

CHAPTER 36

TRADE INSTITUTIONS IN ASIA

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THE historical lament that Asia lacks trade institutions has in recent years been replaced by arguments that there are too many regional institutional forums addressing trade. Yet despite—or possibly because of—this proliferation of accords, the bulk of Asian regional institutions remain relatively informal and their underlying legal rules—with exceptions such as ASEAN—tend to be soft.

This chapter focuses on how we can account for variations in the formality of trade institutional outcomes. Second, it reviews the likely future trajectory of different trade arrangements in the region and how they may be reconciled with one another.

36.1. CHARACTERIZING THE INSTITUTIONAL LANDSCAPE OF TRADE IN ASIA

East Asian countries in particular appear to have had little interest in formalizing regional institutions, with ethnic Chinese, Japanese, and US corporate networks serving as the needed linkages among economies in the region. However, beginning in the early 1990s with the end of the Cold War, and particularly in the aftermath of the 1997–98 Asian financial crisis, concern grew among East Asian states regarding the need to pursue greater institutionalization beyond these networks (Aggarwal and Koo 2008).

Table 36.1 illustrates the historical evolution of extant and newly created accords. As the table indicates, the most salient features in the development have been the creation of minilateral accords with several countries in the 1990s and the proliferation of bilateral (preferential) free trade agreements in the 2000s.

In an effort to comprehensively analyze these accords, it is useful to consider eight main features, grouped into three categories (Aggarwal and Lee 2011; Aggarwal 2001; Aggarwal and Koo 2008). First, individual governments choose (1) the number of

Table 36.1 Evolution of Trade Agreements in Asia

Pre-1980	1980s	1990s	2000s
GATT (1947)	GATT	WTO (1994)	WTO
(ASEAN) ^a (1967)	ASEAN	ASEAN	ASEAN
	APEC (1989)	APEC	APEC
	ANZCERTA (1983)	ANZCERTA	ANZCERTA
	SAARC (1985)	ASEAN/AFTA (1991)	ASEAN/AFTA
		ASEM (1996)	ASEM
		ASEAN+3 (1998)	Shanghai Cooperation Organization (2001)
		SAPTA ^b (1995)	ASEAN+3
			SAFTA ^b (2006)
			Japan-Singapore FTA (2001)
			Other bilateral FTAs (2001–)
			ASEAN+6 (2005)
			P4 (2006) and TPP (2008)
			EAC (2009)
			ASEAN+8 (2010)

^a While ASEAN was established in 1967, it did not actively focus on trade until later.

^b SAPTA and SAFTA refer to the South Asian Preferential Trade Agreement and South Asian Free Trade Agreement. These accords have not yet resulted in complete free trade, as all countries have large negative lists that exclude sensitive products, and political relations have impeded intra-regional trade.

accords sought, for example, bilateral PTAs and/or minilateral and global multilateral agreements; and (2) the regional sequencing of trade agreements.¹

Second, in terms of the characteristics of agreements, countries may have differing preferences with respect to three dimensions: (1) *actor scope*, which refers to whether the agreement is bilateral, minilateral, or multilateral;² (2) *geography*, which refers to whether the agreements are focused within or outside the region, including defining what constitutes a region; and (3) the *size of partners*, large or small.

Third, we can look at the specific characteristics of agreements in three dimensions: (1) *issue scope*, that is, the range of issues that a policy or arrangement deals with, running from narrow to broad; (2) the *nature* of the agreements, ranging from market opening or closing; and (3) the *institutional strength* of the arrangement being negotiated.

With respect to actor scope and geography, it is clear that we have increasing numbers of actors in each accord, on a range from ASEAN to APEC. In addition, the variation in terms of geographical focus and size of partners directly corresponds with the number of actors. With respect to specific institutional characteristics, it is evident that most agreements are very weak in terms of organizational structure, which can be conceptualized in terms of formal or informal focus on centralization (a secretariat); control (collective decision-making procedures); and flexibility (limits on ad hoc

measures). The issue scope and the nature of these agreements tend to be broad and relatively liberal; in all likelihood this is tied to their weak prescriptive capacity, which does not tightly constrain countries, leaving them free to set broad goals.

The trend that we currently see in terms of the institutional change of these agreements poses an interesting question of institutional creation and change: Why have these accords evolved in the specific way that they have, and what role have key powers such as the United States, China, Japan, South Korea, and India played in this change? To consider these questions, we turn to the discussion of an institutional design framework.

36.2. DESIGNING TRADE INSTITUTIONS

The design of new institutions or the modification of old ones is a problem that confronts all national decision-makers. As they make decisions on how to proceed, actors must weigh the relative benefits of new versus modified institutions, the types of characteristics they favor, and how institutions they create or modify will fit with existing regimes (Aggarwal 1998). In Asia, the GATT was for many years the dominant institution managing state trade behavior, although some states were latecomers—South Korea joined in 1967, while China was not readmitted until 2001. The puzzle is: Why have actors in the region decided to pursue options other than the GATT/WTO to govern trade relations?

In terms of analytical approaches, theories of international relations are able to shed light on the formation and evolution of international institutions. Among the different schools of thought, structural realists argue that institutions are at best epiphenomenal, with little constraining effects on states (Waltz 1979; Mearsheimer 1994–95; and see Mastanduno in this volume). By contrast, neorealist institutionalists argue that dominant powers—hegemon—create institutions to facilitate the management of a given system (Grieco 1990).³ Neoliberal institutionalists (see Haggard's chapter in this volume), by contrast, attribute greater weight to the importance of institutions, arguing that they can reduce transaction costs by disseminating information and lowering organizational costs of negotiating agreements. For them, institutions may strongly increase the incentives of actors to keep cooperating, even in the face of a declining hegemon (Keohane and Nye 1977; Keohane 1984; Aggarwal 1985; Milner and Moravcsik 2009). Constructivists view institutions as being fundamentally important in the international system and argue that they help actors to define their interests and possibly even to change them. In explaining the origins of institutions, they highlight the interplay of politicians and experts, arguing that international institutions may decline in the absence of cognitive consensus—even if power shifts do not occur (Haas 1980).

In an effort to more systematically examine the changing patterns of intra- and extraregional trade, and the design and evolution of trade institutions, we focus on an institutional bargaining approach that draws on several elements of these theoretical

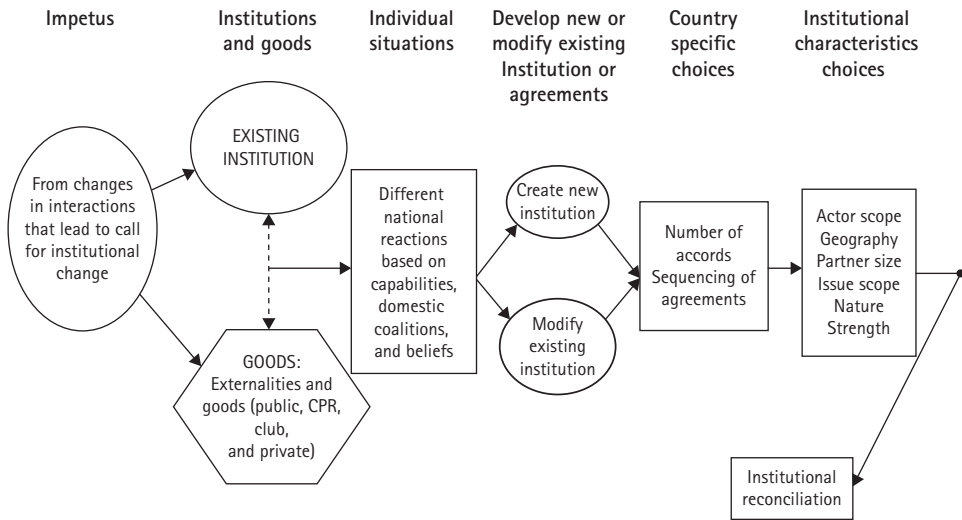


FIGURE 36.1 The Institutional Bargaining Game.

Source: Adapted from Aggarwal 1998.

approaches, but more directly focuses on the process of institutional design.⁴ The institution bargaining game discussed here consists of several phases (see figure 36.1).

In the first phase, a specific shock, such as the end of the Cold War, or a secular trend such as the increase of Chinese imports to the United States, is likely to alter the pay-offs from existing trade arrangements.⁵ Based on the interplay of existing institutions and goods, countries will have varying interests in pursuing new institutions or agreements, or simply in choosing to modify those agreements based on their individual situations. Goods refer to whether benefits are public, common pool resources (with crowding, as in the case of a limited market), club goods (with benefits accruing only to members), or private. These situations reflect the foreign policy interests of states, driven by their material and relative systemic capabilities; their domestic political dynamics, based on state-society relations; and their ideological interests.

Depending on this choice and still dependent on the individual situations, countries must decide on both the number of trade accords and their sequencing. Based on bargaining with one or more states, the resulting agreements or institutions can be characterized in terms of actor scope, geography, the size of each country, issue scope, nature, and strength. The final decision node concerns the question of institutional reconciliation. Simply put, if new institutions are created or existing ones modified, should they be reconciled with existing institutions? If actors do choose to reconcile institutions, they must consider whether a hierarchical order of nested institutions needs to be established, or a division of labor among institutions (horizontal linkage). Although institutional reconciliation is an important question for decision-makers for either issue- or regionally based accords, here we focus on regionally based

reconciliation.⁶ An example of nesting regional institutions is the development of APEC in 1989 and its relationship to the GATT. An alternative mode of reconciling institutions would be simply to create horizontally linked institutions that deal with separate but related activities. For example, the ASEAN Regional Forum deals primarily with security, while APEC—which has a different membership—is more trade-focused.

36.3. EXAMINING THE EVOLUTION OF APEC, AFTA, ASEAN+3 AND 8, SCO, AND SAARC

36.3.1. APEC's Evolution

The problems in the GATT Uruguay Round and changes in the European Community provided a key impetus for APEC's creation. With the Europeans moving to a unified market and an impasse in GATT negotiations, Australia, Japan, and other like-minded countries were concerned about the consequences of European integration. For many state and nonstate actors in the region, discussions regarding trade liberalization under the GATT's auspices resulted in unsatisfying payoffs for many actors, ultimately catalyzing APEC's formation (Aggarwal and Morrison 1998; Ravenhill 2001; and see chapter 35).

With regard to institutional characteristics in the case of APEC, membership of the multilateral arrangement in terms of actor scope and geography has been open to considerable ongoing debate. The creation of APEC involved debate over the inclusion of the United States. The question of how binding APEC should be and its degree of institutionalization has been particularly controversial. Whereas the United States and others have pushed for binding rules and procedures, most notably with recent interest in a Free Trade Area of the Asia-Pacific (FTAAP), many Asian countries have shown considerable reluctance to move in this direction. The issue of regime nature has been much less contentious, with all countries at least formally supporting an open liberal arrangement. Issue scope has been open to greater debate, with concern that the United States would set the agenda. But over time, APEC has begun to expand its mandate. In some cases the issue of expansion has been criticized as undermining APEC's core mission—as with security, which appeared to dominate the US agenda after 9/11—a shift that would create overlapping mandates.

In terms of the bargaining process leading to APEC, we have seen a multilateral approach to this institution's creation. In contrast to the hegemonic leadership of the United States in the post-World War II era, Australia, supported by Japan and encouraged by the United States, worked to develop APEC. Since then, although the major powers have had more say in APEC's evolution, middle-level powers continue to play a key role.

36.3.2. ASEAN and AFTA

With the end of the Cold War, ASEAN members sought ways to expand its scope beyond security issues (see Ba's chapter in this volume).⁷ During this time ASEAN members also became increasingly concerned about the growing trend of regionalism in the rest of the world and the flow of foreign investment into China (Elliott and Ikemoto 2004, 4). Moreover, ASEAN members feared becoming isolated by the protectionist policies of other regional trade blocs while simultaneously facing pressures from the WTO and the IMF to expedite their own regional trade liberalization (Cuyvers, De Lombaerde, and Verherstraeten 2005, 3). To this end, the ASEAN states agreed to the creation of AFTA in January 1992.

AFTA, consisting of relatively small members in terms of economic power, can be classified as being relatively weak, liberal in nature, and medium in terms of scope. With respect to its nature, members sought to bring all intra-ASEAN tariff levels for nonsensitive goods down to the 0–5 percent range within ten years from 1994. Members instituted a common effective preferential tariff (CEPT) that would make intra-ASEAN exports less expensive and bolster integration. The regime remained weak, with many product exceptions, a minor role for the secretariat in monitoring compliance, and no specific timetable for tariff reduction. In 1995, AFTA's issue scope widened to include services. In September 1995, the ASEAN economic ministers agreed to create a dispute settlement mechanism, which was largely based on the WTO Dispute Settlement Understanding, although it lacked much of its power (Koesrianti 2005, 238).

In December 1997, the ASEAN states adopted ASEAN Vision 2020, declaring their intent to proceed with regional integration and liberalize trade in goods, services, investments, and capital. Faced with growing concern about the economic rise of China and India, and the new turn to bilateral preferential trade agreements at the turn of the millennium, ASEAN members attempted to accelerate their integration (Ravenhill 2008). These factors combined with the unsettled security environment marked by the Bali bombing of October 2002 to generate a strong impetus for deeper integration (Smith 2004, 423). In 2003, ASEAN established the AEC with the 2003 Bali Concord II to create a single market and production base for ASEAN, with free movement of goods, services, investment, and skilled labor by 2020.

In 2007, additional strengthening of ASEAN eventuated with the signing of the ASEAN Charter at the Thirteenth ASEAN Summit in Singapore. This charter created a rule-based entity; called for the creation of enforceable rules in finance, trade, and the environment, and the establishment of a regional human rights body; and pushed to accelerate the process toward full liberalization through the AEC blueprint from 2015 to 2020.

36.3.3. ASEAN+3 (APT) and RCEP

The efforts to create an ASEAN+3 grouping resembled the forum broached in 1990 by Prime Minister Mahathir of Malaysia—an East Asian Caucus—and one that was

strongly opposed by the United States (see Ba's chapter). Ironically, APT formation was prompted by the EU. Singaporean prime minister Goh Chok Tong proposed a meeting of ASEAN with the Europeans, leading to the first Asia-Europe Meeting (ASEM) in March 1996 (Stubbs 2002; Gilson 2004). Most significantly, when ASEAN members asked that Japan, China, and South Korea join the meeting, the APT grouping began to take shape. The APT meeting also set in motion a trend toward cooperation among Japan, China, and South Korea, which has manifested itself more recently with a Trilateral Investment Agreement and proposed negotiation of a Northeast Asian Free Trade Agreement (NEAFTA) (Aggarwal et al. 2008).

The Joint Statement on East Asia Cooperation in Manila at the Third APT Summit in November 1999 solidified cooperation between ASEAN and the +3, endorsing the Five Principles of Peaceful Coexistence,⁸ the principles of the UN Charter, and the ASEAN Treaty of Amity and Cooperation. This broad nesting of APT has continued to this day. In addition, in terms of promoting expert consensus, the East Asia Vision Group, launched by South Korean president Kim Dae-jung in 1999, contained proposals to broaden East Asian cooperation, including establishing an East Asia Free Trade Area and liberalizing trade. Yet while trade cooperation has not really flourished, the countries have achieved cooperation in creating a currency swap arrangement in 2000 known as the Chiang Mai Initiative. Still, in terms of institutional strength, the APT remained weak. With respect to a broader grouping, the Regional Comprehensive Economic Partnership (RCEP) consists of ASEAN members, as well as China, Japan, Korea, Australia, New Zealand, and India. This regional trade liberalization effort was first framed in February 2012 at the ASEAN Economic Ministers Retreat. It was later formalized the following November at the East Asian Summit held in Cambodia. Brunei hosted the first round of negotiations in May 2013 where officials established working groups on the three issues they hoped to address: trade in goods, trade in services, and trade in investment. At this point, negotiations are slated to conclude by 2015, which may be an excessively ambitious goal. The question of institutional reconciliation remains an open one. With the APT, RCEP, and APEC all vying for institutional space, the issue of how these arrangements might be nested or horizontally linked with some systematic division of labor remains unresolved.

36.3.4. Shanghai Cooperation Organization (SCO)

The SCO differs in many ways from the other trade organizations in Asia to the extent that it started as a pure security organization. Nevertheless, it has served the broad interest in creating a stable environment for economic development. The SCO has added an explicit free trade agenda. Many experts note that the SCO illustrates a traditional security organization expanding to the economic arena, which in turn affects the security landscape. All the SCO member countries pursue economic integration with the global market. In the meantime, the SCO faces difficult membership issues (see chapters 25 and 35). Before the 2011 SCO summit, admission of new members became a

high-profile issue. Iran, Pakistan, and India applied for membership and Afghanistan applied to become an observer state. China has been hesitant to admit India, arguing that the SCO is still too young to admit a large power like India. China is concerned that India's admission would make the organization's decision-making process much more complicated.

China has been particularly active in promoting the SCO with several goals, both strategic and economic.⁹ One of the most important incentives for China to support the SCO is to create a friendly environment for economic development. China has also been keen on energy security (see chapter 28), and the SCO also serves Chinese interests in dealing with domestic separatists and with cross-border crimes. In addition, closer economic ties with Central Asia advance the Chinese government's strategy for developing the country's western regions. Similar to China's participation in other regional trade institutions discussed in this chapter, China's western provinces and autonomous regions have been particularly interested in economic cooperation through the SCO, seeing Central Asia as their outlet to the global market for economic gains and policy performance.

36.3.5. From South Asian Association for Regional Cooperation (SAARC) to South Asian Free Trade Area (SAFTA)

The evolution of regional trade cooperation in South Asia has been fraught with overarching political constraints (see chapter by Narlikar). Following the partition of India by the British in 1947 and creation of the Muslim state of Pakistan, these two countries have fought three wars and been on the verge of armed conflict on more than one occasion. In addition to political and security factors, the pursuit of import substitution by all of the countries in the region further impeded any interest in liberalizing trade on a regional basis. In this context, efforts to promote economic cooperation have clearly floundered, although recent efforts to liberalize trade in the region have been progressing, albeit slowly.

Although the idea of regional integration had been broached in the 1970s, intraregional trade liberalization failed to materialize. The South Asian Association for Regional Cooperation (SAARC), created in 1985 after several years of discussion, included Bangladesh, Bhutan, the Maldives, Nepal, India, Pakistan, and Sri Lanka, with Afghanistan joining in 2007. Yet despite a call for cooperation in economic and other areas, this organization did little to promote trade liberalization in the region, and intraregional exports as a proportion of total trade within the region dropped from 4.8 percent in 1980 to 3.2 percent in 1990 (Shams 2005, 48). In 1995, the countries agreed to create a South Asian Preferential Trade Agreement (SAPTA). The following year, SAARC members decided that they would significantly liberalize trade through the creation of a South Asian Free Trade Agreement (SAFTA) by 2000.

Political problems again intervened, with India and Pakistan testing nuclear weapons in 1998, followed by conflict in Kashmir over Kargil, which also led to increased

pressure being exerted on the two countries by the major powers in view of the danger of conflict escalation between nuclear armed rivals (see chapters by Ganguly and Yuan in this volume). After several years of negotiations beginning in 2002, SAFTA was implemented in July 2006, with full implementation by all members by 2015. In terms of actor scope, there are few prospects for expanding SAFTA beyond its current eight members, as the geographical focus remains on South Asia. There have been efforts to expand its issue scope to encompass services and investment, but to this day, most countries retain a significant number of exceptions, even in manufacturing and agriculture. The agreement remains relatively underinstitutionalized and reliant on consensus-based decision-making. In terms of intraregional trade, little has changed. Currently, SAARC members only account for 4.31 percent of trade in the region, and this figure has been growing at a rate of only 2 percent on average over the last two decades (De 2011).

Currently, India appears to have little interest in making SAFTA the center of its trade efforts. Instead, as we discuss in the next section, in light of the stalled Doha Round of the WTO, India has increasingly focused on the negotiation of bilateral trade agreements with extraregional countries in an effort to boost its trade presence in the global economy (see Narlikar in this volume).

36.4. MAJOR ACTORS' PREFERENCES FOR TRADE INSTITUTIONS

36.4.1. The United States, the FTAAP, and the TPP

Although Asian countries have pursued a host of regional trade agreements, they have done so in the long-standing context of active US engagement in Asia. Thus, understanding US strategy toward Asia provides a critical context for understanding the likely prospects for further Asian regional trade integration.

Many US policymakers and most outward-looking interest groups have been concerned about the creation of a “line down the middle of the Asia-Pacific” (Bergsten 2007, 1). To respond to Asian initiatives, the US approach to reengaging with Asia is twofold: bilateralism and multilateralism.

First, the US turned its eyes to ASEAN in pursuit of an ASEAN+1 agreement. Responding to criticisms that the United States had been distracted by the war on terror, while China was heavily investing diplomatic and economic capital in Southeast Asia, in November 2005 the Bush administration announced a joint vision statement on the ASEAN-US enhanced partnership and agreed in principle to begin negotiating an ASEAN-US trade and investment facilitation agreement. This effort supplemented an already active US engagement effort with individual ASEAN countries. Second, with APEC faltering in its effort to promote open trade—despite the recent claim of

victory by developed countries in meeting the Bogor Goals—the United States has sought to revitalize APEC in various ways, most prominently the FTAAP and more recently the TPP. Under the Bush administration in 2006, the United States shifted its position to support FTAAP, a strategy in which it had previously shown little interest. The Obama administration in turn sought to promote the FTAAP through the pursuit of the Trans-Pacific Partnership, which builds on the 2006 P4 agreement linking Singapore, Brunei, New Zealand, and Chile, and then subsequently Peru, Australia, Vietnam, Canada, and Mexico (Capling and Ravenhill 2011).

36.4.2. China and ASEAN+3

Chinese leaders have become less wary of the potentially disruptive effects of minilateral regional forums on China's national autonomy, given their realistic understanding of those minilateral forums' limited influence in multilateral talks such as the WTO and APEC. Instead, China has increasingly become interested in regionalism within East Asia, where it could play a dominant and effective role. Political and strategic considerations are greatly important in China's minilateral strategy (see Ba's chapter).

To Chinese leaders, ASEAN+3 offers an ideal institutional platform to raise its profile and image in the region. It imposes few economic and political costs, while presenting an opportunity to allay concerns over the China threat. China continues to press for making ASEAN+1 the basis of an East Asian Community (EAC) and ASEAN+3, and has repeatedly voiced that ASEAN+3 should be the core trade liberalization arrangement in Asia. China has appeared to be very receptive to working with Malaysia, Thailand, and Indonesia, even in the face of criticisms regarding the potential impact of the China-ASEAN FTA, which came into effect on 1 January 2010 (Hoadley and Yang 2007; Goh 2011).

Although the ASEAN+3 process has continued, China surprised observers with its decision to negotiate an ASEAN+1 agreement, that is, the 2002 framework agreement on ASEAN-China economic cooperation among the eleven nations. Guided both by nontraditional security considerations and by economic motivations, the China-ASEAN strategic partnership has become an institutionalized process, as manifested by an annual cycle of summits and high-level meetings. Among others, ASEAN's raw materials and energy resources are vitally important to China's current and future economic growth.

ASEAN holds the key to China's security because substantial land and maritime borders overlap. Roughly three-quarters of China's energy imports pass through the South China Sea (see chapters by Jain and by Fravel in this volume). China also acknowledges that ASEAN may well determine which of today's budding arrangements will prevail in East Asia. For ASEAN countries, following China's lead may be prudent when considering the economic window of opportunity. Shared vulnerability accounts for the reason China and ASEAN are drawn to an ASEAN+1 mechanism. Most ASEAN governments that remain politically fragile have limited capacities, depend on economic

growth for political legitimacy, and are relatively more exposed to nonmilitary threats than to traditional military threats (Arase 2010, 810–20).

Still, China's unilateralism faces uncertain strategic challenges, especially its ongoing rivalry with Japan. It is remarkable that Japan and China have managed to agree on limited monetary cooperation through the Chiang Mai Initiative. The two countries have forged closer economic ties; however, political wariness and rivalry have characterized postwar Sino-Japanese relations (Koo 2009; see also Hughes in this volume). The essentially unresolved issues of East Asian membership and the overlapping competition of forums—that is, ASEAN+3, +6, and the East Asian Summit (ASEAN+8), and the TPP—indicate divergent views on China's regional role and complex economic-security implications for its neighbors.

36.4.3. Japan and ASEAN+8

China's move toward ASEAN has prompted and intensified regional rivalry. In particular, Japan quickly followed with its own framework accord with ASEAN in 2003, with implementation beginning in 2009. Between 2007 and 2008, Japan made two proposals to drive a wedge into ASEAN+3 favored by China: (1) a Comprehensive Economic Partnership Agreement in East Asia (CEPAE), to be pursued within the EAS; and (2) a Japan-ASEAN Comprehensive Economic Partnership Agreement (JACEPA) involving free trade, investment, cooperation for environmental protection, technology transfer, human resource management, and other economic areas. Both were presented as a full package of long-term, legally binding developmental benefits, as opposed to China's partial packages offered to ASEAN. Japan also funded the Economic Research Institute for ASEAN and East Asia (ERIA), inaugurated in Jakarta in 2008 to undertake policy research for regional economic integration with an aim of serving as an East Asian OECD (Terada 2010; Goh 2011).

Although committed to cooperation within ASEAN+3, Japan prefers opening up the forum as much as possible to advance exclusive regional integration, primarily due to its strategic opposition to China's leadership. It was Japan that initially proposed the ASEAN+6 framework as an expanded East Asian regional concept despite the existence of ASEAN+3 (Terada 2010, 72). In December 2005 the ASEAN+6 proposal evolved into the East Asian Summit, following the ninth ASEAN+3 summit in Kuala Lumpur. The EAS was supposed to elevate the ASEAN+3 process to high-level dialogue concerning political security and economic issues. Along with Indonesia and Singapore, Japan successfully lobbied for the inclusion of Australia, India, and New Zealand ostensibly as part of its push for universal values and open regionalism, but implicitly to deter potential Chinese domination within the EAS. However, China earned Malaysia's consent for according the ASEAN+3 meeting, not the EAS, the primary responsibility for building the East Asian Community, thereby raising questions over the future of EAS and regional polarization (Goh 2011, 390–91).

36.4.4. India Looks East and the Pursuit of FTAs

Beginning in 1991, India began a dramatic economic transformation away from years of inward-looking economic policies toward insertion into the global economy (see Narlikar in this volume). With the end of the Cold War, followed soon thereafter by its 1991 balance of payments crisis, India moved rapidly toward domestic liberalization and in trade initiated its “Look East Policy” (LEP), which emphasized trade with ASEAN and other East Asian countries.¹⁰

Facing a dire need for financial resources and inward investment to transform its ISI-based economy to an export-oriented one, and the attractiveness of the apparently successful East Asian model, India sought closer relations with ASEAN. Relations with ASEAN rapidly improved, with India becoming a sectoral dialogue partner in 1992 on trade, investment, tourism, and science and technology, and a full dialogue partner in 1995. With respect to the LEP, another initiative known as BIMST-EC (the Bangladesh, India, Myanmar, Sri Lanka, Thailand-Economic Cooperation group) also officially came into existence in June 1997, providing an additional steppingstone to ASEAN through Thailand and creation of a grouping that excluded Pakistan.

In the wake of the 1997–98 Asian financial crisis, India’s LEP faced a major challenge. Markets for India’s goods weakened in the region, and East Asian countries also began to consider the negotiation of preferential trading arrangements with each other. Soon thereafter, India arranged an FTA with Thailand (2003), Afghanistan (2003), Singapore (2005), Bhutan (2006), Chile (2007), MERCOSUR (2009), South Korea (2010), Malaysia (2011), ASEAN (2011), and Japan (2011). It became active in negotiations with the EU, Indonesia, Australia, Canada, New Zealand, Turkey, EFTA, the GCC (Gulf Cooperation Council), SACU (South African Customs Union), Mauritius, and Egypt, and began exploring accords with Russia and China. In many cases, India has responded to China’s pursuit of FTAs by seeking its own as a counterbalance and is now negotiating trade opening as a member of RCEP.

36.5. CONCLUSION

One of the most striking features of Asian countries’ institutional design is that they have departed over the past ten years from multilateralism toward a multidimensional trade strategy focusing on bilateral FTAs on the one hand, and minilateral economic forums such as ASEAN+3 and +8 on the other. Asian countries’ interest in a multidimensional trade strategy reflects the growing demand for an insurance policy to liberalize trade beyond goods and services. The new preferences for bilateralism and minilateralism in Asia have been driven by their top political and bureaucratic elites, while other nonstate groups play a less significant role in institutional design at the external level. Although the Asian countries’ pursuit of bilateralism and minilateralism

does not necessarily mean that they downplay the significance of the multilateral trading system, the policy departure is obvious and important.

To understand the evolution of institutions, we presented an institutional bargaining game. The central objective of this discussion is to consider the nesting versus horizontal placement of institutions as well as the dimension of substantive (knowledge) versus tactical (power) linkages.

As a tangle of regional institutions compete for attention and resources, and as long as the ASEAN+6 and +8 approaches continue to coexist with the ASEAN+3, Asian regionalism will become more polarized before it is integrated. At the core of effective Asian integration lies a close and cooperative Sino-Japanese relationship, particularly during a time when the role of the United States as a hegemonic broker between the two regional giants continues to wane. In theory, the larger membership may expand both the security and economic interest of the members. In practice, however, a consequent dilution of common purpose has served no members thus far.

The essentially unresolved membership issues and the relationship of competing minilateral forums indicate divergent views on China's regional role and complex economic-security implications for its neighbors. Given the prospective demographic and economic distribution of power within the region, China's neighboring countries have strong incentives to bind extraregional powers to East Asia. As such, many in the region recognize that US engagement is critical to this goal because no other country or combination of countries can balance a growing China. The continuing importance of the United States as a provider of security and as a vital economic partner in East Asia underscores the defining feature of future East Asian regionalism, namely its "porousness" (Katzenstein 2005, 21–30). However, the road toward US-led transpacific regionalism is likely to be rough. China has not taken an official stand on this issue, although its skepticism about US intentions with TPP has abated. Also, for the United States an accord that promotes complete free trade with China would be uphill battle in Congress.

To conclude, whether these trade-focused institutions will achieve a type of nested arrangement or a horizontal division of labor remains an open question. How institutions will evolve in this light and how countries will maneuver to achieve their goals will be a function of domestic and international politics, rather than a matter of optimal economic trading zones.

NOTES

1. One could of course look at other sequencing choices such as moving from bilateral to minilateral or multilateral to minilateral, and so on.
2. Because we are interested in negotiated accords, we do not consider unilateral measures to control or manage economic flows (see Aggarwal 2001).
3. For discussion of different schools of thought concerning institutional design, see the introduction to this volume; and Aggarwal 1998.

4. For more details about the ideas and beliefs surrounding regional economic institution-building processes, see Stubbs and Mustapha's chapter in this volume.
5. Institutional creation may take place in an issue-area vacuum, as in the case of the creation of the GATT. In view of our focus on the more recent past, we take the existence of an institution such as the GATT as a given.
6. See Aggarwal 1998 for a discussion of issue-area nesting and horizontal linkages.
7. This discussion on AFTA draws heavily on Aggarwal and Chow 2010.
8. The Five Principles of Peaceful Coexistence are a set of principles to govern relations between states. Their first formal codification in treaty form was in an agreement between China and India in 1954. This agreement stated the five principles as (1) mutual respect for each other's territorial integrity and sovereignty; (2) mutual nonaggression; (3) mutual noninterference in each other's internal affairs; (4) equality and mutual benefit, and (5) peaceful coexistence.
9. In contrast, Russia is often viewed as the main reason for the slow progress of economic cooperation. Russia is concerned that China will expand its influence through economic cooperation in a region Russia considers to be its traditional sphere of influence.
10. The discussion of the LEP draws heavily on Aggarwal and Mukherji 2007.

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