ARF, seeing advantage in using its soft procedures to defuse conflicts.³⁹

Pressure Groups and Political Regime Type. In Asia, individual bargaining situations in terms of pressure groups and regime type have changed significantly as a result of the “triple shocks”. State structures vary significantly in the region—ranging from highly democratic regimes (e.g. Japan, South Korea, and India) to highly authoritarian ones (e.g., China, Vietnam, and Cambodia). To varying degrees, many governments in the region have experienced challenges to their political legitimacy and actual political turnover by groups and individuals who had previously tolerated cronyism and familism. Such developments in the regime structure as well as societal pressures have altered the economic and security payoffs confronting individual countries. As countries move toward more liberal and democratic regimes, cooperative outcomes at the inter-governmental level become more likely and the requirements of institution-building less daunting.

For instance, the economic interests that Japan and the U.S. have in China might constrain these countries from standing up to China on security matters for fear of losing commercial opportunities. The democratic political systems of both countries will enable their respective business communities to persuade their governments to avoid antagonizing China.⁴⁰ But an authoritarian Chinese state would be less immune from domestic economic interests that might have a stake in good relations with Japan and the United States. One way to avoid the dangerous scenario that flows from this situation is to help China evolve into a democratic state in which international economic interests constrain security policy as much as they do in

³⁹ Buzan (2003); Foot (1998)

⁴⁰ Papayouanou (1996)

Japan and the U.S. This possibility is consistent with the insights of democratic peace theory that collaboration is more likely between stable democracies.⁴¹

By contrast, it can be argued that as Asian countries move from authoritarianism toward greater political pluralism, the political leeway with which to deal with complex economic and security interdependence may be constrained by domestic political pressures. Indeed, the twin challenges of responding to nationalist sentiments and maintaining political legitimacy are major constraining factors that have grown more significant as liberalization has taken a greater hold in the region.⁴² Recent research suggests that countries with more veto players (such as a legislature, an independent judiciary, an independent central bank, or the military) are less likely to engage in international cooperation. Where leaders confront an array of domestic groups with diverse preferences and the ability to block policy initiatives, it is difficult to forge international agreements.⁴³

At the same time, the advent of the Internet and information technology has not only made national political leaders less capable of censoring the dissemination of news that might provoke ultranationalist sentiments, but also made it easier for otherwise small, poorly financed activist groups to mobilize support for their nationalist agenda. The brief but intense spat between China and Japan in spring 2005 over the Japanese history textbooks as well as the disputes over the sovereignty of offshore islands in the East China Sea and the gas deposits in their vicinity highlighted how domestic nationalist groups can hijack the otherwise warming Sino-Japanese relations.⁴⁴

Elite Beliefs and Ideologies. The third and last dimension of individual bargaining situations concerns elite beliefs and ideologies about the causal connections among issues and the need to handle problems on a multilateral, minilateral, bilateral, or unilateral basis. The setback in Seattle at the WTO ministerial meeting in 1999 has significantly eroded the traditional confidence in multilateral trade liberalization through the GATT/WTO. In the aftermath of the Asian

⁴¹ Doyle (1983); Maoz and Russett (1993); Oneal and Russett (1997)

⁴² Snyder (1996)

⁴³ Mansfield, Milner, and Peevehouse (2004)

⁴⁴ Koo (2005:182-194)

financial crisis, Asia's political and business elites are increasingly engaged in regional financial institution building such as the Chiang Mai Initiative, the Asian Bond Market Initiative, and the Asian Currency Unit proposal. In the meantime, the eroding confidence of Asian countries in America's military commitment to the region in the post-9/11 period has made everyone scramble in search of alternative security mechanisms. These changes have led to the construction of new ideational formulas that support "Asian" alternatives for trade, finance, and security.

In the development of the trade, financial, and security architecture of an avowedly state-centric regional order, the growing influence of nongovernmental institutions and unofficial processes is truly notable. Many experts in the region are now part of an "epistemic community" which shares the view that regional arrangements can enhance trade liberalization and financial stability, and that a regional security institution is the right course to take in the face of a loosening San Francisco system.⁴⁵ The informal security diplomacy through Track Two dialogues such as CSCAP and the NEACD represent good examples of the emerging epistemic community in Asia. As noted earlier, ARF's formation followed shortly after CSCAP's establishment and was greatly facilitated by the participation of ASEAN-ISIS, which played a key role not only in actively promoting ARF's establishment but also in seeking to ensure that ASEAN maintained a central role in its direction and management.⁴⁶ Advocates of Track Two dialogues do not exclude government officials but reject the notion that state officials should monopolize consideration of economic and security matters. They seek to engage participation of leaders from the academic, financial, social, and political sectors of society in order to bring expertise and new ideas to the table and, more importantly, to foster transnational understanding and confidence building.

Institutional Context

The political initiatives and intrinsic interests in creating regional economic and security arrangements reflect the growing need for an alternative way to provide trade liberalization, financial stability,

⁴⁵ Tsunekawa (2005)

⁴⁶ Job (2003)

and national security when traditional mechanisms stall or proceed slowly. On the economic front, many of the recent preferential arrangements in Asia attempt to cover broader areas and elements like trade in services, factor mobility, investment rules, intellectual property rights, government procurement, and other trade facilitation measures such as mutual recognition of product standards and harmonization of customs and quarantine procedures. Furthermore, most Asian countries, stricken by the financial crisis, have a keen interest in accessing the financial resources that might accompany a preferential accord, especially with the region's financial giant, Japan.⁴⁷

In post-Cold War Asia, an emerging strategic triangle involving the U.S., China, and Japan has replaced the Cold War competition between the U.S. and the Soviet Union in the region. Furthermore, post-9/11 developments put additional pressure and strain on the new strategic triangle in Asia. In the post-9/11 era, the U.S. and Japan both recognize their bilateral security relationship as the linchpin of their defense postures in Asia. Nevertheless, their recovering security ties cannot fully overshadow the rise of China as a potentially unsettling development in regional security.

1.4.3 Negotiating New Economic and Security Arrangements

If a country decides to create a new trade, financial, or security arrangement, it must decide on the participants, geography, nature, scope, and strength of the agreement. In Asia, the latest enthusiasm for PTAs seems to revolve around a bilateral FTA as a popular mode of participation, while there are also strong indications of minilateral participation such as the APT and the ACFTA. Asia's new appetite for FTAs is geographically open. On the one hand, these FTAs go beyond the traditional concept of a region defined by geographical proximity. On the other hand, other "transregional" initiatives have emerged that attempt to formalize the traditional concept of an "Asian economic community" with multiple cross-cutting linkages of trade, investment, and finance, as exemplified by APT, ABM and EAS initiatives.

⁴⁷ Amyx (2003); Katada and Solis (2006)

The strength of these PTAs and financial arrangements reflects not only the power of different actors, but also the willingness of governments to give up some autonomy to their economic partners. Moreover, the nature and scope of coverage of such agreements are also driven by economic concerns about trade competition, investment flow patterns, and the danger of rapid capital flows. Many of the recent PTAs and financial arrangements in Asia attempt to cover broader areas and elements, indicating their nature of WTO- and IMF-plus, or institutional division of labor. At the same time, however, these agreements are potentially incompatible with WTO provisions, since some sensitive sectors are deliberately excluded, and the IMF due to the possible diversion of financial resources.⁴⁸

In theory, successful regional economic institutionalization can spill over into the security arena. National leaders who learn how to compromise and cooperate on economic issues have a greater chance of doing the same on traditional security problems or preventing security disputes from escalating to actual military conflict. Over time, regional economic institutions can even transform national attitudes, preferences, and the definition of interests so that regional accommodation and cooperation become more likely in the security realm.⁴⁹ Ultimately, a collective security order might emerge to keep the peace.

1.5 Overview of the Book

In the previous sections, we demonstrated that a substantial degree of autonomy in subregional dynamics has been further enhanced by the “triple shocks”. Most notably, Southeast and Northeast Asia have undergone both external and internal transformations, effectively merging their economic and security dynamics with each other and thus raising the prospect of a single “East Asian” economic and security community. Both economic and security linkages between South and East Asia are increasingly becoming visible (albeit subtly), raising the prospect of transforming the two

⁴⁸ Koo (2006); Ravenhill (2006)

⁴⁹ Nye (1988)

distinct sub-regions into a fully-fledged “Asian” community.⁵⁰ In what follows, we summarize the empirical chapters of this volume and highlight that the conditions for institutionalization of economic and security affairs in Asia are more favorable now than ever before in the postwar period.

1.5.1 Economic and Security Overviews

In Chapter Two, John Ravenhill provides an overview of how the “triple shocks” have affected the development of regional economic institutions. The end of the Cold War removed strategic considerations from the calculus of economic cooperation, enabling new linkages between countries that had once been in opposing blocs. In the decade since the Asian financial crisis, economic institutions have proliferated at multiple levels, including the regional, trans-regional and minilateral levels. However, Ravenhill notes that an even more important trend has been the rise of bilateral FTAs, which have undermined broader arrangements. In addition, he discusses the implications of China’s rise and the growing importance of South Asia for regional economic institutions.

In Chapter Three, Keiichi Tsunekawa examines how the “triple shocks” have shaped the development of regional security institutions throughout Asia. Among the most important trends are the weakening of America’s bilateral alliances, the strengthening of the U.S.-Japan alliance, the growth of minilateral organizations to manage regional security (particularly ASEAN and its derivative organizations in Southeast Asia), and the increasing influence of China as illustrated by the establishment of the Shanghai Cooperation Organization (SCO) in 1996. Tsunekawa holds that a key question for regional security institutions is whether to expand their scope to include more extra-regional actors or to confine their membership to states located within Asia. How the question will be resolved depends largely on America’s China policy. If the U.S. perceives China as a competitor, it may eschew minilateral forums in favor of broader cross-regional ones where China’s influence can be diluted. If, on the other hand, bilateral relations between China and the U.S. grow warmer, Washington may play a larger role in

⁵⁰ Alagappa (2003); Buzan (2003); Aggarwal and Koo (2006)

creating and strengthening regional security organizations to share the burden with Beijing.

1.5.2 Northeast Asia

In Northeast Asia, the interplay between economic and security relations has been driven by the balance of power politics. The Sino-Soviet-American “strategic triangle” during the Cold War has been superseded by a new triangular relationship involving the U.S., Japan, and China, while the influence of Russia on regional matters has significantly receded. The complex balance of power in the region does not allow for a single pacesetter. For all the power of the U.S. and Japan, the past two decades have been most notable for the regional surge of China.

In Chapter Four, Mie Oba discusses the development of trade and financial institutions, focusing on the cooperation and rivalry between Japan and China. The emergence of China as an economic juggernaut has fostered a rivalry with Japan as they compete with one another for regional economic dominance, as illustrated by their attempts to conclude FTAs with ASEAN as well as with other countries on a bilateral basis. Moreover, China and Japan offer differing visions of a regionally integrated economic community, with Japan advocating the inclusion of external actors such as Australia, New Zealand and India, and China preferring a more exclusionary system. Oba argues that this rivalry is currently fostering greater regional economic integration as both countries race to establish FTAs and currency swap agreements. In the regional context of the growing Sino-Japanese rivalry, South Korea also pursues preferential arrangements in order to strengthen its bargaining position and diplomatic weight.

In Chapter Five, Min Ye examines security institutions in Northeast Asia, showing how the U.S.-dominated hub-and-spoke system of bilateral alliances during the Cold War period is giving way to increased multilateralism. She argues that collective security has been slow to develop and has been hampered in part by the growth of popular nationalism in regional domestic politics, particularly in China and Japan. More importantly, one of the main sources of uncertainties lies in whether China's strengthened military capability could present itself as a threat to regional stability

and whether North Korea's nuclear adventurism would make everyone scramble in a region already characterized by the security dilemma. However, Ye notes that despite simmering tensions, there have been various minilateral dialogues to resolve regional security issues. The ARF, the Korean Peninsula Energy Development Organization (KEDO), the APT, the NEACD, and the Six-Party Talks exemplify this emerging minilateralism, rooted in increasingly dense economic, social, and strategic interactions among the major powers in Northeast Asia. Although their strength and effectiveness remains unclear, the variety of channels for security interactions in Northeast Asia indicate positive and dynamic processes in exchanging information and opinions, which should be promising signs for regional peace and stability.

1.5.3 Southeast Asia

Southeast Asia is a unique region in that it features the widest variety of regional institutional arrangements in Asia. ASEAN has shown a certain degree of institutional capacity in economic matters. AFTA is a collective effort by ASEAN members to eliminate tariffs on intra-ASEAN trade on a voluntary basis, although no concrete progress has been made since the idea was first formulated in 1991. More recently, a growing number of ASEAN countries are now turning to bilateral FTAs as an alternative mechanism to liberalize trade and investment relations.

In Chapter Six, Helen Nesadurai investigates economic institutions, demonstrating that the establishment of new institutions became possible and was frequently viewed as necessary when elites perceived external shocks to threaten Southeast Asian countries' economic growth. For instance, Singapore's search for sub-multilateral alternatives beyond ASEAN is motivated by dismal prospects for the progress of AFTA. Despite its early criticism of Singapore's shift toward FTAs as "worrisome" and "damaging to the unity of regional groupings such as ASEAN," Malaysia eventually turned to FTAs by initiating FTA talks with Japan in December 2002. Other Southeast Asian countries such as Thailand, Indonesia, and Vietnam have followed in the footsteps in the time of rising peer pressure.

In Chapter Seven, Ralf Emmers examines a variety of Southeast Asia's collective security measures. Traditionally, Southeast Asian countries have been very guarded about their sovereignty and the principle of non-interference. The picture in Southeast Asia has become complicated by the growing presence of China. Most significantly, the end of the Cold War created a strategic vacuum in the South China Sea. During the 1990s, incidents related to fisheries, oil exploration and military occupation of islands and reefs in the South China Sea were major irritants in Southeast Asian countries' relations with China. Nevertheless, despite (or perhaps because of) concerns about military competition, the disputes over offshore islands have prompted many multilateral dialogues and confidence-building measures to facilitate peaceful solutions in the South China Sea. Notable examples of more systemic efforts include the ARF, CSCAP, and a series of workshops on "Managing Potential Conflicts in the South China Sea." More positive progress was made at the ASEAN summit in Phnom Penh on November 4, 2002, when China and the ten ASEAN states signed a Declaration on the Conduct of Parties in the South China Sea with the aim of preventing conflict and promoting cooperation in the region. Although none of these new minilateral mechanisms amount to legally binding formal institutions, if their terms are respected and further incidents are avoided, these arrangements and forums will mark a significant institutional change in Southeast Asian security.

1.5.4 South Asia

South Asia has remained essentially inhospitable to dialogues intended to resolve regional security and trade issues, regardless of actor scope or level of formality. By and large, subregional conditions fail to meet the minimal levels of trust and incentives for official and unofficial interaction. Hostility between the key actors, India and Pakistan, is sustained by ongoing conflict and inflamed by domestic political actors. At minimum, the SAARC was established in December 1985 by the heads of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka with a goal to accelerate the process of economic and social development among member states.

In Chapter Eight, Vinod K. Aggarwal and Rahul Mukherji argue that the characteristics of trade institutions in South Asia are determined primarily by two factors: the nature of the security relationship among South Asian countries and the particular development paradigm that those states have adopted (e.g. whether or not they value global economic interdependence). The end of the Cold War partly improved security relations and thus enabled reciprocity and the negotiation of FTAs between India and its neighbors including Sri Lanka, China, and the ASEAN countries. While SAARC has failed to facilitate free trade due to the fragile security situation between India and Pakistan, India has strengthened its economic ties to Southeast Asia as illustrated by its participation in a number of bilateral FTAs as well as in the nascent BIMSTEC, pointing to the possibility of further regional integration in the future.

In Chapter Nine, Eswaran Sridharan analyzes the evolution of regional security institutions in South Asia following the end of the Cold War, the Indian and Pakistani nuclear tests of 1998, and the 9/11 attacks. Security relations between India and Pakistan remain weakly institutionalized although the threat of nuclear war resulting from the 1998 nuclear tests generated an impetus for confidence-building measures to improve transparency. Furthermore, America's war on terrorism has driven both India and Pakistan toward a unique type of political brinkmanship. In the current international climate, both India and Pakistan want to curry favor with the United States and view peacemaking as a way to do this. Both parties try to outdo each other and make ever more generous offers in order to please external actors. On the other hand, cross-regional security relations between South Asian countries and countries in East and Southeast Asia have improved. The 9/11 attacks have created an impromptu triangular relationship among India, China, and the U.S., stabilizing the otherwise hostile Sino-India relationship. The improvement of South Asia's relationship with Southeast Asia has also been dramatic. Since India launched its 'Look East Policy' in the early 1990s, Indo-ASEAN ties have grown increasingly solid, from mere sectoral dialogues in 1992 to the 2002 ASEAN-India summit where the two parties agreed to create a Regional Trade and Investment Area (RTIA). The relationship has also widened its scope to address security issues, with India joining the ARF in 1996 and the Treaty of Amity and Co-operation in 2003. The benefits of a prospective

RTIA go beyond the economic realm. Along with its new place on the ARF, India has taken an increased interest in security issues in Southeast Asia (and vice-versa). Pakistan followed suit by signing a TAC with ASEAN and joining the ARF as its 24th member in 2004.

Finally, in the concluding chapter, Vinod K. Aggarwal and Min Gyo Koo evaluate the prospects for Asian regional integration in trade, finance, and security in a rapidly changing context. In particular, the authors highlight the key links between security and trade issues in the formation and evolution of new institutions. In a more speculative vein, the editors consider likely trends over the next decade and its implications for both Asia and other regions of the world.

1.6 Conclusion

We began our analysis with the observation that the postwar economic and security order in Asia remained multilayered under the San Francisco system, involving elements of bilateral alliance structures, global institutions for managing economic and security problems, and long-standing informal alternatives. In the wake of the three major external shocks in the past fifteen plus years, however, the traditional institutional equilibrium in Asia has come under heavy strain. As a result, principal actors are now pursuing greater institutionalization at the regional level, actively weaving a web of PTAs and security dialogues.

Explaining the emerging institutional architecture in Asia poses a challenge. In an effort to understand the shifting institutional dynamics, we examined external shocks, goods, countries' individual bargaining situations, and the fit with existing arrangements. We focused on the post-"triple shocks" period following the end of the Cold War, the Asian financial crisis of 1997-98, and the 9/11 attacks. With respect to goods, we noted that disturbances in the traditional mechanism to provide trade liberalization and regional security have motivated countries to seek club goods as a viable alternative to the diminishing supply of public goods. This observation undermines the myth that the combination of bilateral and multilateral arrangements under the San Francisco system and loosely structured production networks could be a viable alternative to tighter, formal institutionalization at the regional level.

In looking at countries' individual bargaining situations, we focused on their international strategic and economic interests, domestic power dynamics, and elite beliefs about the value of pursuing regional alternatives. We also showed how the changing nature of broader institutions interacted with country characteristics to alter institutional payoffs in the region.

With respect to trade liberalization, the weakness of the WTO and APEC opens up institutional space for an Asian economic community by affecting the provision of public goods and thus the incentives for club goods. In the financial issue area, Asian countries have made steady progress in financial institution building, as manifested by the launch of the Chiang Mai Initiative and the proposal of an Asian Bond Market and an Asian Currency Unit. Yet much depends on the possibility of a Sino-Japanese entente as well as an Indo-Pakistan rapprochement. In the meantime, the establishment of a permanent security forum in Asia to address security issues may appear premature. Yet we argued that the current Six-Party Talks as well as the ARF process have the potential to evolve into an Asian security dialogue, albeit through the unforeseen and unplanned spontaneous development of consultations among the countries involved. In the post-9/11 environment, the prospect of establishing a framework for multilateral cooperation is enticing in a region where no forum has previously existed.

We do not claim by any means that regional institutions are a magical formula for transforming power politics and economic competition into cooperative internationalism in Asia. Rather, we believe that they are becoming viable means for creating norms and rules of interstate behavior that are essential for establishing regional institutional architecture to manage collective economic and security issues, the process of which could possibly take at least a decade, if not decades.

In sum, Asia faces the uncertainty of a host of multiple institutional alternatives for regional economic and security cooperation. In view of the tremendous political and economic uncertainties in the contemporary period, the path to deeper and wider economic and security integration in Asia is likely to be complex.

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