
**An Institutional Path:**

*Community Building in Northeast Asia*

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I. Introduction
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 ideological divide across the region, the San Francisco System offered America’s Northeast Asian allies access to the US market in return for a bilateral security alliance. At the same time, US allies were strongly encouraged to participate in broad-based, multilateral fora in both areas of security—the United Nations (UN), and trade—the General Agreement on Tariffs and Trade (GATT)/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 states that Northeast Asians are inherently unable to manage their own economic and security affairs in a collective manner without an external actor, namely the US.

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1 The San Francisco System was codified through the 1951 San Francisco Peace Treaty between the Allies and Japan. For more details, see Calder 2004 and Hara 2001.
2 The US-centered bilateral alliances include: US-Japan (1951); US-South Korea (1953); US-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.
In this chapter, we show how the traditional institutional equilibrium in Northeast Asia has come under heavy strain in the triple post period: namely the post-Cold War, the post-financial crisis of 1997-98, and the post-September 11, 2001 attacks, thereby undergoing a dramatic transformation. 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 burgeoning interest in preferential trade agreements (PTAs) 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 regional institutional architecture in the region. Northeast Asia clearly remains sandy soil for cultivating transnational cooperation, 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 investigating this question, we focus on national strategies of the major powers in the region, namely the US, China, and Japan. In Section II, we explore Northeast Asia’s traditional institutional equilibrium in trade and security. In Section III, we analyze the emerging institutional architecture, focusing on initial impetuses for change, the goods involved, individual bargaining situations, and institutional context. In Section IV, we draw policy implications and conclusion with attention to possible linkages between trade and security in Northeast Asia.

II. Traditional Institutional Equilibrium in Northeast Asia
The growth of economic and security interdependence of Northeast Asian countries has been remarkable during the postwar period. 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 stubbornly failed to close, thus bolstering the belief that Northeast Asian countries are incapable of overcoming the divides of history, virulent nationalisms, and the Cold War hostility.

4 For more details about the concept of organization gap, see Calder and Ye 2004.
5 In this vein, Katzenstein (1997) argues that Asian countries have been shaped by the legacy of universal empires, regional kingdoms, and sub-continental empires, all of which are not suited institutionally to formal regionalism, which requires “highly rationalized forms of bureaucratic and legal rule-based Weberian states.”
In economic issue areas, a number of proposals for a more exclusive Northeast Asian scheme largely failed by the early 1990s.\(^6\) In addition, Asia-Pacific Economic Cooperation (APEC)—a transregional agreement and Asia Pacific’s most ambitious institutional experiment—includes the membership of all the Northeast Asian countries except for North Korea, but remains an essentially consultative forum. Even after more than fifteen years since its birth, most members continue to prefer loose family-type linkages to a formal institution.\(^7\)

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.\(^8\) 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.\(^9\) These informal networks based on corporate and ethnic ties delivered unprecedented rates of growth during the 1980s and first half of the 1990s. The openness of the US 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.\(^10\)

On the security front, Northeast Asia also lacked the equivalent of the North Atlantic Treaty Organization (NATO) for Europe and the US, leaving regional security coordination under-institutionalized. The ASEAN Regional Forum (ARF) is virtually the only permanent regional security forum in which Northeast Asian countries and the US participate simultaneously.\(^11\)

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\(^6\) The early 1990s produced an outpouring of proposals aimed at developing economic regionalism in Northeast Asia. 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 (Evans and Fukushima 1999). One of the first proposals for Northeast Asian economic cooperation was presented by China to develop the so-called golden delta of Tumen River in 1990. In the following year, the proposal was taken by the United Nations Development Plan (UNDP) as the Tumen River Area Development Program (TRADP), leading to the participation of China, Russia, South Korea, North Korea, and Mongolia. Yet in the wake of the first North Korean nuclear crisis in 1993 as well as the lack of coordination among local and national governments of the participating countries, this collective development plan went nowhere by the mid-1990s (Koo and Beason 2002).

\(^7\) Aggarwal and Morrison 1998; Ravenhill 2002.

\(^8\) Under the rubric of the “flying geese” model, Japan exported many of its lower-tech industries to its neighbors, thereby creating concentric circles of investment, with South Korea and Taiwan in the inner circle, and Southeast Asia and China in the outer one by the early 1990s. See Bernard and Ravenhill 1995, and Hatch and Yamamura 1996.


\(^10\) Katzenstein 1997.

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 US 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 misgiving 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 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.12

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 US served not only as the principal architect of regional order, but also as a power balancer between Japan and China, as well as between the two Koreas and the two Chinas. US hegemony also played a critical role in gluing together its key allies through open access to its market.

III. 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/multilateral arrangements and an informal business networks—has come under heavy strain in the triple post period. On the one hand, the burgeoning interest in PTAs has generated positive expectations for the region’s institutional future. Although Northeast Asian countries continue to pay lip service to their commitment to multilateral globalism, the erosion of their confidence is visible, particularly after the region-wide financial crisis and the collapse of the WTO talks in the late 1990s.13 On the other hand, there have been various official and unofficial, formal and informal, bilateral and minilateral dialogues to resolve regional security issues in a post-Cold War era. Certainly, the strength and effectiveness of these fora remain unclear, falling short of filling the organization gap that has persisted in Northeast Asia. Nevertheless, the increasing number of channels for security dialogues and negotiations indicate positive and dynamic processes in exchanging information and opinions, which should be promising signs for regional peace and stability.14

To systematically analyze the evolution of 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

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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 both. While there are many factors that might affect national responses to external shocks and subsequent change in the provision of goods, the most significant elements are countries’ individual bargaining positions, consisting of their international position, domestic power structures, and elite beliefs. Finally, if countries choose to create new regional institutions modify existing ones, they must decide on whether and to what extent those institutions are to be influenced by the context of global multilateral institutions.15

1. The Triple Post Shocks
In Northeast Asia, the pressure for a shift from traditional to new institutional equilibrium has come about through three major external shocks, including the end of the Cold War, the combination of financial crisis and Seattle trade debacle, and 9/11 attacks.

The Post-Cold War Shock
The San Francisco System began to undergo a gradual modification from the early 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.16 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 US, Japan, and China. For all the power of the US 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 pacesetter.17

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.18 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 (1995)’s term, “security diseconomy” that had precluded tighter institutional integration between and within capitalist and communist blocs.19

15 For a theoretical discussion of this approach, see Aggarwal 1998.
17 Buzan 2003; Shambaugh 1995.
18 Breslin and Higgott 2000; Ravenhill 2005.
19 Certainly, the potential problem of security diseconomy has yet to be resolved in Northeast Asia. There is a deepening concern that China’s growing trade surplus with the US and Japan has yielded hard currency with which to buy weapons, foreign investment for the expansion of strategic infrastructure, and technology transfers that may improve Chinese military capabilities. The dissatisfied rising power (i.e., China) would most likely challenge the existing regional order if it
After a considerable gestation period, the Japanese foreign minister first proposed the idea of Northeast Asian Free Trade Agreement (NEAFTA) in August 1998. A feasibility study on a NEAFTA was also suggested in the ministerial meeting between South Korea and Japan in November 1998. China, Japan, and South Korea held a tripartite summit on the sidelines of the formal summit of ASEAN Plus Three in Manila in November 1999. It was the first time that leaders of the three countries had met after decades of distrust. They agreed to conduct joint research to seek ways of institutionalizing economic cooperation amongst themselves.

Aside from standard welfare calculations, for both Japan and China, emerging interest in PTAs provides a convenient venue in which to vie for regional economic leadership. This point was driven home most dramatically with regard to ASEAN. China signed a surprise agreement in 2003 with the 10 ASEAN countries pledging free trade by 2010. Challenged to do the same, and to demonstrate a continued Japanese capability to lead within East Asia, Japan proposed a Japan-ASEAN FTA.

Developments in the security issue area are equally impressive. During the Cold War period, the US opposed an Asian equivalent of the Council on Security Cooperation in Europe (CSCE), primarily due to Soviet support for the idea. The US feared that the Soviet Union would use a multilateral security forum to drive a wedge between the US and its Asian allies. Japan followed the US 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 US alliance, would be seriously undermined if Japan did not participate in the emerging process of the post-Cold War institution building in the region. As a result, Japan proposed its own initiative for a multilateral security forum.

For its part, China has made an unprecedented attempt to integrate itself into the region, partly to drive out Taiwanese diplomats in its quest for recognition as the one (and

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continued to favor the US and Japan alone. Also, China is allegedly a classic model of authoritarian modernization, unconstrained by democracy and vulnerable to nationalism and militarism (Buzan 2003: 153-4). At the same time, however, the presence of security diseconomy may motivate both China and Japan to promote an appropriate minilateral 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.

20 Koo and Beason 2002: 146.
22 In July 1991, Japan abruptly reversed its years of steadfast opposition to regional security multilateralism by proposing a minilateral security dialogue within the Association of Southeast Asian Nations (ASEAN) Post-Ministerial Conference. 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. As a result, the Nakayama proposal encouraged the formation of the ARF by promoting the idea of a multilateral security dialogue connected with ASEAN (Midford 2000: 367-8, 387).
only) China, partly in response to its ostracism by the West after the 1989 crackdown at Tiananmen, and partly to neutralize the possibility that international organizations might otherwise array against it. In fact, 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 ARF to support those regional voices still concerned about excessive US influence. Despite its operational feebleness as a security regime, the ARF binds 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 Asian Financial Crisis and the Seattle Debacle
The second turning point came in the wake of the Asian financial crisis of 1997-98 and the debacle of the 1999 WTO ministerial meeting in Seattle. The combination of financial and institutional crises revealed a number of institutional weaknesses that Northeast Asian economies shared. With respect to informal market integration, the unprecedented economic shocks proved that the seemingly dense networks of Japanese and overseas Chinese business were quite vulnerable. 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 many structural problems underlying the Asian model of capitalism, such as its cronyism, unsound investments and overcapacity, many in Asia found fault with the wide practices of Western (financial) liberalism, which allegedly reinforced credit bubbles, empowered currency speculators, and created unstable collective irrationalities.

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23 Dittmer 2002: 40-1.
25 In addition, “Track Two” processes, involving government officials in their private capacities plus academics, journalists, and others, have been numerous. For instance, the Canadian-initiated North Pacific Cooperative Security Dialogue (NPCSD) was the first major Track Two program. The University of California’s Institute on Global Conflict and Cooperation (IGCC) initiated the Northeast Asia Cooperation Dialogue (NEACD) in October 1993 (Evans and Fukushima 1999). The diplomatic level of the ARF has been accompanied by the Council for Security Cooperation in the Asia-Pacific (CSCAP), another prominent example of Track Two arrangements in the region (Buzan 2003: 156).
26 Aggarwal and Koo 2005.
27 Some scholars go a step further and argue that the impact of 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 fads rather than market demand, creating overcapacity in similar manufacturing sectors such as electronics and automobiles. See Hatch 1998.
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. Although the July 2004 Geneva meetings restarted the Doha Round of WTO negotiations, the debacle in Seattle in 1999 and the failed 2003 ministerial meeting in Cancun still cast their shadow over negotiations for global trade liberalization. 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.

As a result, 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 started to weave a web of PTAs accordingly. The conclusion of Japan’s first post-World War II PTA, the Japan-Singapore Economic Partnership Agreement (JSEPA), came at this critical juncture in October 2001. As mentioned above, 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 and, to a less extent, APEC.29

The September 11 Shock
The latest turning point for the security order in Northeast Asia came with the September 11 terrorist attacks. Among the more fundamental shifts produced by September 11, the American global war on terror has called into question the fate of the Asian balance of power system. With its counterterrorism initiatives, the US is now reconfiguring its traditional security policy in Northeast Asia for strategic and logistical reasons, soliciting multilateral cooperation against terrorism while down-scaling its forward deployment.30 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 between the US, China, and Japan. On the one hand, the regional dynamic had been moving in the 1990s toward a mimesis 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

30 For instance, APEC and ARF, encouraged by the US, have adopted a series of counter-terrorism measures. Although anti-terrorism cooperation undertaken by Northeast Asian countries focuses on intelligence and information exchanges rather than substantive measures, this is a symbolically important move toward a regional security dialogue. See Acharya 2003, Buzan 2003, and Dittmer 2002.
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 coalition for anti-terrorism. Despite tensions, disagreements, and mutual misgivings, antiterrorism did provide a convenient pretext for both the US and China to restore the semblance of cordiality necessary to maintain regional stability.\(^{31}\)

In a region with an already awkward balance between the US, Japan, and China, the second North Korean nuclear standoff that began in October 2002 has set everyone scrambling. It may drive the US, 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 Non-Proliferation 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 US and North Korea.\(^ {32}\) In the wake of the September 11 attacks, 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.\(^ {33}\)

Set against this background, China began to host the Six-Party Talks in Beijing in August 2003 by extending an invitation to South Korea, Japan, and Russia to join the earlier ad hoc trilateral negotiations between the US, China, and North Korea. China’s new and remarkably proactive role sits 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, not only by its desire to address Pyongyang’s nuclear program, but also to enmesh Washington in a regional minilateral process and prevent it from taking unilateral action as it did in Iraq.\(^ {34}\) The current round of Six-Party Talks has demonstrated cooperative relationships, particularly between the US and China, on issues of mutual concern. Furthermore, the US hopes that the six-party process to persuade North Korea to

\(^{31}\) Dittmer 2002: 64-5.

\(^{32}\) KEDO was conceived to deal with a regional problem rather than build a regional institution per se. It had the ambiguous character of being a bilateral agreement between the US and North Korea and being a functioning multilateral institution with four key players—including South Korea and Japan—and an additional tier of more than a dozen financial supporters. It provided annual contributions of heavy fuel oil to North Korea, while constructing two nuclear reactors in the North. Some argued that KEDO was largely successful in working with North Korea and in fulfilling its objective of defusing the proliferation issue and providing Pyongyang with alternative energy supplies (Evans and Fukushima 1999). Yet the KEDO project was eventually suspended in the summer of 2003 as a result of the second nuclear crisis.

\(^{33}\) Park 2005: 77.

\(^{34}\) Park 2005: 76-84.
dismantle its nuclear weapons programs can serve as an embryonic structure for Northeast Asia to create new bilateral and multilateral ties.35

Certainly they have yet to produce concrete results to have a successful “party.” A core stumbling block in the talks remains the question of who takes the first step, with China emphasizing the Ukrainian example to extend security assurances and economic incentives first, while the US contends that the onus is on North Korea to dismantle its nuclear weapons infrastructure, just as Libya did, before concessions can follow.36

Yet 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).37 The recent breakthrough in the Six-Party Talks gives rise to the promise of a more permanent minilateral dialogue mechanism in Northeast Asia.38

2. 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 certain types of goods that pertain to regional institutional settings. Four types of goods are: public goods, common pool resources (CPRs), inclusive club goods, and private goods.39

Northeast 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.40 Put differently, the political initiatives and intrinsic

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36 Park 2005: 85.
38 On September 19, 2005, North Korea pledged to abandon its entire nuclear program in return for security and energy guarantee from the other parties. The agreement, although vague, was the first real achievement of the six-party negotiating process (The Washington Post, September 19, 2005).
39 The distinction between different types of goods is made along two dimensions: rivalry, which refers to the extent to which one actor’s consumption of goods affects that of the other; and excludability, which refers to the possibility of excluding non-contributors to the provision of goods from consuming them. For a discussion of each type of goods and actors’ motivations to provide them, see Aggarwal 1998, and Keohane and Ostrom 1995.
40 There is significant debate, reflecting different ideas, about how to characterize trade liberalization and international security. From one perspective, both international trade liberalization and security are seen as a public good since they are non-rival and non-excludable in consumption. Others, such as neoliberal institutionalists, see the game of trade liberalization and peace as a Prisoner’s Dilemma (PD) game, where everyone could be better off if cooperation is achieved, but where the dominant strategy is to defect. In this view, international regimes provide an institutional basis for fostering cooperation and peace that accrues only to the participants to the agreement as a club good.
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 stall or dismantle steadily in the triple post period.

By the mid-1990s, the “trade triangle” that had linked Japanese and overseas Chinese capital, developing Asian manufacturing capacities, and US market appeared to be in trouble. One major option for the crisis-ridden countries and their affected neighbors was to secure preferential access and create a more diversified export market. With traditional mechanisms within the WTO and APEC offering no salient solutions, these countries quickly turned toward PTAs to assure a market for their products.41

At the same time, the San Francisco System provided Northeast Asian countries with security as a club good made available through their alliances with the US. In a post-Cold War and post-September 11 era, however, it is unclear whether the provision of this particular type of club good will continue. Whether or not security relations in Northeast Asia evolve in a cooperative or conflictual direction will depend on how the North Korean nuclear questions are managed. Furthermore, a resolution of the Korean conflict will inevitably lead to some reduction of US military forces in the Korean peninsula and perhaps even in Japan. Americans may be eager to bring troops home, Koreans for nationalistic reasons may seek at least a partial US military withdrawal, and China is likely to oppose a robust US presence on the peninsula without the existence of the North Korean buffer. All of this does not mean that the web of bilateral security alliances will be terminated in the near future. Nevertheless, it can be reasonably argued that the traditional provision of regional security is increasingly falling short of meeting the new collective security needs. As such, a variety of regional alternatives are now being considered, among which the Six-Party Talks offer a prototype of a collective regional mechanism to deal with common security problems in Northeast Asia.

3. 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**

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41 In theory, the WTO and APEC are club goods to the extent that they require membership to benefit from trade liberalization that they materialize. Yet with the former’s global membership and the latter’s spirit of “open regionalism,” their provision of the broadest club good virtually serve as global public goods. As we argued elsewhere in more details, the weakness of these two institutions encourages the pursuit of a club good. See Aggarwal and Koo 2005.
Among others, 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. Many East Asian countries’ approach to China as a PTA 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.42

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.43 From this perspective, it is quite plausible to assume that the current quasi-alliance relationship between Japan and South Korea is likely to evolve into a full-fledged alliance in the foreseeable future—given the erosion of the US defense commitment and common security threat from North Korea. As such, the question of 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.44

As noted earlier, the rise of China has made its neighbors begin to reformulate their trade and security policy in accordance with the shifting regional balance of power. From Japan’s perspective, the China threat may reinforce its interest in the trade and security ties with the US. Yet the greater uncertainty is America’s willingness to sustain its defense commitment to Northeast Asia in a post-September 11 world. If the US did terminate its alliance with Japan and shift to what some have called an offshore balancing strategy, Japan would be inclined either to adopt an independent defense strategy that would include a nuclear arsenal as well as power projection capabilities or to engage China more deeply in trade and security relations. Between these two options, Japan would clearly be better off if it could enter into a collective security dialogue with China.45

**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, one the one hand, and the financial crisis, on the other. Domestic political structures vary widely, ranging from highly democratic—e.g., the US, Japan, and South Korea—to highly

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42 See Kwei 2005.
43 For detailed links between alliance and trade, see Gowa 1994, and Mansfield, Milner and Bronson 1997.
44 Aggarwal and Koo 2005.
45 Mochizuki 1998.
authoritarian—e.g., China and North Korea. Though with 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 ruling Liberal Democratic Party’s electoral dominance in 1993 and the end of military rule in South Korea in the same year, for instance.

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 US, Japan, and South Korea have in China might prevent them from standing up against 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. Though to a lesser degree, China would also be pressured by its domestic economic interests 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, 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. 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.

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 dispute between China and Japan in spring 2005 over the Japanese history textbooks, the sovereignty question of the offshore islands in the East China Sea, and the gas deposits in their vicinity highlighted how domestic nationalist groups can hijack the otherwise closer Sino-Japanese relations.

46 Jackson 1999.
47 Papayoanou 1996.
48 For more details about the positive role of internationalist coalitions in creating a regional zone of peace, see Solingen 1998.
49 Snyder 1996.
50 Mansfield, Milner, and Peevehouse 2004: 3.
51 Koo 2005.
For Chinese leaders, popular nationalism is a double-edged sword. On the one hand, visceral nationalist sentiment may facilitate social mobilization and solidify popular allegiance to their leadership. On the other hand, anti-foreign nationalism can quickly transform into an anti-government movement if the government is considered to be conciliatory in foreign policy. It can also undermine Beijing’s diplomatic effort at securing a stable inflow of foreign investment and technology as well as cultivating China’s image as a peaceful and responsible player in the international community. In a chain reaction, Chinese nationalist activities tend to embolden the Japanese sense of indignation against China. It is important to note that although Japanese ultranationalists are only a small fraction of Japanese population, the political disturbance they spark has been too boisterous for Japanese political leaders to ignore.

**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, and/or unilateral basis. As noted above, the combination of the Asian financial crisis and the setback in Seattle has significantly eroded the traditional confidence in multilateral trade liberalization. At the same time, the erosion of America’s military commitment to Northeast Asia in the post-September 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 regional alternatives for economic and security cooperation.

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, both old and new, would require the skillful diplomacy and tireless efforts of political leaders. There is a growing consensus 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-enhancing and that a regional security institution is the right course to take in the face of a loosening San Francisco System.

**4. Demand for Institutional Fit**

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.

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53 Koo 2005.
54 Job 2003; Tsunekawa 2005.
within the context of broader institutional arrangements such as the UN and the GATT/WTO.\textsuperscript{55}

The latest enthusiasm for PTAs in Northeast Asia and, more broadly, in East Asia 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 ASEAN Plus Three and the China-ASEAN Framework FTA. To this point, Northeast Asia’s new appetite for PTAs is geographically open with a focus on the emergent concept of an East Asian Community.\textsuperscript{56} Moreover, many of the recent PTAs attempt to cover broader areas and elements beyond trade, indicating their nature of WTO-plus or 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.\textsuperscript{57}

The evolution of the ARF presents the process of how a regional security arrangement can be nested within a broader one. The ARF was helped into being by the fact that the US, with less strategically and more economically at stake in East Asia, ended its longstanding opposition to minilateral security dialogue in the region. 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 more impressive. 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 like 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. More importantly, the ARF is a collective East Asian attempt to socialize China into being a good neighbor by entangling it in the dialogue networks as well as broader multilateral arrangements.\textsuperscript{58} In a similar vein, the invocation of the NPT and the IAEA system of safeguards in the latest agreement of the fourth round of the Six-Party Talks indicates collective efforts at nesting the minilateral process to a broader security regime.

\textbf{IV. Conclusion}

We began our analysis with the observation that the postwar trade and security order in Northeast 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 for the past fifteen plus years, however, the traditional institutional

\textsuperscript{55} See Aggarwal 1998.
\textsuperscript{56} Webber 2001.
\textsuperscript{57} Ravenhill 2005.
\textsuperscript{58} Buzan 2003: 154-7.
equilibrium in Northeast 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 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 combination of the financial and institutional crisis at the end of the 1990, and the September 11 attacks. With respect to goods, we noted that the disturbances in the tradition mechanism to provide trade liberalization and regional security motivate 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 club goods replaced a more generalized commitment to 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 at the regional level.

With respect to trade liberalization, the weakness of the WTO and APEC opens up institutional space for a NEAFTA by affecting the provision of public goods and thus the incentives for club goods. Yet much depends on the possibility of a Sino-Japanese entente. In the meanwhile, 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 a NEASD, 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 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 Northeast 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 trade and security issues, the process of which could possibly take at least a decade, if not decades.

In sum, Northeast Asia faced 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 path to deeper and wider economic and security integration in Northeast Asia is likely to be complex. One
can only hope that the burgeoning efforts to form PTAs and security dialogues will help to smooth it.
Bibliography


