

THE POLITICAL ECONOMY OF THE ASIA PACIFIC

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Northeast Asia

Ripe for Integration?



Springer

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ISBN 978-3-540-79593-3 (hardcover)
ISBN 978-1-4419-0367-9 (softcover)
DOI: 10.1007/978-3-540-79594-0

e-ISBN 978-3-540-79594-0

Library of Congress Control Number: 2008932377

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Cover design: WMXDesign GmbH, Heidelberg, Germany

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1 Economic and Security Institution Building in Northeast Asia: An Analytical Overview

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1.1 Introduction¹

How has regionalism evolved in Northeast Asia? This chapter focuses on the new developments in the region in the post-triple shocks period – namely the post-Cold War, the post-Asian financial crisis of 1997–98, and the post-September 11, 2001 attacks. We argue that Northeast Asia’s new appetite for preferential economic arrangements and regional security dialogues reflects a convergence of interests in securing inclusive club goods as an insurance policy to realize free trade, financial stability, and collective security as traditional mechanisms under the so-called San Francisco system stall or are dismantled.²

The growth of economic and security interdependence of Northeast Asian countries has been remarkable during the postwar period.

¹ We would like to thank Jin-Young Kim, Gilbert Rozman, and Peter J. Katzenstein for their valuable comments on earlier versions of this chapter. We are deeply indebted to Jonathan Chow, Edward Fogarty, and Kristi Govella for their editorial assistance. The analytical approach of this chapter has been developed in Aggarwal and Koo 2007a and 2007b. For a broader geographic and theoretical perspective, see Aggarwal and Koo 2007c.

² 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.

Yet, seen in comparative regional perspective, Northeast Asia's economic and security cooperation has lacked significant formal institutionalization at the regional level.³ During the Cold War period, the San Francisco system defined Northeast Asian economic and security relations. Against the background of bitter memories of Japanese colonialism, unresolved sovereignty issues, and ideological divides 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 areas of security (e.g., the United Nations, or UN), trade (e.g., the General Agreement on Tariffs and Trade, or GATT), and finance (e.g., the International Monetary Fund, or IMF).

In recent years, however, the traditional institutional order that has governed economic and security relations in Northeast Asia has come under heavy strain. The geopolitical complexity surrounding the Korean Peninsula and the novel dynamics of Sino-Japanese rivalry with the rise of China are currently shaping a new regional institutional architecture in both economic and security issue areas. In the post-triple shocks period, the increasingly visible erosion of Northeast Asian countries' confidence in the conventional approach has manifested itself in the proliferation of preferential trade agreements, financial arrangements, and minilateral security dialogues.

This chapter proceeds as follows. [Section 1.2](#) examines Northeast Asian regional trends and provides a systematic categorization of different types of economic and security arrangements. [Section 1.3](#) develops an institutional bargaining game approach to analyze Northeast Asia's new institutional architecture in trade, finance, and security. [Section 1.4](#) lays out the structure of the book, highlighting the nexus between economics and security. Finally, [Sect. 1.5](#) summarizes the argument and draws policy implications.

³ Katzenstein 1997 and 2005; Cumings 1997; Grieco 1998; Evans and Fukushima 1999; Duffield 2003; and Calder and Ye 2004.

1.2 Northeast Asia's Changing Institutional Map

The San Francisco institutional architecture served Northeast Asia well for the Cold War period, while obviating the need for any significant regional arrangements. The US served not only as the principal architect of the regional order, but also as a power balancer between Japan and China, as well as between the two Koreas, and between China and Taiwan. US hegemony also played a critical role in gluing together its key allies through open access to its market, thus creating a unique mix of bilateralism and multilateralism.

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. By the early 1990s, 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 comprising the outer one.⁴ Alongside this Japan-centered economic system emerged 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 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.⁶

Yet, more recently, the traditional institutional equilibrium in Northeast Asia has come under heavy strain. Although Northeast Asian countries continue to pay lip service to their commitment to transregional and global institutions such as Asia-Pacific Economic Cooperation (APEC), the GATT and the World Trade Organization (WTO), and the IMF, the erosion of their confidence is visibly indicated by

⁴ Bernard and Ravenhill 1995; and Hatch and Yamamura 1996.

⁵ Ernst 1997; and MacIntyre 1994.

⁶ Katzenstein 1997 and 2005.

the proliferation of free trade agreements (FTAs) and currency swap agreements.⁷ In a similar vein, there have been various official and unofficial, formal and informal, and bilateral and minilateral dialogues to resolve regional security issues ranging from the rise of China, the Taiwan Straits issue, and the North Korean nuclear crisis. Certainly, the strength and effectiveness of these security 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 of exchanging information and opinions, which should be promising signs for regional peace and stability.⁸

As a basis for analyzing the dynamic process of institutional change in the post-triple shocks period, we systematically classify the types of arrangements that have been pursued in Northeast Asia, providing illustrating a snapshot of the institutional landscape in the region. In terms of the number of participants, these include unilateral, bilateral, minilateral, and multilateral arrangements; in terms of coverage, the range has been narrow in scope or quite broad. In addition, some arrangements tend to be focused geographically, while others bind states across long distances. Finally, other characteristics might include the strength and institutionalization of accords and their timing. Of these many possible dimensions, we focus on two in particular in order to simplify this narrative description, namely actor scope and geography.⁹

⁷ Aggarwal and Koo 2005; Pempel 2005; Aggarwal and Urata 2006; and Solis and Katada 2007.

⁸ Evans and Fukushima 1999; Buzan 2003; Job 2003; Prichard 2004; Park 2005; and Bullock 2005.

⁹ The question of how to define a region remains highly contested. Although we acknowledge that simple distance is hardly the only relevant factor in defining a geographic region, we maintain that geography matters and that a region is firmly rooted in territorial space. For us, the inverse relationship between distance and international trade/finance/security still holds due to transportation and deployment costs. Therefore, we define a pair of countries as geographically concentrated if they are contiguous on land or within 400 nautical miles (the sum of two countries' hypothetical 200-nautical mile exclusive economic zones); otherwise, we view them as being geographically dispersed. According to our definition, Japan and Singapore are geographically dispersed although the two countries are traditionally considered "East Asian" countries. At the same time, China is geographically contiguous to both Southeast and Northeast Asian countries due to its huge land area. See Aggarwal and Koo 2005, 96.

As shown in Table 1.1, we do not illustrate issue or product coverage and the strength or level of institutionalization of agreements for sake of presentation, although the authors of the case study chapters discuss these elements at length.

Table 1.1 Modes of economic and security arrangements in Northeast Asia

Number of Actors					
Unilateral	Bilateral		Minilateral		Multilateral
	Geographically concentrated	Geographically dispersed	Geographically concentrated	Geographically dispersed	
(1)	(2)	(3)	(4)	(5)	(6)
APEC Individual Action Plans (IAPs)	Japan—China, Japan—South Korea, and China—South Korea currency swap agreements	Japan—Singapore EPA (2002) Korea—Chile FTA (2002) Taiwan—Panama FTA (2003)	China—ASEAN FTA (2003) Northeast Asian FTA (proposed)	TRADP (1992) APEC (1989) EAEC (1994) ASEM (1996) AMF (1997) ASEAN Plus Three (1998) CMI (2000) ABMI (2003)	IMF (1945) World Bank (1945) GATT/WTO (1947/1995) ITA (1997) BTA (1998) FSA (1999) South Korea—EFTA FTA (2005) South Korea—ASEAN FTA (2006) Japan—ASEAN CEP (under negotiation) South Korea—EU (under negotiation) ACU (under study)
<i>Trade and Financial Arrangements</i>	Japan—South Korea FTA (under negotiation)	Japan—Mexico FTA (2004) Korea—Singapore FTA (2005)			
	China—South Korea FTA (under study)	Japan—Malaysia FTA (2005) China—Chile FTA (2005)			
		South Korea—US FTA (2007)			
		Currency swap between Japan/South Korea and ASEAN			

Security Arrangements	Unilateral use of force	Joint military exercises	US military treaties with Japan, South Korea, and Taiwan	CSCAP (1993)	UN operations (1945)
	Arms acquisition			NEACD (1993)	NPT (1970)
				ARF (1994)	PSI (2003)
				SCO (2001)	
				Six-Party Talks (2003)	

*Adapted from Aggarwal 2001. Updated December 2007 with examples

The first column of Table 1.1 consists of unilateral measures. Unilateral trade and financial liberalization associated with Northeast Asian countries may include APEC-fostered efforts such as Individual Action Plans (IAPs).¹⁰ Yet, unilateral trade and financial liberalization efforts have been rare in Northeast Asia as in other regions. Meanwhile, unilateral security measures often involve actions that are detrimental to regional security. For example, China’s and North Korea’s respective threats of force in the Taiwan Strait and the Korean Peninsula have frustrated their neighbors as well as the US, destabilizing relations in the region.

Along with the bilateral currency swap agreements between China, Japan, and South Korea, the prospective Japan–South Korea and South Korea–China FTAs fall into the category of *geographically concentrated* bilateral subregionalism. More often than not, such agreements indicate not only geographic, historic, and cultural affinity but also complementary industrial structures. Their counterpart in the security realm can be found in the formal talks about joint military exercises between South Korea and Japan, and South Korea and China.¹¹

The category of *geographically dispersed bilateral transregionalism* in trade issue areas includes the bilateral FTAs between Japan–Singapore (2002), South Korea–Chile (2002), Japan–Mexico (2004), South Korea–Singapore (2005), China–Chile (2005), and South Korea–US (2007). Various bilateral currency swap agreements between Japan–South Korea and Southeast Asian countries represent bilateral financial transregionalism. Meanwhile, the most significant

¹⁰ We define IAPs as unilateral measures since they are prepared and implemented individually and voluntarily even if the initiative was suggested multilaterally.

¹¹ On FTAs in the Asia-Pacific, see Aggarwal and Urata 2006; and Dent 2006.

bilateral transregional defense ties exist between Northeast Asian countries and the US. As noted previously, the post-World War II US grand strategy has revolved around bilateral security and economic ties with its allies in the region.

The next category is *geographically focused minilateral subregionalism*. In the post-Cold War period, China presented one of the first proposals for Northeast Asian economic cooperation to develop the so-called golden delta of Tumen River in 1990. 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.¹² In the meantime, the Japanese foreign minister first proposed the idea of a Northeast Asian Free Trade Agreement (NEAFTA) in August 1998, which was followed by a series of feasibility studies and tripartite summit meetings on the sidelines of the ASEAN Plus Three (APT). The ASEAN–China FTA framework agreement of 2002 falls in this category as well. In sharp contrast, there exist few examples of Northeast Asian initiatives for exclusively subregional minilateral security arrangements, reflecting the still-dominant role by an outside power – the US.

The next category refers to *geographically dispersed transregionalism or interregionalism*. Such arrangements in economics include the East Asian Economic Caucus (EAEC, 1994), APEC (1989), the (Asia–Europe Meeting (ASEM, 1996), the APT (1998), the ASEAN–Japan Closer Economic Partnership agreement (proposed in 2002), the South Korea–EFTA FTA (2005), and the South Korea–ASEAN FTA (2006). In the financial issue area, various transregional, minilateral arrangements include the ill-fated Asian Monetary Fund (proposed in 1997), the Chiang Mai Initiative (2000), an Asian Bond Market Initiative (ABMI, proposed in 2002), and an Asian Currency Unit (ACU, proposed in 2002).

On the security front, Northeast Asia lacks the equivalent of the North Atlantic Treaty Organization (NATO) or the Organization for Security and Cooperation in Europe (OSCE) for the Euro-Atlantic region, leaving regional security coordination underinstitutionalized.

¹² However, due to the first North Korean nuclear crisis in 1993 and the lack of coordination among participating local and national governments, this collective development plan failed to make any progress by the mid-1990s.

The ASEAN Regional Forum (ARF, 1994) is virtually the only permanent regional security forum in which Northeast Asian countries and the US participate simultaneously.¹³ APEC remains a transregional economic forum although it has also been used as an arena in which to discuss security matters, particularly since the September 11 terrorist attacks. Yet, it is notable that non-governmental organizations are increasingly becoming active at the transregional level – the Council for Security Cooperation in the Asia-Pacific (CSCAP, 1993) and the Northeast Asian Cooperation Dialogue (NEACD, 1993), for instance. In the meantime, China organized the Shanghai Cooperation Organization (SCO) in June 2001 to capitalize on earlier joint confidence-building efforts among China, Russia, Kazakhstan, Tajikistan, Kyrgyzstan, and Uzbekistan. Given that Central Asia is abundant in gas and oil deposits, China has recently put more of its diplomatic capital into the SCO due to concerns about a global energy shortage. Most recently, the Six-Party Talks (SPT, 2003) process, initiated to resolve the second North Korean nuclear crisis, has presented the possibility of evolving into a permanent security forum in the Northeast Asian region.

The final category is multilateral globalism. Trade arrangements in this realm include broad-based accords such as the GATT of 1947 and its successor organization, the WTO of 1995. Their counterparts in the financial issue area have been the IMF (1945) and the World Bank (1945). Northeast Asian countries have also been participants in multilateral sectoral market opening agreements such as the Information Technology Agreement (ITA, 1997), the Basic Telecom Agreement (BTA, 1998), and the Financial Services Agreement (FSA, 1999). In pursuit of security assurances, all the Northeast Asian countries – with the exception of Taiwan – have become UN members in the postwar period. As a result of the North Korean nuclear crisis, the importance of sectoral security arrangements within and outside the UN

¹³ Given the heterogeneous policy preferences of the key players in Northeast Asia during the Cold War period, this was not surprising. The U.S. remained concerned about how such a regional dialogue might constrain its military forces and weaken bilateral alliances. Japan also remained reluctant about pushing hard for more substantive regional security dialogues. For fear of international pressure on its domestic affairs, China opposed any moves in this direction as well. See Duffield 2003.

such as the Nuclear Non-Proliferation Treaty (NPT, 1970) and the Proliferation Security Initiative (PSI, 2003) has also grown in Northeast Asia.

1.3 An Institutional Bargaining Game Approach and the Evolution of Northeast Asian Regionalism

To systematically analyze the evolution of new institutional architecture in Northeast Asia, we develop an institutional bargaining game framework, focusing on the interplay of four broadly defined causal elements, namely external shocks, goods, individual bargaining situations, and the existing institutional context.¹⁴

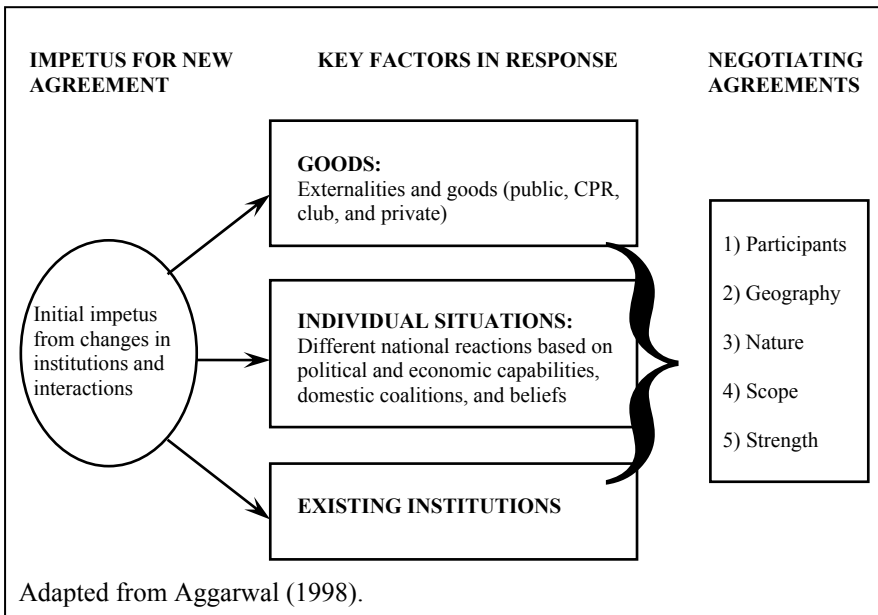


Fig. 1.1 The evolution of economic and security arrangements

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

¹⁴ Aggarwal 1998.

supply of certain types of goods that pertain to either economics 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 or modify existing ones, they must decide whether and to what extent those institutions will be linked to global multilateral institutions. [Figure 1.1](#) illustrates the key elements and process of our institutional bargaining game approach.

1.3.1 The Post-Triple 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 Asian financial crisis, and the September 11 attacks.

The Post-Cold War Shock

The aforementioned 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.¹⁵ 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 between 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.¹⁶

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

¹⁵ Calder 2003.

¹⁶ Buzan 2003; Friedberg 2005; and Christensen 2006.

Asian countries to consider institutionalizing their economic and security ties.¹⁷ The end of the Cold War reduced the significance of ideological divisions and has 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.¹⁸

As noted earlier, 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, North Korea, South Korea, and Mongolia. Meanwhile, the first North Korean nuclear crisis in the early 1990s called for collective efforts at persuading North Korea to abandon its secret nuclear weapons program. Aside from existing multilateral institutions such as the NPT and the International Atomic Energy Agency (IAEA), the Korean Peninsula Energy Development Organization (KEDO) – based on the 1994 Agreed Framework between the US and North Korea – assumed the important role of providing North Korea with two light water reactors and heavy fuel oil in return for North Korea's proposal to freeze its nuclear weapons program. Despite sometimes ambiguous mandates and responsibilities of participating countries including the US, Japan, South Korea, and the European Union, KEDO functioned relatively well in fulfilling its objective of defusing the proliferation issue and providing Pyongyang with alternative energy supplies until it was suspended in summer 2003 as a result of the second nuclear crisis.¹⁹

The contribution of the end of the Cold War to Northeast Asia was more visible in the security issue area. 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 US 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. As a potentially dissatisfied rising power, China would most likely challenge the existing regional order if these arrangements continued

¹⁷ Breslin and Higgott 2000; and Ravenhill 2006.

¹⁸ Gowa 1994.

¹⁹ Stanley Foundation 2006.

to favor the US and Japan. Also, China's authoritarian regime is vulnerable to unconstrained ultra-nationalism thanks to its legitimacy deficit. At the same time, however, the presence of a security diseconomy may motivate the three major powers 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.

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 American 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. Against this backdrop, Japan proposed its own initiative for a multilateral security forum – the Nakayama proposal.²⁰

For its part, China has made a serious effort to engage the East Asian region, partly to discourage Taiwan's quest for diplomatic recognition and partly to neutralize the possibility that international organizations might undermine China's national sovereignty. As the 1990s unfolded, China's relations with East Asian countries were manifested in a mix of unilateral assertiveness (over Taiwan and the inhabited islands in the East and South China Seas) and increasingly confident use of multilateral economic and security fora such as APEC and the ARF to mitigate the region-wide concern about the rise of China.²¹

²⁰ In July 1991, Japan abruptly reversed its longstanding opposition to regional security institutions and proposed 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 conservative regional security policy under America's nuclear umbrella. Although it did not materialize as proposed, the Nakayama proposal did encourage the formation of the ARF by promoting the idea of a multilateral security dialogue connected with ASEAN. See Midford 2000, 367-8, 387.

²¹ Foot 1998; Dittmer 2002; Buzan 2003; and Shambaugh 2004/05.

Despite its operational feebleness as a security regime, the ARF binds Japan and China together into a regional institutional framework, as does APEC. In addition, “Track Two” initiatives – involving government officials in their private capacities, academics, journalists, and others – proliferated during this period. For example, the Canadian-initiated the North Pacific Cooperative Security Dialogue (NPCSD), the first major Track Two program, began in 1990. The University of California’s Institute on Global Conflict and Cooperation initiated the Northeast Asia Cooperation Dialogue (NEACD) in October 1993. And the Council for Security Cooperation in the Asia-Pacific (CSCAP) is another prominent example of Track Two arrangements.²²

The Post-Asian Financial Crisis Shock

The second turning point came in the wake of the Asian financial crisis of 1997–98 followed by the debacle of the 1999 WTO ministerial meeting in Seattle. The financial crisis and the institutional crisis of the WTO revealed a number of shared weaknesses among Northeast Asian economies.²³ 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.²⁴ 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. 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 riots in Seattle in 1999 and the failed 2003 ministerial

²² Buzan 2003, 156; and Evans and Fukushima 1999.

²³ Aggarwal and Koo 2005.

²⁴ 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.

meeting in Cancun continued to cast their shadow over negotiations for global trade liberalization.

With respect to finance, 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 adoption of Western financial liberalism, which allegedly reinforced credit bubbles, empowered currency speculators, and created unstable collective irrationalities. This concern was only heightened by the IMF's role in the Asian financial crisis, which Asian leaders and even Western economists heavily criticized.²⁵

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. Many in the region believed that US pressure slowed APEC's response to the crisis. At the November 1997 APEC summit meeting, US President Bill Clinton described the Thai and Malaysian currency crises as "a few small glitches in the road."²⁶ But the US strategy appeared to backfire almost immediately, as the currency crisis spread beyond Thailand and Malaysia, quickly moving to the larger economies of Indonesia and South Korea. Japan took the lead in September 1997 with a proposal for an AMF, to be backed by \$100 billion that they had lined up in commitments in the region. However, the IMF, supported by the US and European countries, resisted any effort to find an "Asian" solution to the crisis. In particular, the US viewed such regional funds as undercutting its preferred approach of IMF loans accompanied by strict conditionality.²⁷

Not surprisingly, Northeast Asian countries came to recognize that tighter institutionalization of intraregional commercial and financial ties might be a better commitment mechanism for providing economic

²⁵ Stiglitz 1998; Bergsten 2000; and Wade 2000.

²⁶ David Sanger, "One year later, Asian economic crisis is worsening." *The New York Times*, 6 July 1998.

²⁷ It is in this broad context that the Chiang Mai Initiative (CMI) was developed, by the APT Finance Ministers. The accord started at a meeting in May 2000 and created a network of bilateral swap arrangements to provide short-term liquidity for countries facing financial pressures. It has continued to grow, with a host of agreements concluded by Japan and other East Asian countries. Currently, APT finance ministers have set a target of \$70 billion and called for the purely bilateral accords to be multilateralized. For more details, see Chap 4 of this volume by Katada and Solis.

security, and started to weave a web of preferential arrangements. 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. Aside from standard welfare calculations, emerging interest in PTAs reflects their role as a convenient venue in which Japan and China can 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 demonstrate a continued Japanese capability to lead within East Asia by doing the same, Japan proposed a Japan–ASEAN FTA shortly thereafter.²⁸

The impact of the Asian financial crisis on Northeast Asian security is seemingly unclear, but the role played by South Korean President Kim Dae-jung needs to be underscored. Kim pursued a drastic reform agenda in the wake of the financial crisis. In particular, his conciliatory engagement policy toward North Korea, which culminated in the June 2000 inter-Korean summit, created a great deal of diplomatic capital for South Korea to address proactively Northeast Asia's delicate issues of peace and stability.²⁹ Kim also proposed a six-nation Northeast Asian Security Dialogue (NEASD) involving the two Koreas, the US, China, Japan, and Russia. The proposal was an extension of the Four-Party Talks to reduce tension on the Korean Peninsula and to establish a peace regime there. While Japan and Russia (excluded from the Four-Party Talks) naturally supported the six party NEASD forum, this and similar proposals for collective or cooperative security failed to gain Chinese and American approval.³⁰

²⁸ Aggarwal and Koo 2005; and Pempel and Urata 2006.

²⁹ In February 1998, Kim announced that he would pursue what he called the “sunshine policy” with North Korea, in hopes of encouraging greater discussion and cooperation with Pyongyang. The policy was inspired by the old Aesop's fable about the sun getting more results than the fierce wind. In December 2000, the Norwegian Nobel Committee, in recognition of Kim's “extraordinary and lifelong works for democracy and human rights in South Korea and East Asia in general, and for peace and reconciliation with North Korea in particular,” awarded him the Nobel Peace Prize.

³⁰ Kim 2004, 15.

The Post-September 11 Shock

The most recent turning point for the security order in Northeast Asia came with the September 11 terrorist attacks. Among the more fundamental shifts produced by 9/11, the American global war on terror has called into question the future of Asia's balance of power politics. With its counterterrorism initiative, the US began reconfiguring its traditional security policy in Northeast Asia for strategic and logistical reasons, thereby significantly departing from its conventional emphasis on bilateral security ties under the San Francisco system.

First, the US now solicits multilateral cooperation against terrorism. In May 2003, for instance, President George W. Bush announced the establishment of the Proliferation Security Initiative (PSI), which created international agreements and partnerships that allowed the US and its allies to search planes and ships carrying suspect cargo and to seize illegal weapons or missile technologies. Existing regional institutions such as APEC and the ARF, encouraged by the US, have also 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, these changes constitute a symbolically important move toward a regional security dialogue.³¹

Second, two key developments in the US defense posture, which had begun in the post-Cold War period, clearly accelerated in the post-9/11 period. The first defense transformation sought to shift US defense planning from the clear threat-driven model of confronting the Soviet Union in the Cold War to a capability focus that would allow the US to respond to unknown future threats. The second shift came with the 2002 Global Posture Review, which focused on realigning the positioning of US forces to cope with these unknown threats. Together, these two elements brought about significant changes in the US deployment of troops in both Japan and South Korea. Unmistakably, the issue of repositioning US forces – and possibly using these forces for intervention in hot spots in the region or elsewhere – has created tensions in US alliances with Japan and South Korea. In particular, the US decision to move away from a “tripwire” strategy by shifting

³¹ Dittmer 2002; Acharya 2003; and Buzan 2003.

troops away from the demilitarized zone (DMZ) to south of Seoul has raised questions about joint command issues, and the eventual number of troops in South Korea. In the case of Japan, the US focus has increasingly shifted from its current deployment of troops in Okinawa (always a sensitive domestic political issue in Japan) to its forward deployment in Guam.

In a region with an already awkward balance between the US, Japan, and China, the second North Korean nuclear standoff, which culminated in Pyongyang's announcement on October 9, 2006 that it had successfully conducted an underground test of a nuclear device, has set everyone scrambling. From an institutional point of view, the second North Korean nuclear crisis reflects the mixed results of previous multilateral efforts – such as the NPT, the IAEA safeguards agreement, and KEDO. In the wake of the 9/11 attacks, therefore, the US shifted its focus on North Korea from preserving the international nuclear nonproliferation regime to preventing terrorist groups and rogue states from acquiring nuclear weapons or fissile material. Yet, the US was soon to find itself lacking the support of China and South Korea, both of which preferred a conciliatory approach to the North.

On the one hand, the impact of America's neoconservative foreign policy since 2001 has accelerated Sino-American rivalry, while consolidating Washington's relations with Tokyo and Taipei in spite of Beijing's grievances. On the other hand, 9/11 (and the North Korean nuclear crisis) provided a convenient pretext for both the US and China to restore the minimum cordiality necessary to maintain regional stability, as a result of Beijing's support for the grand coalition for anti-terrorism.³² In the meantime, the US focus on terrorism, combined with President's Bush's characterization of North Korea, Iraq, and Iran as an "axis of evil" in his 2002 State of the Union address and his neglect of President Kim's Sunshine Policy, created a rift in US–South Korean relations.

Set against this backdrop, China began to host the Six-Party Talks (SPT) 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

³² Dittmer 2002, 64-5.

remarkably proactive role sits in direct contrast to its hands-off approach during the first North Korean nuclear crisis. Beijing has been particularly motivated this time, not only by its desire to pacify Pyongyang's nuclear program, but also to constrain Washington in a regional multilateral process and prevent it from taking unilateral action as it did in Iraq.³³

As such, the current SPT process has demonstrated cooperative relationships, particularly between the US and China. Certainly the SPT has yet to produce concrete results. A core stumbling block in the talks remains the question of who takes the first step. China and the two Koreas emphasize the Ukrainian example of extending security assurances and economic incentives first. In contrast, the US and Japan contend that the ball is in the North Korean court to completely dismantle its nuclear weapons infrastructure, just as Libya did, before concessions can follow.³⁴

Such complexities notwithstanding, the current nuclear crisis on the Korean Peninsula and the formation of the SPT 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).³⁵ Indeed, the breakthrough made in the SPT in February 2007 gives rise to the promise of a more permanent multilateral dialogue mechanism in Northeast Asia.³⁶

In economic relations, trade policy has changed dramatically in the post-September 9/11 world, although the changes in Northeast and

³³ Park 2005, 76-84.

³⁴ *Ibid.*, 85.

³⁵ Pritchard 2004, 1-3.

³⁶ On February 13, 2007, after marathon negotiations, the six parties reached an agreement that could lead North Korea to dismantle its nuclear facilities in return for the other parties' provision of fuel oil and other aid. Although the accord left the actual removal of North Korea's nuclear weapons and nuclear fuel to an undefined moment in the future, five working groups would separately negotiate the details of denuclearization, normalization of North Korea-U.S. and North Korea-Japan relations, economic and energy cooperation, and regional peace and security mechanisms. See Jim Yardley and David E. Sanger "In Shift, a Deal is Being Weighed by North Korea," *The New York Times*, 14 February 2007

East Asia were not originally related to the terrorist attacks.³⁷ Most notably, America's new trade policy has become the driving forces behind the changes in trade dynamics in Northeast Asia. Until the end of the 1990s, the US only had FTAs with Israel (1985) and Canada (1988), the latter evolving into NAFTA with the inclusion of Mexico. In 2002, however, President George W. Bush obtained trade promotion authority (TPA) from Congress, and in 2003 completed FTAs with Chile and Singapore, which Congress passed by substantial margins.³⁸ Although the US was slower off the mark than the and countries such as Chile and Mexico, its actions have inspired fear in Asia of a return to a bilateral world, causing Northeast Asian governments to accelerate their rapid turn toward bilateral accords.

Concluded on April 1, 2007, the South Korea–US (KORUS) FTA aptly shows how the US and its Northeast Asian counterparts can simultaneously, albeit implicitly, pursue economic benefits and strategic interests in trade negotiations. In addition to the goal of maximizing the gains from trade and investment, the US realized that an FTA with South Korea would give Washington a strong foothold to maintain its strategic and economic presence in Northeast Asia, while South Korea wanted to hedge against the growing strategic uncertainties in the region by cementing its economic ties with the US. Furthermore, the KORUS FTA has the potential to alter the dynamics of the diplomatic and security relations in Northeast Asia where the balance of power is shifting due to the rise of China, the normalization of the Japanese state, and the nuclear adventurism of North Korea.³⁹

1.3.2 Goods: Trade Liberalization, Financial Stability, and Regional Security

An external shock may create either positive or negative externalities for countries that are not immediate participants in the precipitating

³⁷ For example, the Japan-Singapore agreement was concluded in October 2001, but had already been in motion for some time.

³⁸ The U.S. has since negotiated, or is in the process of negotiating or ratifying FTAs with Australia, Morocco, the South African Customs Union (SACU), Central America (including the Dominican Republic, Panama, Chile, Colombia, and Peru), South Korea, and Thailand.

³⁹ Lee and Koo 2006; and United States Trade Representative 2007.

event, thereby stimulating or impeding the supply of certain types of goods that pertain to regional institutional settings. The four types of goods are: public goods, common pool resources (CPRs), inclusive club goods, and private goods.⁴⁰

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.⁴¹ Put differently, the political initiatives and intrinsic interest in creating regional economic and security arrangements reflect the growing need for an insurance policy to realize free trade, financial stability, and regional security when traditional mechanisms under the San Francisco System stall or continue to be steadily dismantled in the post-triple shocks period.⁴²

By the mid-1990s, the "trade triangle" that had linked Japanese and overseas Chinese capital, developing Asian manufacturing capacities, and the 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

⁴⁰ 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.

⁴¹ There is significant debate 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.

⁴² Our claim reflects an important assumption that Northeast Asian countries have an implicit sense of their *shared fate* or *indivisibility*, which makes them seek club goods that all regional partners can benefit from, as opposed to seeking competitive, private goods. We thank Edward Fogarty for this point.

solutions, these countries quickly turned toward FTAs to assure a market for their products.⁴³

In the financial issue area, the success of the US and the IMF in forestalling creation of a rival financial institution, the AMF, was embodied in the November 1997 Vancouver APEC summit meeting leaders' endorsement of the so-called Manila framework. The framework called for the IMF to take the lead in providing emergency loans to Thailand, Indonesia, and South Korea, with APEC member countries taking only a secondary role, if necessary, to supplement IMF resources on a standby basis without any formal commitment of funds. Thus, with APEC's action providing a seal of approval for the US-IMF backed plan, the AMF idea was put on hold. Along with severe austerity programs imposed by the IMF, a conspiracy theory that the US was behind the IMF-led Asia bashing heightened Asian countries' deep distrust of the "global public good" exclusively provided by the IMF.

In the security issue area, the San Francisco system provided Northeast Asian countries with security as a club good made available through their alliances with the US (and the Soviet Union as well). In a post-Cold War and post-September 11 era, however, it is unclear whether the provision of this particular type of club good would continue. Whether or not security relations in Northeast Asia evolve in a cooperative or conflictual direction will depend on how the questions of North Korean nuclear adventurism and the rise of China are managed. Although this does not mean that the web of bilateral security alliances will be terminated any time soon, the traditional provision of regional security is increasingly falling short of meeting new collective security needs. As such, a variety of regional alternatives are now being considered, among which the Six-Party Talks process offers a prototype of a collective regional mechanism to deal with common security problems in Northeast Asia.

⁴³ 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 serves as provision of global public goods. As we have argued elsewhere in more detail, the weakness of these two institutions encourages the pursuit of club goods. See Aggarwal and Koo 2005.

1.3.3 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

In Northeast Asia, two aspects of shifting international context have been the basis for exploring institutional cooperation in trade, finance, and security. The first international factor concerns the rise of China within the international continuum of economic development. In general, a country with a large market – either actual or potential – is more likely to entice others to seek it out as an economic 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 stronger bargaining position.⁴⁴

As to the second international factor, collective security concerns may also drive an interest in institutionalizing trade, finance, and security management. Again, the rise of China provides a focal point. More often than not, countries tend to prefer preserving trade and financial relations with their (potential) allies, while avoiding such ties with enemies because the relative gains resulting from economic interdependence can cause changes in the relative distribution of power.⁴⁵ As noted earlier, the rise of China has pushed its neighbors to reformulate their trade and security policy to respond to the shifting regional balance of power. From this perspective, 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. For Japan, the China threat

⁴⁴ Kwei 2006.

⁴⁵ Gowa 1994; and Mansfield, Milner, and Bronson 1997.

may reinforce its interest in the economic and security ties with the US. Yet, the greater uncertainty concerning America's willingness to sustain its defense commitment to Northeast Asia in a post-September 11 world might prevent Japan from adopting an assertive defense strategy that would include a nuclear arsenal as well as power projection capabilities. Instead, Japan is likely to engage China more deeply in economic and security relations.

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 post-triple shocks. Domestic political structures vary widely, ranging from highly democratic – that is, the US, Japan, and South Korea – to highly authoritarian – that is, 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.⁴⁶

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. For instance, the democratic political systems of the US, Japan, and South Korea are most likely to enable business communities to pressure their respective governments not to contain China for fear of losing lucrative economic interests. To a lesser degree, the Chinese government would also be pressured by its domestic economic interests to maintain good relations with its rich neighbors.⁴⁷

⁴⁶ In Japan, the ruling Liberal Democratic Party's electoral dominance was terminated (albeit temporarily) in 1993. In South Korea, the military rule ended in the same year and the opposition party seized power for the first time five years later in the middle of the Asian financial crisis. In the meantime, political leadership changes toward a more conservative direction coincided in the U.S., China, Japan, and South Korea in 2001-2003.

⁴⁷ For more details about the positive role of internationalist coalitions in creating a regional zone of peace, see Solingen 1998.

By contrast, 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.⁴⁸ As Northeast Asian countries move from authoritarianism toward greater political pluralism, the twin challenges of responding to nationalist sentiments and maintaining political legitimacy may constrain the political leeway with which to deal with complex economic and security interdependence and institution-building processes.⁴⁹

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 multi-lateral, minilateral, bilateral, and/or unilateral basis. As noted earlier, the triple shocks have significantly eroded the traditional confidence held by Northeast Asian political and business leaders regarding global economic and security institutions. At the same time, the erosion of America's military commitment to Northeast Asia in the post-9/11 period has made led to a scramble for alternative security mechanisms.

These changes have led to the construction of new ideational formulas that support regional alternatives for economic and security cooperation. To be sure, new perceptions and ideas alone will not settle all of the enduring disputes and confrontations in Northeast Asia in the short run.⁵⁰ In light of the rising pressure of assertive nationalism

⁴⁸ Mansfield, Milner, and Peevehouse 2004, 3.

⁴⁹ Furthermore, 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 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 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 otherwise closer Sino-Japanese relations; see Koo 2005, 184-191.

⁵⁰ Indeed, the political cleavages between China and Japan over territorial issues and historical animosities pose critical obstacles to deeper regional institutionalization. Moreover, China and Japan offer different visions of a regionally integrated economic

and fluid geopolitics in the post-triple shocks period, even the mere containment of economic and security tensions, both old and new, would require the skillful diplomacy and tireless efforts of political and business leaders.

Such ideational and perceptual changes will nevertheless provide Northeast Asian countries with the basic conditions for improving their relationship in the long run and lay the groundwork for a potentially robust regional institutional architecture. In this regard, 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.⁵¹ Many experts in the region are part of an epistemic community and Track Two organizations, and share the view that regional arrangements can be trade-, investment-, and security-enhancing rather than diverting.⁵²

As highlighted in previous sections, various formal and informal regional arrangements have provided a more pragmatic means than global multilateralism or traditional bilateralism to address regional issues. For instance, China's nationalist domestic audience is more likely to disapprove of any bilateral compromises that China would make with the US and Japan than a diplomatic bargain in a regional minilateral setting. Similarly, the South Korean government is less likely to be constrained in Track Two diplomacy than in bilateral or multilateral interactions with the US, Japan, and/or China. In addition, Japan's drive to become an international power is more likely to succeed without setting off regional alarm bells if such growth is managed within regional minilateral frameworks. Although their strength and effectiveness remain unclear, the variety of channels for economic and security interactions in Northeast Asia certainly indicates promising signs for regional cooperation.⁵³

community, with Japan advocating the inclusion of external actors such as Australia, New Zealand, and India, and China preferring a more exclusively East Asian membership. See Oba 2007, 111-114.

⁵¹ Koo 2005, 252-256.

⁵² Job 2003; and Tsunekawa 2005.

⁵³ Ye 2007, 148-149.

1.3.4 Demand for Institutional Fit

Our institutional bargaining game approach posits that, as countries attempt to meet their trade, financial, and security needs in a new environment, they often negotiate the number of participants, geographic coverage, scope, and strength of new arrangements or modify existing ones. At the same time, they strategically interact with each other within the context of broader institutional arrangements such as the GATT/WTO, the IMF, and the UN.

The latest enthusiasm for preferential economic institutions in Northeast Asia and, more broadly, in East Asia seems to revolve around bilateral arrangements (such as FTAs and currency swap agreements) as a popular mode of participation, while there are also strong indications of minilateral participation such as the APT, the ASEAN–China Free Trade Area (ACFTA), the CMI, and the ABMI.

To this point, Northeast Asia's new appetite for FTAs is geographically open with a focus on both intra- and extra-regional arrangements.⁵⁴ Also, many of them attempt to cover broader areas and elements beyond trade – such as labor, environment, investment, government procurements, and harmonization of standards – 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 – such as agriculture – are deliberately excluded, thereby setting up the possibility of institutional conflict.⁵⁵ In the financial issue area, Northeast Asia's nascent but promising efforts at institutionalizing their financial and monetary relations revolve around a more exclusively “Asia”-focused institutions such as the CMI, the ABMI, the ACU, and the AMF, all of which implicitly challenge the IMF-centered US dollar-based financial system.

In Northeast Asia, the geographic scope of regional security dialogues is mixed. Some prominent examples – such as the ARF, CSCAP), and the NEACD – have broad-based membership beyond the geography of Northeast Asia, although the Northeast Asian membership outweighs its non-Asian counterpart – except for the US – in terms of political significance. Despite potential tensions stemming from

⁵⁴ Solis and Katada 2007.

⁵⁵ Ravenhill 2006.

the shifting global and regional balance of power, the goals and operations of these institutions are not necessarily incompatible with US designed global security architecture. Aside from the deep US engagement in the North Korean nuclear crisis, the invocation of the NPT and the IAEA system of safeguards in the latest breakthrough of the Six-Party Talks indicates collective efforts at nesting the regional minilateral process within a broader security regime.

1.4 Overview of the Book

In the previous sections, we argued that the post-triple shocks have further enhanced a substantial degree of autonomy in regional dynamics in Northeast Asia. The authors of the country chapters in this volume conduct in-depth analysis of each of five Northeast Asian countries – Japan, China, South Korea, North Korea and Russia – and the US. In what follows, we summarize these empirical chapters and highlight that the conditions for institutionalization of trade, finance, and security affairs in Northeast Asia are more favorable now than ever before in the postwar period.

In Chap. 2, Seungjoo Lee and Chung-in Moon explore South Korea's perspective on community-building in Northeast Asia. After reviewing its global and regional strategies in the postwar period, Lee and Moon examine how and why South Korea shifted its policy focus away from multilateralism to regionalism in the post-triple shocks period. They highlight that South Korea's dramatic policy changes have taken place at the intersection of economic and security concerns and uncertainties, as a result of the country's unusually high trade and security dependence on the outside world.

In Chap. 3, Kun-Chin Lin addresses the impact of the rise of China for the US and Northeast Asia's institution building process. In the post-triple shocks period, China has talked a big game about Asian regionalism. Yet, according to Lin, it is not just talk: China is thinking big and pulling together elements of a grand strategy in the Asian regional context with the long-term goal of disrupting US-centered alliances in the region. He shows how China has increasingly varied its diplomatic and institutional strategies to achieve this long-term

goal while maintaining pragmatism in pursuing opportunities to promote a regional image of China as a pacifist multilateral player. Lin argues that Chinese activism at bilateral, minilateral, and multilateral negotiations of trade and investment, energy, and security cooperation in the past five years shows a pattern of China's opportunism in exploiting US weaknesses – particularly those revealed by American unilateral actions and the consequent willingness of Asian countries to consider changes in the nature of regional cooperation.

In Chap. 4, Saori N. Katada and Mireya Solis examine Japan's responses to growing uncertainties as a result of the "triple shocks," focusing on trade and financial institutions. They argue that various domestic, regional, and international motivations have influenced the Japanese government's approach to regional institutional building. Such motivations include: the domestic struggle to garner private sector support, the need to accommodate the rise of China, and Japan's concern about the American reaction to the development of exclusively Asian regional institutions. They also explore the similarities and differences between Japan's efforts in trade and financial issue areas, and highlight that financial institution building in Northeast and East Asia has produced a more inclusive region-wide set of nascent institutions, whereas the trade institution building process has generated a more fragmented network of bilateral FTAs linking Japan on preferential terms not only to Asian countries but also to countries outside the region.

In Chap. 5, Sang-young Rhyu shows how North Korea has attempted to institutionalize its regime survival through a Special Economic Zone (SEZ) initiative. He argues that Northeast Asian regionalism cannot be completed nor sustained without resolving various economic and security issues surrounding North Korea. In contrast to the conventional wisdom, Rhyu argues that there exist various factors that have led North Korea to seek engagements with its neighbors. He then analyzes the Kaesong Industrial Complex as a pioneering project and its significance for Northeast Asian regionalism. In so doing, he stresses the interplay between security and trade as goods, which cannot be fully provided by the traditional institutional mechanisms in Northeast Asia.

In Chap. 6, Taehwan Kim focuses on President Putin's neo-mercantilist policy and its implications for Northeast Asia. Moscow has

recently shown growing assertiveness in its foreign policy behavior, while more actively participating in regional affairs and institutions than ever before. In his analysis of this policy shift, Kim utilizes the concepts of “feudalism” and “absolutism/mercantilism” as experienced by the medieval and early modern West Europe. That is, the neo-feudal governance of the Yeltsin regime caused fragmentation of the Russian state, which in turn incurred inconsistency and drifting in its external behavior in general, and Northeast Asia policy in particular. He argues that it is only after neo-absolutism replaced neo-feudal governance that Russia began to make its headway into the region in a neo-mercantilist way.

In Chap. 7, Ellen Frost and David Kang analyze Northeast Asia’s security institutions from a US perspective. For the US, Northeast Asia is home not only to two of the world’s most dangerous trouble spots (the Taiwan Strait and North Korea), but also to burgeoning non-traditional security threats such as terrorism and energy-related conflicts. The operating assumption of Frost and Kang’s analysis is that, as a hedging strategy, most Asian countries have strengthened rather than weakened their military ties with the US. As such, the authors assess the prospects for “soft” institutionalization in Northeast Asia – that is, dialogue, community-building, and norms that emphasize the peaceful resolution of disputes – rather than Western-style “hard” institutionalization with legally binding rules and procedures. Despite their cautious view, Frost and Kang acknowledge that the trend toward “community-building” in Northeast and East Asia as a whole is unmistakable.

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

1.5 Conclusion

We began our analysis with the observation that the postwar trade, financial, 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 of the past two decades, however, the traditional institutional 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 preferential economic arrangements 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 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 tradition mechanisms for providing trade liberalization, financial stability, 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.

Our central claim is that the pursuit of club goods replaced a more generalized commitment to public goods in the post-triple shocks 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 formal institutionalization at the regional level. With respect to trade liberalization, the weakness of the WTO and APEC opens up institutional space for a Northeast Asian trade forum like the NEAFTA by affecting the provision of public goods and thus the incentives for club goods. In a similar vein, the eroding confidence of Northeast Asian countries in the IMF-centered US dollar-based financial system

has motivated them to seek alternative regional club goods such as the CMI, the ABMI, the ACU, and the AMF. Finally, the erosion of America's military commitment to Northeast Asia in the post-triple shocks period has led to a search for alternative security mechanisms. In a nutshell, much of their future developments depend on the possibility of a tripartite entente among the US, China and Japan, and the resolution of the North Korean issue in both economic and security terms.

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. 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. They need to go hand in hand with greater democracy and deeper economic interdependence to generate sufficient liberal momentum. That said, 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, financial, and security issues. Yet this process is likely to evolve over decades, not years.

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