An Institutional Path
Community Building in Northeast Asia

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At the outset of the Cold War, the so-called San Francisco system put Northeast Asian countries on a unique institutional path, characterized by a bilateral-multilateral institutional mix in both the trade and security issue areas. Against the background of bitter memories of Japanese colonialism, unresolved sovereignty issues, and the ideological divide across the region, the San Francisco system offered America's Northeast Asian allies access to the U.S. market in return for a bilateral security alliance. At the same time, U.S. allies were strongly encouraged to participate in broad-based, multilateral fora in areas of both security—the United Nations (UN), and trade—the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO).

Aside from informal networks based on corporate and ethnic ties, the San Francisco system created few incentives for Northeast Asian countries to develop exclusive regional arrangements of their own. Hence the conventional wisdom argues that Northeast Asians are inherently unable to manage their own economic and security affairs in a collective manner without an external actor, namely the United States.

In this chapter, we show how the traditional institutional equilibrium in Northeast Asia has come under heavy strain in the triple post period: namely post-Cold War, post-Asian financial crisis of 1997–1998, and post-September 11, 2001, attacks. Although Northeast Asian countries maintain their traditional commitment to bilateral alliance and multilateral globalism, the erosion of their confidence in the conventional approach is increasingly visible, as manifested by the proliferation of free-trade agreements (FTAs) and
regional security dialogues, both official and unofficial, formal and informal, and bilateral and minilateral.

Much ink has been spilled over the uniqueness of Northeast Asian regionalism, but the existing literature fails to systematically assess the novel dynamics of rivalry and cooperation that is currently shaping a new institutional architecture in the region. Northeast Asia clearly remains sandy soil for cultivating regional institutions and a sense of community, leaving the future institutional trajectory wide open. Yet we believe that it is now timely to examine the origins and evolution of Northeast Asia’s new institutional architecture in a more comprehensive and systematic manner, as this question is at the forefront of the minds of both academics and policymakers.

In the first section of this chapter, we explore Northeast Asia’s traditional institutional equilibrium in trade and security. In the second section, we analyze the emerging institutional architecture, focusing on initial impetuses for change, the goods involved, individual bargaining situations, and institutional context. In the third section, we draw policy implications and conclusions with attention to possible linkages between trade and security issues.

Traditional Institutional Equilibrium in Northeast Asia

The growth of economic and security interdependence in Northeast Asia has been remarkable. Yet seen in comparative regional perspective, Northeast Asia’s economic and security cooperation has lacked significant formal institutionalization at the regional level. Not surprisingly, many scholars have argued that Northeast Asia has the most pronounced formal “organization gap” of any area, as well as a growing inadequacy of long-standing informal alternatives. For them, the gap has stubbornly failed to close, thus bolstering the belief that Northeast Asian countries are incapable of overcoming the divides of history, virulent nationalism, and the Cold War hostility.¹

In economic issue areas, a number of proposals for a more exclusive Northeast Asian scheme largely failed during the Cold War period.² Most notably, Asia-Pacific Economic Cooperation (APEC)—a transregional agreement and Asia-Pacific’s most ambitious institutional experiment, launched in 1989—includes the membership of all the Northeast Asian countries except for North Korea, but remains an essentially consultative forum. Fifteen years after its creation, most members continue to prefer loose family-type linkages to a formal institution.³

In contrast to the weakness of formal economic integration, the network of Japanese transnational corporations played a key role in forming a virtual economic community.⁴ Alongside this Japan-centered economic system was the emergence of an informal business network, often referred to as “Greater China,” in which Chinese communities in Hong Kong, Taiwan, and elsewhere in Asia promoted trade with, and investment in, China.⁵ These informal networks based on corporate and ethnic ties delivered unprecedented rates of growth during the 1980s and the first half of the 1990s. The openness of the U.S. market, natural forces of proximity, and the vertical and horizontal integration of regional economies through Japanese investment and overseas Chinese capital seemed to have produced greater economic interdependence without substantial institutionalization at the regional level.⁶

On the security front, Northeast Asia has yet to host anything comparable to the highly developed North Atlantic Treaty Organization (NATO) and Organization for Security and Cooperation in Europe (OSCE), leaving regional security coordination underinstitutionalized. The ASEAN Regional Forum (ARF) is virtually the only permanent regional security forum in which Northeast Asian countries and the United States participate simultaneously.⁷

Given the heterogeneous policy preferences and strategies of the key players in Northeast Asia during the Cold War period, this may not be a surprising outcome. The United States remained principally concerned about how such a regional security dialogue might constrain its military forces and weaken bilateral alliances in the region. Sharing Washington’s misgivings about the implications of security minilateralism in Northeast Asia, Japan shied away from pushing hard for more-substantive regional security dialogues. For fear of international intervention in and pressure on its domestic affairs, China obstructed any moves in this direction. From this perspective, the norm for regional security cooperation was the 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.⁸

In sum, the institutional architecture under the San Francisco system served Northeast Asia well for the Cold War period, while obviating the need for any significant regional arrangements. Most importantly, the United States served not only as the principal architect of the hub-and-spoke system in Northeast Asia but also as a power balance between Japan and China, as well as between the two Koreas and the two Chinas, while gluing together its key allies through open access to its market.

The Evolution of New Institutional Architecture in Northeast Asia

In a dramatic turn of events, the traditional institutional equilibrium in Northeast Asia—a combination of bilateral and multilateral arrangements
and an informal business network—has come under heavy strain in the triple post period.

On the one hand, the burgeoning interest in FTAs has generated positive expectations for the region's institutional future. Although Northeast Asian countries continue to pay lip service to their commitment to multilateralism, the erosion of their confidence is visible, particularly after the region-wide financial crisis and the collapse of the new WTO talks in the late 1990s. On the other hand, there have been various official and unofficial, formal and informal, and bilateral and multilateral dialogues to resolve the organization gap that has persisted in Northeast Asia. Nevertheless, the increasing number of channels for security dialogues and negotiations indicates positive and dynamic processes in exchanging information and opinions, which should be promising signs for regional peace and stability.

To systematically analyze the evolution of a new institutional architecture in Northeast Asia, we focus on the interplay of four broadly defined causal elements, namely, external shocks, goods, individual bargaining situations, and the existing institutional context. 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. External shocks may stimulate or impede the supply of certain types of goods that pertain to either trade or security, or to both. The most significant elements that might affect national responses to external shocks and subsequent change in the provision of goods include countries' individual bargaining positions, consisting of their international positions, domestic power structures, and elite beliefs. Finally, if countries choose to create new regional institutions or modify existing ones, they must decide on the extent to which those institutions are to be influenced by the context of global multilateral institutions.

The Triple Post Shocks

In Northeast Asia, the pressure for a shift from the traditional to a new institutional equilibrium has come about through three major external shocks—the end of the Cold War, the Asian financial crisis, and the September 11 attacks.

The Post–Cold War Shock

The San Francisco system began to undergo a gradual modification from the 1970s with the inclusion of China and other communist countries, but retained to a remarkable degree the Japan-centered and Washington-dominated form throughout the Cold War period.

In the post–Cold War era, however, the fissure in the system became increasingly visible, as a result of the changing regional balance of power. In Northeast Asia, the Sino-Soviet-American strategic triangle has now been replaced by a new triangular relationship among the United States, Japan, and China. For all the power of the United States and Japan, the past two decades have been most notable for China's dramatic rise, and the resultant complexity of the regional power equation does not allow for a single pacemaker.

The Cold War bipolarity in Northeast Asia acted as the source of regional reluctance to institutionalize economic and security relations, but its abrupt end has made it politically easier for Northeast Asian countries to consider institutionalizing their economic and security ties. It can be reasonably argued that the end of the Cold War has reduced the significance of ideological divisions and broken down the problem of (in Gowa's term) the "security diseconomy" that had precluded tighter institutional integration between and within capitalist and communist blocs.

The early 1990s produced an outpouring of proposals aimed at developing economic regionalism in Northeast Asia. In particular, various attempts focused on geographically contiguous parts of national economies located in the Russian Far East, northeast China, Japan's Hokkaido, North Korea, South Korea, and Mongolia. In 1990, China presented one of the first proposals to develop the so-called golden delta of the Tumen River. In the following year, the United Nations Development Plan (UNDP) accepted the proposal as the Tumen River Area Development Program (TRADP), leading to the participation of China, Russia, South Korea, North Korea, and Mongolia (and later Japan as well). Although this collective development plan collapsed in the wake of the first North Korean nuclear crisis in 1993–1994 as well as the lack of coordination among local and national governments of the participating countries, it clearly marked an important departure from Cold War perceptions and divisions.

In the security issue area, the United States exhibited a pronounced preference for bilateral security arrangements rather than multilateral ones within its spheres of influence in Cold War Northeast Asia. For instance, the United States opposed an Asian equivalent of the Council on Security Cooperation in Europe (CSCE) — the predecessor of OSCE — primarily due to Soviet support for the idea. The United States feared that the Soviet Union would use a multilateral security forum to drive a wedge between the United States and its Asian allies. Japan followed the U.S. lead in opposing proposals for establishing regional multilateral security cooperation fora in East Asia.

Yet by 1990 Japan began to fear that its fundamental security interests, including the U.S. alliance, would be seriously undermined if Japan did not...
participate in the emerging process of the post–Cold War institution building in the region. In July 1991, Japan proposed its own initiative for a multilateral security forum, thereby abruptly reversing its years of steadfast opposition to regional security multilateralism. This initiative, known as the Nakayama proposal, represented a bold departure from Japan’s reactive policy toward regional security in the face of clear American opposition.\(^{23}\)

The Nakayama proposal encouraged the formation of the ARF by promoting the idea of a multilateral security dialogue connected to ASEAN. To a large extent, the ARF came into being because the United States, with less strategically and more economically at stake in East Asia, ended its longstanding opposition to multilateral security dialogue in the region. Despite its operational fecklessness as a security regime, the ARF began to bind Japan and China together into a regional institutional framework, allowing Japan to address its historical problem, China to address the fears of its neighbors, and both to avoid conspicuous balancing behavior toward each other. The ARF was also supplemented by numerous “Track Two” dialogues, involving government officials in their private capacities plus academics, journalists, and others. Prominent examples of Track Two dialogues include the North Pacific Cooperative Security Dialogue, the Northeast Asia Cooperation Dialogue, and the Council for Security Cooperation in the Asia-Pacific.\(^{24}\)

For its part, China made an unprecedented attempt to integrate itself into the post–Cold War region. Many analysts note that China’s broader strategic motive behind that regional economic arrangements was to integrate an increasingly powerful China into a regional economic and security regime parallel to China’s integration into the global multilateral trading and security system through its bid for the WTO membership, on the one hand, and its proactive role in the UN Security Council, on the other. As the 1990s unfolded, China’s relations with the region settled into a mix of unilateral bellicosity (over Taiwan and the South China Sea) and increasingly comfortable and skilled use of multilateral fora such as the ARF and ASEAN Plus Three (APT) to support those regional voices still concerned about excessive U.S. influence.\(^{25}\)

The Post–Asian Financial Crisis Shock

The second turning point came in the wake of the Asian financial crisis of 1997-1998. The financial crisis revealed a number of institutional weaknesses that Northeast Asian economies shared.\(^{26}\) With respect to informal market integration, the unprecedented economic shocks showed that the seemingly dense networks of Japanese and overseas Chinese business were quite vulnerable.\(^{27}\) Asian economies could delay the ultimate bursting of their bubble as long as they were able to find export markets where they could sell the investment-fueled output that vastly exceeded the absorption capacity of domestic consumers. However, the structural problems finally exacted a heavy toll in the closing years of the 1990s.

Aside from the many structural problems underlying the Asian model of capitalism, such as its cronyism, unsound investments, and overcapacity, many in Asia found fault with the widespread practices of Western financial liberalism, which allegedly reinforced credit bubbles, empowered currency speculators, and created unstable collective irrationalities. This interpretation strengthened demands for a regional response to the globalization primarily led by the West.\(^{28}\) Concurrently, Northeast Asian countries’ commitment to a broad-based, multilateral trade regime eroded significantly, particularly since the debacle of the WTO ministerial meeting in Seattle in 1999. At the transregional level, APEC as a formal mechanism to facilitate economic integration came under fire for its inability to deal with the financial crisis across the region.\(^{29}\)

Northeast Asian countries came to recognize that tighter institutionalization of intraregional commercial and financial ties might be a better commitment mechanism for providing economic security, and they started to weave a web of FTAs accordingly. In August 1998, the Japanese foreign minister first proposed the idea of a Northeast Asian Free Trade Agreement (NEATA), and feasibility studies have been conducted since then.\(^{30}\) A tripartite cooperation among China, Japan, and South Korea also motivated the creation of the APT forum. Although APT is not based on any treaty or formal binding agreement between the participating states and although it has no central secretariat, the web of relations between the members has grown quickly since the first meeting of the heads of government in December 1997. The first significant concrete product of APT was an agreement, reached at Chiang Mai in Thailand in May 2000, to establish a regional currency swap facility to enable the states to protect themselves better against any future financial crises.\(^{31}\)

More specifically on trade and investment issues, the conclusion of Japan’s first post–World War II FTA, the Japan-Singapore Economic Partnership Agreement (JSEPA), came at this critical juncture in 2001. China also signed a framework FTA with ASEAN countries in 2003 pledging free trade by 2010. In addition, other Asian countries have wasted no time in moving toward FTAs, departing from their traditional commitment to the WTO and, to a lesser extent, APEC. As of spring 2006, East Asia was engaged in 112 FTAs (in force, under negotiation, or under study), with more to come.\(^{32}\)

On the security front, South Korean president Kim Dae-jung (1998-2003) proposed a six-nation Northeast Asian Security Dialogue (NEASD) involving the two Koreas, the United States, China, Japan, and Russia. The proposal
was an extension of the four-party talks to resolve the first North Korean nuclear crisis in the early 1990s. While Japan and Russia (excluded from the four-party talks) have naturally supported the six-party NEASD forum, this and similar proposals for collective or cooperative security have fallen by the wayside because they have failed to gain the support of China and the United States.33

The Post–September 11 Shock

The latest turning point for the institutional order in Northeast Asia came with the September 11 terrorist attacks. The American global war on terrorism has called into question the fate of the Northeast Asian balance-of-power system. With its counterterrorism initiatives, the United States has accelerated its effort to reconfigure its traditional security policy in Northeast Asia for strategic and logistical reasons. It now solicits multilateral cooperation against terrorism through APEC, the ARF, and the Proliferation Security Initiative (PSI), while scaling down its forward deployment.34 This represents a significant departure from its conventional emphasis on bilateral security ties.

In many ways, post–September 11 developments put unpredictable pressure on the strategic triangle among the United States, China, and Japan. On the one hand, the regional dynamic had been moving in the 1990s toward a mimetic of the Cold War cleavage, in the sense that while China and Russia moved ever closer, Sino-American rivalry became increasingly tense. The impact of America's neoconservative foreign policy since 2001 has accelerated this trend, while consolidating Washington's relations with Tokyo and Taipei in spite of Beijing's grievances. On the other hand, September 11 provided an escape hatch for China from this looming confrontation, as a result of Beijing's support for the grand antiterrorism coalition. Despite tensions, disagreements, and mutual misgivings, antiterrorism provides a convenient pretext for both the United States and China to restore the semblance of cordiality necessary to maintain regional stability.35

In a region with an already awkward balance between the United States, Japan, and China, the second North Korean nuclear standoff, which began in October 2002, has set everyone scrambling. Many analysts agree that North Korea has become the vortex of Northeast Asia's geopolitical and geo-economic turbulence.36 It may drive the United States, Japan, China, Russia, and South Korea together in a post–September 11 world. Yet one might also argue that such a crisis is likely to exacerbate incipient conflicts among these actors. The second North Korean nuclear crisis reflects the mixed results of previous multilateral efforts—such as the Nuclear Nonproliferation Treaty (NPT), the International Atomic Energy Agency (IAEA) safeguards agreement, and

the Korean Peninsula Energy Development Organization (KEDO) based on the 1994 Agreed Framework between the United States and North Korea. In response, Washington's focus on North Korea shifted from preserving the international nuclear nonproliferation regime to preventing terrorist organizations and rogue states from acquiring nuclear weapons or fissile material.37

In the wake of rising tensions between the United States and North Korea, China began to host the six-party talks in Beijing in August 2003, extending an invitation to South Korea, Japan, and Russia to join the earlier ad hoc trilateral negotiations between the United States, China, and North Korea. China's new and remarkably proactive role in direct contrast to its hands-off approach during the first North Korean nuclear crisis in the early 1990s. Beijing has been particularly motivated this time by its desire not only to address Pyongyang's nuclear program but also to enmesh Washington in a regional multilateral process and prevent it from taking unilateral action as it did in Iraq.38

On September 19, 2005, North Korea pledged to abandon its entire nuclear program in return for security and energy guarantees from the other parties. The agreement, although vague, was the first real achievement of the six-party negotiating process and gave rise to the promise of a more permanent multilateral dialogue mechanism in Northeast Asia.39 Unfortunately, this multilateral negotiating process has yet to produce concrete results. A core stumbling block in the talks remains the question of who takes the first step, with North Korea (as well as China and South Korea) emphasizing the Ukrainian example of the outside parties extending security and economic assurances first, while the United States (and Japan) contends that the onus is on North Korea to dismantle its nuclear weapons infrastructure, just as Libya did, before concessions can follow.40

The point was proven again immediately after the September 2005 agreement was announced. North Korea asserted that the provision of the light-water reactor to the North should be implemented up front. The U.S. government responded to this by stating that the issue of providing a light-water reactor to North Korea would be discussed only after North Korea returns to the NPT and abides by its promise to dismantle its nuclear program. To make matters worse, North Korea's involvement in counterfeiting U.S. dollars and its reaction to the U.S. government's sanction on a Macao bank, Banco Delta Asia, which had allegedly been linked to money laundering for North Korea, halted the fifth round of the six-party talks in summer 2006.41 On October 9, 2006, North Korea defied international pressure and tested its first nuclear device, becoming the ninth nuclear power.42 The sudden announcement sent shockwaves throughout the international community. The surprise nuclear test was an implicit but strong signal to the United States to free up North
Korean assets in Macao, thus opening a way for Pyongyang to return to the six-party talks without losing face.

Despite the lack of concrete progress, the current nuclear crisis on the Korean Peninsula and the formation of the six-party process to deal with the issue has given rise to the possibility that a more formal organizational framework for multilateral cooperation in Northeast Asia could be established, likely in the form of a Northeast Asian Security Dialogue (NEASD) or a Concert of Northeast Asia (CNEA).43

Goods: Trade Liberalization and International Security

The triple post-shocks have significantly changed the provision of trade liberalization and international security as goods.44 In many respects, Northeast Asia's new appetite for FTAs 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 and collective security when traditional mechanisms under the San Francisco system have stalled or been dismantled steadily in the triple post period.

During the Cold War period, trade liberalization was provided for most Northeast Asian countries mainly through the GATT. To the extent that the GATT required membership, the provision of trade liberalization was a multilateral club good. But it contained a strong public-good characteristic, since Northeast Asian countries were allowed to pay less to get more out of the system. In the security issue area, the San Francisco system provided Northeast Asian countries with security as bilateral club goods, which were made available through their alliance with the United States or the Soviet Union. As with trade, the provision of security under the San Francisco system also contained a strong public-good characteristic, as the costs and benefits from the alliance relationships were asymmetric in favor of the superpower's Asian allies.

In the early post-Cold War years, the provision of trade liberalization through GATT and national security through the alliance with superpowers remained as club goods, but their public-good characteristics declined. The main cause of this shift was the stalled Uruguay Round of WTO talks and some early indications of U.S. disengagement.

In the aftermath of the Asian crisis, Northeast Asia's new appetite for FTAs reflected a convergence of interests in securing bilateral club goods. With traditional mechanisms within the WTO and APEC offering no salient solutions, one major option for the crisis-ridden countries was to secure preferential access to their export markets. With respect to security, it appears that the financial crisis had no direct impact on the provision of security as bilateral club goods, but the eroding U.S. defense commitment to the region further weakened the provision of security as virtual public goods.

Finally, in the post-September 11 era the multilateral mechanism for trade liberalization has yet to regain the full confidence of participating countries, while the pursuit of alternative trade mechanisms through bilateral and multilateral channels has proliferated. On the security front, the public-good characteristic of security as bilateral club goods for U.S. allies is in trouble, as the United States has begun to reconfigure its alliance politics in Northeast Asia. For instance, the U.S.-South Korea alliance has significantly weakened, whereas the U.S.-Japan alliance has been strengthened in spite of China's protest. Such new developments do not necessarily imply that the provision of public goods under the San Francisco system will be terminated any time soon. Nevertheless, it has prompted Northeast Asian countries to deal with new security challenges by collectively pursuing security cooperation as club goods.

Individual Bargaining Situations

While there are many factors that might affect state actors' individual preferences and strategies for choosing between different institutional alternatives, the most significant elements that determine national responses to external shocks and the changes in the provision of goods include (1) an actor's relative position within the international distribution of capabilities; (2) domestic power structures that reflect coalitions and political regime type; and (3) elite beliefs and ideas about issue linkages.

International positions

Two aspects of the international context have been the basis for exploring cooperation and conflict in trade and security. The first international factor concerns a 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 approach that many East Asian countries have taken to obtaining China as an FTA partner illustrates the importance of a large market in enticing the negotiation of trading arrangements, which in turn provides China with a greater bargaining position.45

As to the second international factor, collective security concerns may also drive an interest in institutionalizing trade and security management. Countries may prefer trade with their (potential) allies, while avoiding trade with
enemies, because the relative gains realized from free trade can cause changes in the relative distribution of power. Therefore, trade accords are more likely to overlap with alliance relationships. At the same time, allied relationships are more likely to be successful in institutionalizing their trade ties. From this perspective, despite their troubled relations in the first half of the 2000s, the current quasi-alliance relationship between Japan and South Korea would likely evolve into a full-fledged alliance in the foreseeable future. Thus, the question of an alliance in Northeast Asia and a prospective NEAFTA really comes down to whether China and Japan could form a substantial entente through a Franco-German type of rapprochement.

This observation has both positive and negative implications for Northeast or East Asian regionalism. On the one hand, rising interdependence provides greater economic incentives for Northeast Asian countries to avoid costly conflict. On the other hand, Northeast Asia's rapidly increasing dependence on China means that the bargaining power of Japan and South Korea (as well as other East Asian countries) vis-à-vis China has declined significantly. As a result, China may now feel less constrained from challenging its neighbors than in previous decades, prompting greater relative gains concern in the rest of the region.

Domestic Coalitions and Political Regime Type

In Northeast Asia, individual bargaining situations in terms of domestic coalitions and political regime type have changed significantly as a result of the end of the Cold War, on the one hand, and the financial crisis, on the other. Domestic political structures vary widely, ranging from highly democratic—the United States, Japan, and South Korea—to highly authoritarian—China and North Korea. Though to different degrees, the governments in the region have experienced challenges to their political legitimacy and actual political turnover, albeit peaceful, by opposition groups—the end of the ruling Liberal Democratic Party's electoral dominance in 1993 and the end of military rule in South Korea in the same year, for instance.

1 From one perspective, such developments have altered the economic and security payoffs confronting individual countries, as many, if not all, of them move toward liberalization, rendering cooperative outcomes at the regional level more likely and the requirements of institution-building less daunting. Furthermore, the economic interests that the United States, Japan, and South Korea have in China might prevent them from standing up to China for fear of losing lucrative commercial opportunities. The democratic political systems of these countries are most likely to enable business communities to pressure their respective governments to adopt more conciliatory policies toward China. China would also be pressured by its domestic economic interests, though to a lesser degree, to maintain good relations with its rich neighbors.

By contrast, it can be argued that as Northeast Asian countries move from authoritarianism toward greater political pluralism, their political leeway 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. Recent research suggests that countries with more veto players—including a legislature, an independent judiciary, an independent central bank, and the military—are less likely to cooperate. 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.

Furthermore, the advent of the Internet and information technology has not only made national political leaders less capable of censoring 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 disputes between China and Japan, and between South Korea and Japan, in spring 2005 over Japanese history textbooks, and over the question of sovereignty over the offshore islands and the gas deposits in their vicinity, highlighted how domestic nationalist groups can hijack otherwise peaceful Northeast Asian relations.

Elite Beliefs and Ideas

The third factor concerns elite beliefs and ideas about the causal connections among issues and the need to handle problems on a multilateral, minilateral, bilateral, or unilateral basis. In view of the rising pressure of assertive nationalism and fluid geopolitics in the triple post period, even the mere containment of economic and security tensions requires the skillful diplomacy and tireless efforts of national leaders. The Asian financial crisis has significantly undermined the traditional confidence in multilateral trade liberalization. At the same time, the erosion of America's commitment to Northeast Asia in the post–September 11 period led everyone to scramble in search of alternative security mechanisms. These changes have led to the construction of new ideational formulas that support regional alternatives for economic and security cooperation.

Many in the region agree that the best strategy to hedge against potentially disruptive behaviors is to engage more with each other and to empower
internationalist interests by institutionalizing economic and security interdependence. Indeed, many experts in the region now are part of an epistemic community and Track Two organizations, which share the view that regional arrangements can be trade- and security-creating rather than trade- and security-diverting in the face of a loosening San Francisco system.54

Demand for Institutional Fit

How can we best characterize the resulting institutional outcomes? We briefly summarize them in terms of the number of participants in, and the geographic coverage, nature, scope, and strength of agreements.

First, the latest enthusiasm for FTAs in Northeast Asia and, more broadly, in East Asia revolves around a bilateral FTA as a popular mode of participation, while there are also strong indications of minilateral participation, such as ASEAN Plus Three (1997), the China-ASEAN Framework FTA (2003), and the South Korea-ASEAN FTA (2006). In security issue areas, bilateralism and multilateralism are also popular modes of participation.

Second, Northeast Asia’s new appetite for FTAs is geographically open with a focus on the emergent concept of an East Asian Community rather than on a NEAPTA.55 In sharp contrast, the most recent bilateral and minilateral security dialogues in which Northeast Asia has engaged have tended to be geographically closed, although the United States has remained a key player.

Third, as countries attempt to meet their trade and security needs in a new environment, they often negotiate new arrangements or modify existing ones, while interacting strategically within the context of broader institutional arrangements such as the UN and the GATT or the WTO. In trade issue areas, many of the recent FTAs attempt to cover broader areas and elements beyond trade, indicating their WTO-plus nature or their institutional division of labor. At the same time, however, these arrangements are potentially incompatible with the WTO provisions since some sensitive sectors are deliberately excluded, thereby setting up the possibility of institutional conflict.56 In the security issue area, the evolution of the ARF illustrates how a regional security arrangement can be nested within a broader one. If viewed as the opening stages of an attempt to build a regional security regime in an area notable for the absence of regional institutions, the creation of the ARF looks impressive. The cultivation of ideas such as “cooperative security” has been reinforced by the promotion of norms regarding peaceful settlement of disputes, regular multilateral dialogue at several levels, and adherence to some international arms control agreements such as those on nuclear nonproliferation. Although the process has largely been slow and often disappointing, such cultivation does lay the foundations for elements of an East Asian security regime.57 In a similar vein, the invocation of the NPT and the IAEA system of safeguards in the September 19, 2005, agreement of the six-party talks indicates collective efforts at nesting the minilateral process in a broader security regime.

Conclusion

We began our analysis with the observation that the postwar trade and security order in Northeast Asia had 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 for the past fifteen-plus years, however, the traditional institutional equilibrium in Northeast Asia came under heavy strain. As a result, countries are now pursuing greater institutionalization at the regional level, actively weaving a web of FTAs and security dialogues. Within two decades, Northeast Asia, and East Asia, have moved from lacking any significant regional organization to a point where new collaborative arrangements in both trade and security have mushroomed.

Explaining the emerging institutional architecture in Northeast 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 triple post shocks: the end of the Cold War, the Asian financial crisis, and the September 11 attacks. With respect to goods, we noted that the disturbances in the traditional mechanism for providing trade liberalization and international security have motivated countries to seek for club goods as a viable alternative. 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.

We argued that the pursuit of regional club goods replaced a more generalized commitment to global public goods in the triple post period, thereby undermining the myth that the combination of bilateral and multilateral arrangements under the San Francisco system and loose-structured production networks could be a viable alternative to tighter, formal institutionalization in Northeast Asia and more broadly in East Asia.

With respect to trade liberalization, the weakness of the WTO and APEC opens up institutional space for trilateral or bilateral FTAs in Northeast Asia by affecting the provision of public goods and thus the incentives for creating club
goods. Yet much depends on the possibility of a Sino-Japanese entente. In the meantime, the establishment of a permanent security forum in Northeast 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 NEASD or CNEA, albeit through the unforeseen and unplanned spontaneous development of consultations among the countries involved. In the post—September 11 environment, the prospect of establishing a framework for multilateral cooperation is enticing in a region where no such forum previously existed.

Northeast Asia faces the uncertainty of a host of multiple institutional alternatives for regional trade and security cooperation. In view of the tremendous political and economic uncertainties in the contemporary period, the paths to deeper and wider economic and security integration are likely to be complex. One can only hope that the burgeoned efforts to form FTAs and security dialogues may facilitate rather than impede this process.

Notes


2. The U.S.-centered bilateral alliances include U.S.-Japan (1951); U.S.-South Korea (1953); U.S.-Taiwan (1979 Taiwan Act). In the communist camp, China and North Korea signed a friendship treaty in 1961; Russia and North Korea renewed a treaty on friendship in 2000; and China and Russia signed a new friendship treaty in 2001.


10. The ARF links together the Association of Southeast Asian Nations (ASEAN) member countries with their "dialogue partners," the United States, Japan, China, Russia, South Korea, Australia, New Zealand, Papua New Guinea, and the European Union. Initially, North Korea and Taiwan were not included, but after the inter-Korea summit in 2000, North Korea was invited to participate. See Buzan, "Security Architecture in Asia," 155.


18. Joanne Kwok, Allies, Adversaries, and International Trade (Princeton, N.J.: Princeton University Press, 1994). Certainly, the potential problem of a security diseconomy has yet to be resolved in Northeast Asia. There is a deepening concern that China’s growing trade surplus with the United States and Japan has yielded
hard currency with which to buy weapons, foreign investment for the expansion of strategic infrastructure, and technology transfer that may improve Chinese military capabilities. The dissatisfied rising power (i.e., China) would most likely challenge the existing regional order if it continued to favor the United States and Japan alone. Also, China is allegedly a classic model of authoritarian modernization, unconstrained by democracy and vulnerable to nationalism and militarism. At the same time, however, the presence of a security diseconomy may motivate both China and Japan to promote an appropriate multilateral venue for directly or indirectly reassuring each other as well as their neighbors about their security and economic policies, while maximizing their respective national interests. See Buzan, "Security Architecture in Asia," 153–54.


27. Some scholars go a step further and argue that the particular pattern of Japanese and overseas Chinese investment contributed to the damaging crisis. The rapid expansion of Japanese and overseas Chinese regional production networks in East Asia in the 1980s and early 1990s began to show a tendency to follow investment finds rather than market demand, creating overcapacity in similar manufacturing sectors such as electronics and automobiles. See Walter Hatch, "Grounding Asia's Flying Geese: The Costs of Depending Heavily on Japanese Capital and Technology," NBR Briefing (Seattle, Wash.: National Bureau of Asian Research, 1998).


48. Aggarwal and Koo, “Beyond Network Power?” 213. Many scholars argue that the open hostility of China and Japan has become the driving force that militates against East Asian regionalism. For instance, in December 2005, the two countries made dueling claims in Kuala Lumpur at the ninth APT summit followed by the first East Asian Summit (EAS). With support from Indonesia and Singapore, Japan succeeded in inviting India, Australia, and New Zealand to be members in the EAS, as part of its push for universal values and open regionalism. Thus, China gained Malaysia’s consent for giving the APT meeting—rather than the EAS—the primary responsibility for building the East Asian Community (EAC), thereby leaving a big question mark over the future of EAS as well as polarizing the region. The tug of war in Kuala Lumpur may indicate that NEA regionalism and, by extension, broader East Asian regionalism through either APT or the EAS is in trouble (see Rozman, “South Korea–Japanese Relations”). Yet not all is grim in Sino–Japanese relations. Despite the persistent diplomatic tensions, the so-called cold-politics-but-hot-economics is likely to remain a defining feature of Sino–Japanese relations. Indeed, China and Japan both would suffer significant economic setbacks if the flourishing trade, investment, and capital flows between them were cut off due to a massive political conflict. See Min Gyo Koo, “Scramble for the Rocks: The Disputes over the Dokdo/Takeshima, Senkaku/Diaoyu, and Paracel and Spratly Islands” (Ph.D. diss., University of California, 2005), 189-91.


52. Koo, Scramble for the Rocks, 135-36, 184-87.


54. Job, “Track 2 Diplomacy.”

55. Webster, “Two Funerals and a Wedding?”


References


