

SECTION 1:

THE FUTURE  
OF THE REGION



# NORTHEAST ASIA'S ECONOMIC AND SECURITY REGIONALISM: WITHERING OR BLOSSOMING?

*Vinod K. Aggarwal and Min Gyo Koo*

**A**t the outset of the Cold War, the so-called San Francisco System put Northeast Asian (NEA) countries on a unique institutional path, characterized by a bilateral-multilateral institutional mix in both the economic and security issue areas.<sup>1</sup> Against the background of bitter memories of Japanese colonialism, unresolved sovereignty issues, and an ideological divide across the region, the San Francisco System offered America's NEA allies access to the U.S. market in return for "hub-and-spoke" alliances.<sup>2</sup> At the same time, U.S. allies were strongly encouraged to participate in broad-based, multilateral forums in both areas of security (such as the United Nations [UN]), and trade (such as the General Agreement on Tariffs and Trade [GATT] and the World Trade Organization [WTO]). **Aside from informal networks based on corporate and ethnic ties, the San Francisco System created few incentives for NEA countries to develop exclusive regional arrangements.** The conventional wisdom thus argues that NEA nations are inherently incapable of managing their own economic and security affairs collective without an external actor, the United States.<sup>3</sup>

However, we argue in this chapter that NEA's traditional institutional order has come under heavy strain in the "triple postperiod": the post-Cold War era, the post-Asian financial crisis of 1997-98, and the post-September 11, 2001 attacks. Although NEA countries maintain their traditional commitment to bilateral alliance and multilateral globalism, the erosion of their confidence in the conventional approach is **increasingly visible. This is manifested by** the region's burgeoning interest in preferential trade agreements (PTAs) and regional security dialogues, both official and unofficial, formal and informal, and bilateral and minilateral.

Much has been written about the uniqueness of NEA regionalism, but the existing literature fails to assess systematically the novel **dynamics of rivalry and cooperation** that are currently shaping new institutional pathways in the region. NEA remains sandy soil for cultivating a sense of **community and regional institutions**, thereby leaving the future institutional pathways wide open. We believe that it is worth exploring the evolution of NEA's new institutional architecture in a **more comprehensive and orderly manner, as this question is** at the forefront of the minds of both academics and policymakers.

To examine NEA's emerging institutional architecture, our analysis focuses on a few key elements. In particular, we are interested in how major external shocks during the past fifteen years have influenced national strategic responses to changing economic and security environments. While there are many factors that might affect national responses to such shocks, the most significant elements are individual countries' international position, domestic power structures, and elite beliefs. In turn, the strategic interaction that takes place between individual countries determines the ensuing institutional outcomes, and the number of participants, geographical scope, strength, coverage, and timing of accords that comprise them.

It is also worth keeping in mind that if countries choose to create new regional institutions or modify existing ones, they must decide on the relationship of these regional institutions to global multilateral institutions. Will the new accords be "nested" within the broader institutions, giving pride of place to the global accords? Might they be "horizontal" in nature, with some type of division of labor among them? Or might the accords potentially overlap with the broader regimes, thus potentially creating institutional conflict that may generate a new round of bargaining? These questions provide a broad framework within which we can investigate the evolution of NEA's institutional architecture, rather than a pinpoint prediction of outcomes. In considering these factors, we seek to be open to possible shifts in the institutional architecture that a monocausal analysis would undoubtedly fail to capture.

The first section of this chapter systemically categorizes a wide range of economic and security arrangements that NEA countries have adopted during the postwar period. This allows us to examine the "baseline" institutional landscape during the Cold War period in the second section. The middle sections then investigate each of the triple postshocks: the post-Cold War, the post-Asian financial crisis, and the post-9/11 attacks. In each section, we show how national responses to external shocks have led to significant changes in the region's institutional architecture, in the context of existing institutions. The final section summarizes the new developments in the triple postperiods in terms of goods, the number of participants, geography, scope, and nature. In the concluding section, we summarize our argument and consider the most recent events to gauge and assess the likely direction of NEA regionalism. In particular, we focus on policy shifts and their implications in the context of rising tension between nationalism and regionalism.

### **Categorizing Economic and Security Arrangements in Northeast Asia**

NEA's traditional institutional architecture has undergone significant changes in the last fifteen years. To adequately examine the changes we see in economics and security, we need first to systematically categorize the various economic and security arrangements available to and adopted by NEA countries. We can consider several dimensions. In terms of the number of participants,

these include unilateral, bilateral, minilateral, and multilateral strategies. In terms of coverage, the range has been both narrow and broad in scope. Some arrangements tend to be focused geographically, while others bind states across long distances. Other characteristics one might examine include the strength and institutionalization of accords, their timing, and the like. Among these many possible dimensions, Table 1 focuses on the number of participants and the geography of the arrangements, for ease of presentation.

We consider other dimensions as well, where appropriate, in the ensuing sections. To begin with, we have cases of unilateral economic and security measures (column 1). Unilateral economic liberalization measures associated with NEA countries have been, as in other regions, relatively rare. Unilateral security management often involves actions that are detrimental to overall regional security. For example, China and North Korea's occasional show or threat of force in the Taiwan Strait and the Korean peninsula, respectively, has frustrated their neighbors as well as the United States, destabilizing relations in the region.

At the other extreme, we have global trade and security arrangements (column 6). As noted above, NEA countries under the San Francisco System have been encouraged to participate in many of these multilateral forums, both broad-based and sector-specific. Examples of broad-based economic institutions include the International Monetary Fund (IMF) of 1944, the GATT of 1947, and its successor organization, the WTO of 1995. NEA countries have also participated in multilateral sectoral agreements such as the Information Technology Agreement (ITA), the Basic Telecom Agreement (BTA), and the Financial Services Agreement (FSA). With respect to security, all the NEA countries—with the exception of Taiwan—have become UN members in the postwar period. With the exception of North Korea, they are also parties to the nuclear nonproliferation treaty (NPT), which entered into force in 1970 and was extended indefinitely in 1995. Japan has actively participated in the U.S.-initiated Proliferation of Security Initiative of 2003, while South Korea recently joined it in the capacity of an observer.

More importantly, the latest institutional changes in NEA have been concentrated on bilateral and minilateral mechanisms, either in a geographically concentrated or dispersed manner. The prospective Japan–South Korea and South Korea–China FTAs fall into the category of geographically concentrated *bilateral subregionalism* in trade issue areas. Their counterpart in the security realm can be found in various bilateral confidence-building measures between South Korea and Japan and between South Korea and China, including information-sharing and formal talks about joint military exercises (column 2).

The category of geographically dispersed bilateral transregionalism in trade issue areas includes the bilateral FTAs between Japan and Singapore (2002), South Korea and Chile (2004), Japan and Mexico (2004), and South Korea and Singapore (2005). In security, the most significant transregional-bilateral defense ties exist between NEA countries and the United States (column 3).

**Table 1. Modes of Trade and Security Arrangements in Northeast Asia**

| Number of Actors |                                     |  |   |   |  |  |
|------------------|-------------------------------------|--|---|---|--|--|
| Arrangements     | Unilateral                          | Bilateral  |   | Minilateral   |  | Multilateral   |
|                  |                                     | Geographically concentrated  | Geographically dispersed  | Geographically concentrated   | Geographically dispersed   |  |
|                  | (1)                                 | (2)  | (3)   | (4)   | (5)  | (6)  |
|                  | APEC Individual Action Plans (IAPs) | Japan–South Korea FTA (under negotiation)<br><br>China–South Korea FTA (under study) | Japan–Singapore EPA (2002)<br><br>Korea–Chile FTA (2004)<br><br>Japan–Mexico FTA (2004)<br><br>Korea–Singapore FTA (2005)<br><br>Korea–U.S. FTA (under negotiation) | China–ASEAN Framework FTA (2003)<br><br>Northeast Asian FTA (under study) | APEC (1989)<br><br>EAEC (1994)<br><br>ASEM (1996)<br><br>APT (1998)<br><br>CMI (2000)<br><br>EAS (2005)<br><br>Korea–ASEAN FTA (2006)<br><br>Japan–ASEAN FTA (under negotiation) | IMF (1944)<br><br>GATT/WTO (1947/1995)<br><br>ITA (1997)<br><br>BTA (1998)<br><br>FSA (1999) |
|                  | Unilateral security management      | Confidence-building measures between China–South Korea and Japan–South Korea         | Traditional U.S. military treaties with Japan, South Korea, and Taiwan  | Northeast Asian Security Dialogue (under study)                           | CSCAP (1993)<br><br>NEACD (1993)<br><br>ARF (1994)<br><br>Six Party talks (2003)   | UN operations (1945)<br><br>NPT (1970)<br><br>PSI (2003)                                     |

Source: Adapted from Vinod K. Aggarwal, “Economics: International Trade,” in P.J. Simmons and Chantal de Jonge Oudraat, ed., *Managing Global Issues: Lessons Learned* (Washington, DC: The Carnegie Endowment for International Peace, 2001), 238. Updated March 2007 with illustrative examples.

The next category is geographically focused minilateral agreements (column 4). In the economic realm, the Association of Southeast Asian Nations (ASEAN)–China FTA framework agreement of 2003 falls into this category. Meanwhile, Japan, China, and South Korea are discussing the potential benefits of institutionalizing economic and security relations among themselves in the form of Northeast Asian Free Trade Arrangement (NEAFTA) and Northeast Asian Security Dialogue (NEASD), respectively.

The next category refers to geographically dispersed transregional/interregional arrangements (column 5). Transregional trade arrangements, which refer to agreements across regions but where states participate in their individual capacity, include the East Asian Economic Caucus (EAEC, 1994) and

Asia-Pacific Economic Cooperation (APEC, 1989). We also have an example of transregional currency accords such as the Chiang Mai Initiative (CMI) of 2000. Embryonic interregional accords, where groupings of countries link up with other groups of countries, include the Asia-Europe Meeting (ASEM, 1996). By contrast, hybrid types include the ASEAN Plus Three (APT, 1998) and the East Asian Summit (EAS, 2005) with ASEAN countries participating as a group. The best example of transregional security forum is the ASEAN Regional Forum (ARF), consisting of 24 countries, including ASEAN member countries, the United States, China, Japan, and the two Koreas. Also, nongovernmental organizations (NGOs) are increasingly active at the transregional level: the Council for Security Cooperation in the Asia-Pacific (CSCAP) and the Northeast Asian Cooperation Dialogue (NEACD), for instance. Most recently, the Six Party talks to resolve the second North Korean nuclear crisis provide the possibility of evolving into a permanent security forum in the region.

### NEA's Traditional Institutional Architecture during the Cold War Period

The growth of economic and security interdependence of NEA countries has been remarkable during the postwar period. However, seen in comparative regional perspective, their economic and security cooperation has lacked significant formal institutionalization at the regional level. Not surprisingly, many scholars have argued that the NEA region has the most pronounced formal “organization gap” at the regional level.<sup>4</sup> For them, the gap failed to close, while bolstering the belief that NEA countries are incapable of overcoming the divides of history, virulent nationalisms, and Cold War hostility.

With respect to regional economic arrangements, Japan proposed a number of cooperative schemes in the 1960s and 1970s, broadly targeted for the Asia-Pacific region rather than narrowly focused on NEA. Some prominent examples include the Pacific Free Trade Area (PAFTA, 1967), the Pacific Basin Economic Council (PBEC, 1967), the Pacific Trade and Development Conference (PAFTAD, 1968), and the Pacific Economic Cooperation Conference (PECC, 1980). Despite their ambitious goals, these proposals failed mainly because of Asian countries' suspicion of Japanese motives.<sup>5</sup>

Meanwhile, NEA countries' enthusiasm for the multilateral trading and financial regime was quite remarkable and very successful. Japan joined GATT after a complex bargaining process in 1955 and immediately faced European restrictions under Article XXXV, barring its imports despite membership in that organization. It was only in the 1960s, after a series of negotiations with European countries including agreements on voluntary restraints of specific exports, that Japan became a full-fledged member of GATT. South Korea became a GATT member in 1967, but China did not secure membership for many years. Following several years in the early 1980s with observer status in GATT, China began a long campaign in 1986 to become a member—a process that culminated with its accession to the WTO in 2001. With respect to the

IMF, China replaced Taiwan in this organization in 1980 and has been an active member in the organization since that time.

In contrast to the weakness of formal regional economic integration, the network of Japanese transnational corporations played a key role in forming a virtual economic community.<sup>6</sup> Alongside this Japan-centered economic system, an informal business network emerged, 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.<sup>7</sup> 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 U.S. market, natural forces of proximity, and the vertical and horizontal integration of regional economies through Japanese investment and **overseas Chinese capital** seemed to have produced greater economic interdependence without substantial institutionalization at the regional level.<sup>8</sup>

On the security front, NEA also lacked the equivalent of the North Atlantic Treaty Organization (NATO) or the Council on Security Cooperation in Europe (CSCE), leaving regional security coordination underinstitutionalized. Given the heterogeneous policy preferences and strategies of the key players in NEA during the Cold War period, this was not a **surprising outcome**. **Most notably**, the United States opposed an Asian equivalent of NATO or CSCE, primarily due to Soviet support for the idea. **The United States feared that the Soviet Union would use a multilateral security forum to drive a wedge between America and its Asian allies. Sharing Washington’s misgiving about the implications of NEA security unilateralism, Japan also 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. As such, the norm for regional security cooperation took the form of “concerted bilateralism”—the structuring of a formal bilateral summit process in which major regional powers interact systematically with each other—rather than explicit multilateralism.**<sup>9</sup>

One could argue that this institutional architecture under the San Francisco System served NEA countries well during the Cold War period. **Most importantly, the United States 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. It also played a critical role in gluing together its key allies through open access to its market. Both by design and in effect, the San Francisco System obviated the need for any significant regional arrangements, creating a unique institutional mix of bilateralism and multilateralism.**

### The Post–Cold War Shock

The San Francisco System began to undergo some modification in 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.<sup>10</sup> The Cold War bipolarity in NEA acted as the source of regional reluctance to institutionalize economic and security relations, but its abrupt end has made it politically easier for NEA countries to consider institutionalizing their economic and security ties.<sup>11</sup>

For many observers, the rise of China, more than any other factor, served as a catalyst for regional arrangements during this period.<sup>12</sup> From this perspective, the end of the Cold War has reduced the significance of ideological divisions and broken down the problem of, in Joanne Gowa's term, "security diseconomy"<sup>13</sup> that had precluded tighter institutional integration between and within capitalist and communist blocs. For its part, China has made an unprecedented attempt to integrate itself into the region as well as in the world, as manifested by its growing membership in intergovernmental organizations in the post-Maoist period.<sup>14</sup> 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 forums such as the ARF.<sup>15</sup>

Others argue that the potential problem of NEA's security diseconomy remained unresolved during this period. Indeed, there was a deepening concern that China's growing trade surplus with the United States and Japan had yielded hard currency with which to buy weapons, foreign investment for the expansion of strategic infrastructure, and technology transfers that might improve Chinese military capabilities.<sup>16</sup> From this perspective, the dissatisfied rising power (China) would most likely challenge the existing regional order if it continued to favor the United States and Japan alone.<sup>17</sup>

Against this backdrop, Japan, which had followed the U.S. lead in opposing proposals for establishing regional security forums, began to fear that its security interests, including the U.S. alliance, would be adversely affected if Japan did not participate in the emerging process of post-Cold War institution-building in the region. In July 1991, Japan abruptly reversed its years of steadfast opposition to regional security multilateralism by proposing a minilateral security dialogue within the ASEAN Post-Ministerial Conference. This initiative, known as the Nakayama proposal, represented a bold departure from Japan's reactive policy to regional security in the face of strong American opposition. Although it did not materialize as proposed, the proposal did encourage the formation of the ARF by promoting the idea of a multilateral security dialogue that connects Northeast and Southeast Asia. Despite its operational feebleness as a security regime, the ARF began to bind Japan and China together into a regional institutional framework, allowing Japan to address its historical problem, China to address the fears of its neighbors, and both to avoid conspicuous balancing behavior toward each other.<sup>18</sup>

In addition, Track 2 initiatives—involving government officials in their private capacities, academics, journalists, and others—proliferated during this period. For instance, the Canadian-initiated North Pacific Cooperative Security Dialogue (NPCSD) was the first major Track 2 program that began in 1990. The

University of California's Institute on Global Conflict and Cooperation (IGCC) initiated the Northeast Asia Cooperation Dialogue (NEACD) in October 1993. The Council for Security Cooperation in the Asia-Pacific (CSCAP) is another prominent example of Track 2 arrangements.<sup>19</sup>

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 United States 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 United States, Japan, South Korea, and the European Union, KEDO functioned relatively well at first in fulfilling its objective of defusing the proliferation issue and providing Pyongyang with alternative energy supplies. In summer 2003, KEDO was suspended as a result of the second nuclear crisis.

The early 1990s also 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.<sup>20</sup> China presented one of the first proposals for NEA economic cooperation, to develop the so-called golden delta of the Tumen River in 1990. The following year, the United Nations Development Plan (UNDP) adopted the proposal as the Tumen River Area Development Program (TRADP), in which China, Russia, South Korea, North Korea, and Mongolia (and, later, Japan) all participated.<sup>21</sup> In the wake of the first North Korean nuclear crisis in 1993, coupled with the lack of coordination among the participating countries' local and national governments, this collective development plan was downsized into smaller bilateral or trilateral projects.<sup>22</sup>

At the broader Asia-Pacific level, APEC came into being in 1989, with the United States, South Korea, and Japan among its founding members.<sup>23</sup> This transregional agreement was promoted by Australia to link itself to East Asia, and by Japan to strengthen links among Asian countries. Japan also saw this institution as a means of coping with ongoing problems in its relationship with the United States in the shifting Cold War context. The Australians initially sought to exclude the United States from APEC, over vigorous U.S. objections. Moreover, in the aftermath of problems with the Uruguay Round of GATT trade negotiations, the United States was increasingly sympathetic to pursuing regional accords to bolster the round. Although APEC looked promising as a possible trade forum that might actually substitute for GATT—particularly with the leaders' meeting in 1993 in Seattle—it essentially remains a weak

consultative forum.<sup>24</sup> The Asian financial crisis and APEC's tepid response further undermined this institution and fostered interest in a more exclusive Asian-based economic forum.

### The Post-Asian Financial Crisis Shock

The Asian financial crisis of 1997–98 and the debacle of the 1999 WTO ministerial meeting in Seattle revealed a number of institutional weaknesses that Northeast Asian economies shared.<sup>25</sup> 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.<sup>26</sup> 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, these structural problems finally exacted a heavy toll in the closing years of the 1990s.

With respect to finance, and aside from many structural problems underlying the Asian model of capitalism (such as 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. This concern was only heightened by the IMF's role in the Asian financial crisis, which Asian leaders and even Western economists heavily criticized.<sup>27</sup>

Furthermore, many in the region believed that U.S. pressure made APEC slow to react to the crisis. At the November 1997 APEC summit meeting, President Clinton described the Thai and Malaysian currency crises as “a few small glitches in the road.”<sup>28</sup> But the U.S. 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. As a result, the Japanese took the lead in September 1997 with a proposal for an Asian Monetary Fund (AMF), to be backed by \$100 billion that they had lined up in commitments in the region. However, the IMF, supported by the U.S. and European countries, resisted any effort to find an “Asian” solution to the crisis. In particular, the United States viewed such a fund as undercutting its preferred approach of IMF loans accompanied by conditionality. In addition, it expressed concern about the relationship that any such fund would have to the IMF.<sup>29</sup>

The success of the United States and the IMF in forestalling creation of a rival financial institution was embodied in the November 1997 Vancouver APEC summit meeting leaders' endorsement of the so-called Manila framework, to which APEC financial ministers agreed shortly before the start of the summit. The Manila 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 the APEC action providing a seal of approval for the U.S.-IMF backed plan, the AMF idea was put on hold.

It is in this broad context that the Chiang Mai Initiative (CMI) has been developed, involving 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.<sup>30</sup>

In the trade area, following the Asian financial crisis, the WTO-based effort to promote liberalization on a multilateral basis increasingly encountered problems. This trend began in 1999 when WTO participants in Seattle unsuccessfully attempted to launch a new trade round. Rioting in the streets, protests, and the absence of any progress in liberalizing trade appeared to doom further efforts at multilateral liberalization.

At the same time, APEC failed to provide an alternative institutional forum to deal with trade issues. In 1996 in Manila, APEC had shifted from emphasizing the benefits of transregionalism in building and reinforcing globalism to expounding the potential benefits of sectoralism. The United States pressed to use APEC to leverage trade liberalization in the WTO, specifically in an effort to push negotiations forward in information technology. APEC members agreed to an APEC-wide liberalization program in this sector. With this use of APEC to bolster negotiations for the Information Technology Agreement, America began enthusiastically to pursue a minilateral sectoral path, pressing for Early Voluntary Sectoral Liberalization (EVSL) as a nine-sector package. This strategy initially appeared to be viable, but quickly ran into difficulties. At the Leaders' Summit in November 1998 in Kuala Lumpur, Japan (with support from other Asian countries) refused to liberalize trade in fishing and forestry products and the package was deferred to the WTO for further debate.<sup>31</sup>

With deep distrust of the IMF in the financial area, and the WTO and APEC route to trade liberalization and the promotion of market access in doubt, NEA countries came to recognize that tighter institutionalization of intraregional commercial and financial ties might be a better commitment mechanism for providing economic security. Accordingly, they began to weave a web of PTAs and currency swap agreements. At the NEA level, the Japanese foreign minister first proposed the idea of Northeast Asian Free Trade Agreement (NEAFTA) in August 1998, and a series of feasibility studies have been conducted thus far. China, Japan, and South Korea held a tripartite summit on the sidelines of the formal APT summit 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 to institutionalize economic cooperation among themselves.<sup>32</sup> Soon thereafter, in October 2001, Japan concluded its first post-World War II PTA, the Japan-Singapore Economic Partnership

Agreement (JSEPA). Other Asian countries wasted no time in moving toward PTAs, departing from their traditional commitment to the WTO and, to a lesser extent, APEC.<sup>33</sup>

Since the first APT leaders' meeting in Kuala Lumpur in November 1997, South Korea has aspired to become a hub country of Northeast/East Asian regionalism by playing a balancer role between China and Japan.<sup>34</sup> In the aftermath of the Asian financial crisis, when both China and Japan were eager for regionalism, South Korean President Kim Dae Jung (1998–2003) could play the role of visionary for an East Asian community by serving as a bridge between China and Japan. Both China and Japan gave their support to Kim's regional initiatives, such as the East Asian Vision Group and the East Asian Study Group.

On the security front, Kim Dae Jung's 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 NEA's delicate issues of peace and stability.<sup>35</sup> Kim proposed a six-nation Northeast Asian Security Dialogue (NEASD) involving the two Koreas, the United States, China, Japan, and Russia. The proposal was an extension of the Four Party talks to 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 fell by the wayside at the end of the 1990s because they failed to gain the support of China and the United States at that time.<sup>36</sup>

## The Post-9/11 Shock

The latest turning point for the security and economic order in Northeast Asia came with the September 11 terrorist attacks. The American global war on terrorism has called into question the fate of the Northeast Asian balance-of-power system, which in turn has created additional incentives for NEA countries to cope with growing economic and security uncertainties through institutionalized mechanisms. In addition, the proliferation of FTAs and security dialogues during this period can be partly attributed to an unintended consequence of an intensifying Sino-Japanese rivalry.

The counterterrorism initiatives, combined with the general rethinking of U.S. security policy that had been ongoing since the end of the Cold War, led to significant changes in the traditional U.S. policy toward Northeast Asia. The United States now solicits multilateral cooperation against terrorism while downscaling its forward deployment.<sup>37</sup> In a related move, the United States and Japan have strengthened their security ties in spite of Chinese grievances, whereas the U.S.–South Korea alliance has been visibly strained. Although America's large-scale withdrawal from the region is unlikely for the foreseeable future, these latest developments mark a significant change in conventional U.S. emphasis on balanced bilateral security ties with its key allies.

Two key developments in the U.S. defense posture, which began in the post-Cold War period, clearly accelerated in the post-9/11 period. The first defense transformation sought to shift U.S. 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 U.S. to respond to unknown future threats. The second shift came with the Global Posture Review (GPR), which focused on realigning the positioning of U.S. forces to cope with these unknown threats. Together, these two elements brought about significant changes in the U.S. deployment of troops in both Japan and South Korea. Indeed, the issue of repositioning U.S. forces—and possibly using these forces for intervention in hot spots in the region or elsewhere—has created tensions in U.S. alliances with Japan and South Korea. In particular, the U.S. decision to move away from a “tripwire” strategy by shifting 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 U.S. 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.

More broadly, the U.S. 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, has created a growing rift in U.S.–South Korean relations. As South Korea pursues its Sunshine Policy, and increasingly tries to accommodate to the rise of China, many of South Korea’s objectives have aligned more closely with China than with the United States. As Denny Roy succinctly notes, both China and South Korea are interested in

. . . preventing military conflict in the Peninsula, including an attack by the U.S. or North Korean forces; avoiding a collapse of the North Korean regime; opposing economic sanctions against Pyongyang; encouraging Kim’s regime to carry out economic reforms; and inducing North Korea to abandon its nuclear weapons program.<sup>38</sup>

With this divergence in perspectives on coping with China, North Korea, and the general tensions in the alliance, relations between the United States and South Korea have steadily deteriorated in the post-9/11 period. In February 2006, the U.S.–South Korean decision to negotiate a bilateral FTA was an effort not only to move forward on trade but also to serve a key political purpose of improving U.S.Korean relations.

With respect to Japan and China, the post-9/11 focus on terrorism initially diverted U.S. concern about China’s rise toward joint collaboration on addressing terrorist threats. Sino-U.S. relations thus improved between 2001 and 2004, but have again turned sour as the U.S. trade deficit with China becomes a growing political issue, and U.S. worries about China’s growing military budget have come to the fore. With respect to Japan, the United States has increasingly pushed it to become involved in the Iraq War, and the Japanese have

indeed been operating a small fleet in the Indian Ocean to support U.S. forces operating in Iraq.<sup>39</sup> Over the last few years, despite some disputes over troop redeployments, Japan-U.S. relations have grown closer, as both increasingly share a similar perspective on the rise of China and the implications of North Korean nuclear weapons.

Meanwhile, hostilities between China and Japan have sharply increased, as diplomacy continues to fail.<sup>40</sup> Conservative politicians and nationalist groups on both sides have exerted considerable pressure for more assertive foreign policies. For a year and a half, from April 2005 to October 2006, Chinese President Hu Jintao refused summit meetings with the then Japanese Prime Minister Junichiro Koizumi, owing to his controversial visits to the Yasukuni war shrine. Moreover, there had been no state visits between the two countries for five years, until the new Japanese Prime Minister Shinzo Abe met with President Hu in Beijing in October 2006.

The rise of China has made Japan reformulate its security policy in accordance with the shifting regional balance of power. Japan's new national defense program, which was approved by its Security Council and the Cabinet on December 10, 2004, clearly illustrates Japan's threat perceptions about China and enumerates three conflict scenarios into which Japan is likely to be drawn: (1) U.S.-China armed conflict over the Taiwan issue; (2) Japan's dispute with China over the Senkaku/Diaoyu Islands; and (3) resource competition in the East China Sea.<sup>41</sup> The dispute over territory and marine resources in the East China Sea might not trigger any major conflicts between the two regional giants immediately. But the accumulation of grievances and underlying nationalist sentiments could escalate minor quarrels, such as those involving energy developments near the islands, into major conflicts. In the event of a Sino-Japanese conflict, South Korea and Taiwan might be trapped in a dilemma in taking sides between China and Japan, while Japan would look to the United States even more closely. For its part, the United States might be called on to defend not only its ally but also the interests of Western oil companies.<sup>42</sup>

In a region with an already uneasy balance among the United States, Japan, and China, the second North Korean nuclear standoff set everyone scrambling. In October 2002, North Korea admitted that it had secretly continued a nuclear-weapons development program, in breach of the 1994 Geneva Agreed Framework to freeze all nuclear activity in North Korea in return for two light water reactors and a supply of heavy fuel oil. North Korea's relations with its neighboring countries hit their lowest point on October 9, 2006, when Pyongyang announced that it had successfully conducted an underground test of a nuclear device.<sup>43</sup> As many analysts agree, North Korea has indeed become the vortex of NEA geopolitical and geoeconomics turbulence.<sup>44</sup>

In the wake of the 9/11 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.<sup>45</sup> 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 United States, 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 multilateral process and prevent it from taking unilateral action as it did in Iraq.**<sup>46</sup>

The Six Party talks have demonstrated cooperative relationships, particularly between the United States and China, on issues of mutual concern. Many in the region hope that the Six Party process to persuade North Korea to dismantle its nuclear weapons programs can serve as an embryonic structure for Northeast Asia to create new bilateral and multilateral ties.<sup>47</sup> 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.<sup>48</sup>

Uncertainties notwithstanding, the current nuclear crisis on the Korean peninsula and the formation of the Six Party process to deal with it has given rise to the possibility that a more formal organizational framework for multilateral cooperation in Northeast Asia could be established, likely in the form of a Northeast Asian Security Dialogue (NEASD) or a Concert of Northeast Asia (CNEA). The potential for a flashpoint crisis between North Korea and its neighbors has been a source for strengthening nascent multilateral security arrangements in Northeast Asia. Indeed, whether or not security relations in Northeast Asia evolve in a cooperative or conflictual direction depends on how the North Korean nuclear questions are managed.<sup>49</sup>

In economic relations, trade policy has changed dramatically in the post-9/11 world, although the changes in Northeast and East Asia were not originally related to the 9/11 attacks. For example, the Japan-Singapore agreement was concluded in October 2001 but had already been in motion for some time. The driving forces behind the changes in trade, particularly the move to bilateralism, are still being debated.<sup>50</sup> Clearly, the 1999 Seattle WTO fiasco was a key factor in growing concern in East Asia over the viability of a global multilateral approach to trade liberalization, as we have already discussed. But in the United States, business groups were also pressing for alternatives to be considered, particularly the pursuit of bilateral agreements as a response to the EU and Latin American countries' activities in moving forward with such accords. As the Business Roundtable noted in early 2001:

Obviously, the best policy option is to build on the WTO framework. . . . However, it may take regional and bilateral initiatives to jumpstart the WTO.



Alternatively, we may have to undertake the regional and bilateral initiatives just to avoid discrimination by our more active trading partners.<sup>51</sup>

The U.S. government did, indeed, respond. Until the end of the 1990s, the United States had **free trade accords only with Israel (1985) and Canada (1988)**, the latter evolving into the North American Free Trade Agreement (NAFTA) that also includes Mexico. In 2002, however, President George W. Bush extracted fast-track authority (renamed trade promotion authority, or TPA) from Congress, and in 2003 completed FTAs with Chile and Singapore, which Congress passed by substantial margins.<sup>52</sup> Although the United States was slower off the mark than the EU, and countries such as Chile and Mexico, its actions have inspired fear in Asia of a return to a bilateral world. Asian governments, accordingly, have accelerated their rapidly concluded bilateral accords.

With respect to Northeast Asian economic regionalism, the rivalry between China and Japan has actually served as a catalyst for NEA countries to weave a web of PTAs with countries both inside and outside the region. In response to the JSEPA of 2001, 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 began negotiating a Japan-ASEAN FTA. Alarmed by Sino-Japanese competition vis-à-vis Southeast Asia, the South Korean government jumped ahead of Japan and sealed an FTA with ASEAN in April 2006. Aside from the three-way cooperation at the Plus Three level and the possible development of an NEAFTA, bilateral collaboration has gradually expanded. Japan and South Korea have been negotiating a bilateral FTA since December 2003. China and South Korea are jointly studying the feasibility of a bilateral FTA between the two countries with an intention to start official negotiations in the next couple of years.<sup>53</sup>

### Characteristics of Northeast Asia's New Regionalism

The triple postshocks have stimulated or impeded the supply of trade liberalization and national security as goods by creating either positive or negative externalities on countries that are not immediate participants in the precipitating event. We focus here on two types of goods: public goods and club goods.<sup>54</sup>

NEA's new appetite for PTAs and regional security dialogues reflects a convergence of interests in securing inclusive "club goods" in the face of growing economic and security uncertainties. Put differently, the political initiatives and intrinsic interest in creating regional economic and security arrangements reflect the growing need for an insurance policy to realize free trade and collective security when traditional mechanisms under the San Francisco System stall or dismantle steadily in the triple post period. Table 2 summarizes the shifting pattern of the provision of trade liberalization and national security as goods.

Table 2. The Provisions of Goods in Northeast Asia: 1951–2005

|   | Period I<br>(1951–89)   | Period II<br>(1990–96)   | Period III<br>(1997–2000)   | Period IV<br>(2001–05)   |
|---|---|--|---|--|
| <b>Trade liberalization</b>                     | Multilateral club good with a strong public good characteristic | Multilateral club good with a declining public good characteristic | Multilateral club good in trouble; pursuit of bilateral club good | Multilateral club good in trouble; bilateral/minilateral club good |
| <b>National security and regional stability</b> | Bilateral club good with a strong public good characteristic    | Bilateral club good with a declining public good characteristic    | Bilateral club good with a declining public good characteristic   | Bilateral/minilateral club good                                    |

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

In the early years after the Cold War, the provision of trade liberalization and national security remained as a club good, but the significance of its public good characteristic declined. The stalemated Uruguay Round of WTO talks and some early indications of U.S. disengagement were the main causes.

In the aftermath of the financial crisis, NEA's new appetite for PTAs reflects a convergence of interests in securing bilateral club goods. The "trade triangle" that had linked Japanese and overseas Chinese capital, developing Asian manufacturing capacities, and the U.S. market was 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 ensure a market for their products. By contrast, it appears that the financial crisis had no direct impact on the provision of security as a bilateral club good with a declining public good characteristic, while some minilateral attempts (such as Kim Dae Jung's proposal of NEASD) largely failed by the end of the 1990s.

Finally, in the post-9/11 era, the multilateral mechanism for trade liberalization has yet to regain the full confidence of participating countries, while the pursuit of alternative trade mechanisms through bilateral and minilateral channels has been accelerated. In the meantime, the provision of security as a bilateral club good is in trouble, since the United States began to reconfigure its alliance politics in Northeast Asia. These new developments do not necessarily mean that the hub-and-spoke system promoted under the San Francisco System will terminate any time soon. Nevertheless, it has prompted NEA countries to recognize the need to provide collective security at the regional level.

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

First, the latest enthusiasm for PTAs in Northeast Asia and, more broadly, in East Asia revolves around a bilateral FTA as a popular mode of participation. There are also strong indications of minilateral participation, such as the APT and the China-ASEAN Framework FTA. In security issue areas, bilateralism and minilateralism are a popular mode of participation.

Second, NEA's new appetite for PTAs is geographically open, with a focus on the emergent concept of an East Asian Community and other cross-regional initiatives—rather than an exclusively Northeast Asian FTA. In sharp contrast, the most recent bilateral and minilateral security dialogues tend to be geographically closed, although the United States remains a key player.

Third, as countries attempt to meet their economic and security needs in a new environment, they often negotiate new arrangements or modify existing ones, while interacting strategically within the context of broader institutional arrangements such as the UN, GATT, and the WTO. **In trade issue areas, many of the recent PTAs attempt to cover broader areas and elements beyond trade, indicating their nature of WTO compatibility 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.<sup>55</sup> As discussed previously, the formation of the Chiang Mai Initiative reflected the institutional tension between the broad-based, multilateral institution of the IMF and the failed AMF proposal. The latter would have acted without imposing IMF-style conditionalities on any standby credits granted. In security issue areas, invoking the NPT and the IAEA system of safeguards agreement in the February 13, 2007 Joint Statement of the fifth round of the Six Party talks indicates collective efforts at nesting the minilateral process to a broader security regime.

## Conclusion and Implications

We began our analysis with the observation that the postwar economic 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 longstanding informal alternatives. In the wake of the three major external shocks for the past 15-plus years, however, NEA's traditional institutional equilibrium has been heavily strained. As a result, principal actors are now pursuing greater institutionalization at the regional level, actively weaving a web of PTAs and security dialogues. Within two decades, Northeast Asia has moved from a complete regional organization gap to a point where new collaborative arrangements in both economic and security have proliferated.

The combination of the Asian financial crisis and the setback in Seattle has significantly eroded the traditional confidence in multilateral trade liberalization, as well as in Western financial liberalism. At the same time, the erosion of America's military commitment to Northeast Asia in the post-Cold War and the post-9/11 period has led to a scramble for alternative security mechanisms. There is a consensus that the best strategy to hedge against growing economic and security uncertainties is to engage more with one another by institutionalizing economic and security interdependence. Indeed, many experts in the region are now part of an epistemic community, which shares the view that regional arrangements can be welfare- and security-enhancing—rather than welfare- and security-diverting—in the face of a loosening San Francisco System. As a result, we argued that the pursuit of club goods replaced a more generalized commitment to public goods in the triple post period. Such a commitment undermines the myth that the combination of bilateral and multilateral arrangements under the San Francisco System and loose-structured production networks offered a viable alternative to tighter, formal institutionalization at the regional level.

Having examined the key structural forces behind national responses to the changes in NEA's economic and security regionalism over the past decades, we briefly assess the rising tension between nationalism and regionalism over the last few years. In particular, we focus on the most recent relations between and among the United States, China, Japan, and South Korea.

The United States continues its active role in the Northeast/East Asian region, thereby influencing the region's dynamic as it pursues its own objectives. On the security front, the United States and Japan increasingly see eye-to-eye on Taiwan, and both have discussed greater coordination in their policies in the event of a move by China against Taiwan. This cooperation, in turn, has unnecessarily increased tensions between China and Japan, thereby casting some doubts about regional cooperative schemes.

For half a century, the alliance between the United States and South Korea stood as one of the most successful political-military relationships forged out of the Cold War era. Recently, however, their bilateral alliance is in turmoil, as manifested by a rising tide of anti-Americanism among the South Korean public. Their economic relations also stand at a critical juncture. The U.S.-Korea FTA is a case in point. It could potentially alter not only the relationships among the NEA countries, but also the dynamics of U.S.–South Korean relations and the

relations between and among the United States, Japan, and China. With respect to spillover effects, some in Japan have expressed concern that a prospective U.S.–South Korean accord could put Japan at a competitive disadvantage.

In the area of Sino-U.S. relations, the United States continues to pressure China to revalue the Chinese yuan, in view of the huge trade deficit that shows no sign of abating. As China continues to increase its military spending, the debate in the United States also focuses on the appropriate strategy to deal with China's rise. For its part, Chinese President Hu Jintao's April 2006 visit to the United States failed to resolve many outstanding issues, but the Chinese commitment on intellectual property protection and the "buying mission" for U.S. goods has reduced some U.S. protectionist pressure.

Most importantly, many scholars argue that the open hostility between China and Japan has become the driving force that militates against East Asian regionalism. In particular, they note that the main reasons for the dismal prospect of Northeast Asian regionalism are rivalry and distrust between China and Japan.<sup>56</sup> For instance, in December 2005, the two countries made dueling claims in Kuala Lumpur at the ninth APT summit, followed by the first EAS. With support from Indonesia and Singapore, Japan succeeded in inviting India, Australia, and New Zealand to be members in the EAS, as part of its push for universal values and open regionalism. Then, China gained Malaysia's consent for giving the APT meeting—rather than the EAS—the primary responsibility for building the East Asian Community (EAC), thereby polarizing the region and leaving a big question mark over the future of the EAS. Tug-of-war in Kuala Lumpur may indicate that NEA regionalism and, by extension, broader East Asian regionalism, through either APT or the EAS, is in trouble.

Not all is grim in Sino-Japanese relations. Despite the persistent diplomatic tensions, the so-called "cold-politics-and-hot-economics" will likely remain a defining feature of the relationship. Indeed, China and Japan's respective fears about the possible negative impact such tensions could have on their economies have deterred both countries from pushing for a more definitive political showdown. Both would suffer significant economic setbacks if the flourishing trade, investment, and capital flows between them were cut off due to a massive conflict of interests.<sup>57</sup>

This observation has both positive and negative implications, not only for their bilateral relationship but also for Northeast/East Asian regionalism more broadly. On the one hand, rising interdependence provides greater economic incentives for both countries to avoid costly conflict. On the other hand, rapidly increasing Japan's dependence on China means that Japan's bargaining power vis-à-vis China has declined significantly. China may now feel less constrained to challenge Japan than in previous decades, prompting greater relative gains concern on the Japanese side. The Sino-Japanese relationship could get worse before it gets better.<sup>58</sup>

Meanwhile, some scholars argue that differences between Tokyo and Seoul are also one of the persistent causes for the sluggish development of

NEA regionalism, despite cooperation in APT and the Six Party talks.<sup>59</sup> Seoul's relations with Tokyo have soured in recent years. Aside from the thorny issues of Japanese history textbooks and prime ministerial visits to the Yasukuni war shrine in Tokyo, the decades-old territorial dispute over Dokdo/Takeshima, a group of small islets held by South Korea, serves as the most persistent and explosive bone of bilateral contention that could jeopardize their closer diplomatic ties—ties that have been forged since the landmark joint declaration of 1998 on a “new bilateral partnership in the 21<sup>st</sup> century.”<sup>60</sup> Nevertheless, voices of calm and reconciliation remain significant. Japanese officials continue to stress that relations with South Korea are the most important element in engaging Northeast Asia, warning against narrow-minded nationalism and stressing shared values. For Japan, South Korea is a natural platform, both geographically and strategically, to limit China's rise. Aside from its economic dependence on Japan, South Korea recognizes that it cannot do much in its costly unification plans without Japan. As Rozman argues, the two countries have more similarities than differences, and therefore can choose either to work together toward a regional framework or to proceed at cross purposes.

To conclude, in view of the tremendous political and economic uncertainties in the contemporary period, the paths to deeper and wider economic and security integration in Northeast Asia are likely to be complicated. The coexistence of continuities and changes mean that a new Northeast Asian regional order is slowly but steadily emerging, with multiple pathways, complexities, and uncertainties.

## Notes

1. The San Francisco System was codified through the 1951 San Francisco Peace Treaty between the Allies and Japan. For more details, see Kent E. Calder, “Securing Security through Prosperity: The San Francisco System in Comparative Perspective,” *The Pacific Review* 17, no. 1 (2004): 135–57; and Kimie Hara, “50 Years from San Francisco: Re-examining the Peace Treaty and Japan's Territorial Problems,” *Pacific Affairs* 74, no. 3 (2001): 361–82.

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

3. See Barry Buzan, “Security Architecture in Asia: The Interplay of Regional and Global Levels,” *The Pacific Review* 16, no. 2 (2003), 143–73; Bruce Cumings, “Japan and Northeast Asia into the Twenty-first Century,” in *Network Power: Japan and Asia*, ed. Peter J. Katzenstein and T. Shiraishi (Ithaca, NY: Cornell University Press, 1997), 136–68; Lowell Dittmer, “East Asia in the ‘New Era’ in World Politics,” *World Politics* 5 (1997): 38–65; Paul Evans and Akiko Fukushima, “Northeast Asia's Future Security Framework:

Beyond Bilateralism?” *NIRA Review* (Tokyo: National Institute for Research Advancement [NIRA], 1999) <<http://www.nira.go.jp/publ/review/99summer/evans.html>> accessed March 7, 2007; Joseph M. Grieco, “Political-Military Dynamics and the Nesting of Regimes: An Analysis of APEC, the WTO, and Prospects for Cooperation in the Asia-Pacific,” in *Asia-Pacific Crossroads: Regime Creation and the Future of APEC*, ed. Vinod K. Aggarwal and Charles E. Morrison (New York: St. Martin’s Press, 1998), 235–56; Peter J. Katzenstein, “Introduction: Asian Regionalism in Comparative Perspective,” in *Network Power: Japan and Asia*, ed. Peter J. Katzenstein and Takashi Shiraiishi (Ithaca, NY: Cornell University Press, 1997), 1–44; Samuel S. Kim, “Northeast Asia in the Local-Regional-Global Nexus: Multiple Challenges and Contending Explanations,” in *The International Relations of Northeast Asia*, ed. Samuel S. Kim (New York: Rowman & Littlefield, 2004), 3–61; and T.J. Pempel “Introduction: Emerging Webs of Regional Connectedness,” in *Remapping East Asia: The Construction of a Region*, ed. T.J. Pempel (Ithaca, NY: Cornell University Press, 2005), 1–28. See also Gilbert Rozman, *Northeast Asia’s Stunted Regionalism: Bilateral Distrust in the Shadow of Globalization* (Cambridge: Cambridge University Press, 2004).

4. For a discussion of the concept of organization gap, see Kent E. Calder and Min Ye, “Regionalism and Critical Junctures: Explaining the ‘Organization Gap’ in Northeast Asia,” *Journal of East Asian Studies* 4, no. 2 (2004), 191–226.

5. Katzenstein, “Introduction” in *Network Power: Japan and Asia*, 17–18.

6. 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. By the early 1990s, South Korea and Taiwan were in the inner circle, and Southeast Asia and China made up the outer one. See Mitchell Bernard and John Ravenhill, “Beyond Product Cycles and Flying Geese: Regionalization, Hierarchy, and the Industrialization of East Asia,” *World Politics* 47, no 2 (1995): 171–209; Walter Hatch and Kozo Yamamura, *Asia in Japan’s Embrace: Building a Regional Production Alliance* (Cambridge: Cambridge University Press, 1996); and T.J. Pempel, “Transpacific Torii: Japan and the Emerging Asian Regionalism,” in *Network Power: Japan and Asia*, ed. Peter J. Katzenstein and Takashi Shiraiishi (Ithaca, NY: Cornell University Press, 1997), 47–82.

7. See Buzan, “Security Architecture in Asia,” 157–58; Dieter Ernst, “Partners for the China Circle? The Asian Production Networks of Japanese Electronics Firms,” *BRIE Working Paper* 91 (Berkeley: University of California, 1997); and Andrew MacIntyre, “Business, Government and Development: Northeast and Southeast Asian Comparisons,” in *Business and Government in Industrializing Asia*, ed. Andrew MacIntyre (Ithaca, NY: Cornell University Press, 1994).

8. Katzenstein, “Introduction: Asian Regionalism in Comparative Perspective,” in *Network Power: Japan and Asia*, 1–44.

9. Evans and Fukushima,, “Northeast Asia’s Future Security Framework: Beyond Bilateralism?”; Mike M. Mochizuki, “Security and Economic

Interdependence in Northeast Asia,” working paper, Walter H. Shorenstein Asia-Pacific Research Center (Stanford: Stanford University, 1998).

10. See Calder, “Securing Security through Prosperity,” 135–57.

11. Shaun Breslin and Richard Higgott, “Studying Regions: Learning from the Old, Constructing the New,” *New Political Economy* 5 no. 3 (2000): 333–52; and Ravenhill, “The Political Economy of the New Asia-Pacific Bilateralism: Benign, Banal or Simply Bad?” in *Bilateral Trade Arrangements in the Asia-Pacific: Origins, Evolution, and Implications*, ed. Vinod K. Aggarwal and Shujiro Urata (New York: Routledge, 2006), 27–49.

12. Kim, “Northeast Asia in the Local-Regional-Global Nexus,” 17.

13. Joanne Gowa, *Allies, Adversaries, and International Trade* (Princeton: Princeton University Press, 1994), 3–10.

14. See Dittmer, “East Asia in the ‘New Era’ in World Politics,” 40–41; and Alastair Iain Johnston, “Beijing’s Security Behavior in the Asia-Pacific: Is China a Dissatisfied Power?” in *Rethinking Security in East Asia: Identity, Power, and Efficiency*, ed. J.J. Suh, Peter J. Katzenstein, and Allen Carlson (Stanford: Stanford University Press, 2004), 39–41.

15. The ARF was helped into being by the fact that the United States, with less strategically and more economically at stake in East Asia, ended its longstanding opposition to minilateral security dialogue in the region. Cultivation of ideas such as “cooperative security” has been reinforced by the promotion of norms regarding peaceful settlement of disputes, regular multilateral dialogue at several levels, and adherence to some international arms control agreements, such as those on nuclear nonproliferation. 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. See Buzan, “Security Architecture in Asia,” 154–57; and Rosemary Foot, “China in the ASEAN Regional Forum,” *Asian Survey* 38, no. 5 (1998): 425–41.

16. John Mearsheimer, *The Tragedy of Great Power Politics* (New York: W.W. Norton, 2001); and Denny Roy, “China-South Korea Relations: Elder Brother Wins Over Younger Brother,” Special Assessment. Honolulu, HI: Asia-Pacific Center for Security Studies, 2004.

17. Aside from the 1989 Tiananmen crisis, the geopolitical vacuum left by the sudden collapse of the Soviet Union meant severe uncertainty for the political future of the Chinese political elites. Furthermore, the latter half of 1990 witnessed the start of the Gulf War and heated debate in Japan about its doomed Gulf Cooperation Bill (GCB), which would have dispatched Japanese Self Defense Forces (SDF) to the Persian Gulf, albeit in a noncombatant capacity. The Chinese leadership was therefore motivated to mount a major propaganda campaign to appeal to nationalism and to shore up their threatened legitimacy. See Buzan, “Security Architecture in Asia,” 153–54; and Chien-Peng Chung, *Domestic Politics, International Bargaining and China’s Territorial Disputes* (New York: Routledge, 2004), 42.



18. Paul Midford, "Japan's Leadership Role in East Asian Security Multilateralism: The Nakayama Proposal and the Logic of Reassurance," *The Pacific Review* 13, no. 3 (2000): 367–68, 387.

19. See Buzan, "Security Architecture in Asia," 156; and Evans and Fukushima, "Northeast Asia's Future Security Framework."

20. See Evans and Fukushima, "Northeast Asia's Future Security Framework."

21. According to its original plan, the TRADP was an ambitious project to develop the backward areas of Rajin in North Korea, Hunchun in China, and Posyet in Russia's Far East into a Northeast Asian entrepôt like Hong Kong, with estimated costs of \$30 billion over a fifteen- to twenty-year period. China needed a port outlet to the East Sea/Sea of Japan. Russia wanted to integrate the political economy of its Far Eastern region into the dynamics of the NEA economy. Mongolia, as a landlocked country, obviously wanted access to an international port. North Korea wanted to turn the Tumen River into a Chinese-style special economic zone. Both South Korea and Japan saw a gateway to the North. See Kim, "Northeast Asia in the Local-Regional-Global Nexus," 36.

22. Chung Mo Koo and Dick Beason, "Prospects and Challenges for Northeast Asia Free Trade Agreement," *The Journal of the Korean Economy* 3, no. 1 (2002), 133–50.

23. APEC currently has 21 members, including all the Northeast Asian countries except for North Korea. Its founding members were Australia, Brunei, Canada, Indonesia, Japan, South Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, and the United States. China, along with Taiwan and Hong Kong, gained membership to APEC in 1991, one of the few organizations in which Taiwan and China coexist.

24. Vinod K. Aggarwal, and Charles E. Morrison, eds., *Asia Pacific Crossroads: Regime Creation and the Future of APEC* (New York: Palgrave Macmillan, 1998); Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*.

25. Vinod K. Aggarwal and Min Gyo Koo, "Beyond Network Power? The Dynamics of Formal Economic Integration in Northeast Asia," *The Pacific Review* 18, no. 2 (2005): 189–216.

26. 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 Walter Hatch, "Grounding Asia's Flying Geese: The Costs of Depending Heavily on Japanese Capital and Technology," *NBR Briefing* (Seattle: The National Bureau of Asian Research, 1998).

27. Among others, Joseph Stiglitz has argued that models about crises that developed in response to the Latin American debt crisis in the 1980s are completely inadequate for understanding the causes or solutions of the East

Asian crisis. For instance, under continued financial pressure, Thailand signed a letter of intent with the IMF on August 20, 1997, which authorized \$17 billion to rescue the Thai economy. As was its practice, the IMF called for a set of tight fiscal and monetary policies, and Thailand eagerly enacted IMF reforms. Yet the IMF's conditionalities only exacerbated financial troubles, and the abrupt announcements of bank closures in keeping with the IMF's recommendations only served to inflame the panic instead of instilling confidence, making it more difficult for existing banks to continue normal lending operations. Although IMF officials later acknowledged their error, and offered more comprehensive financial restructuring plans to go along with bank closures, the damage was done. See Joseph Stiglitz, "The Role of International Financial Institutions in the Current Global Economy," Address to the Chicago Council on Foreign Relations, Chicago, February 27, 1998, p. 2. See also Aggarwal, "Exorcising Asian Debt: Lessons from Latin American Rollovers, Workouts, and Writedowns" in *Private Capital Flows in the Age of Globalization: The Aftermath of the Asian Crisis*, ed. Deepak Dasgupta, Uri Dadush, and Marc Uzan (Northampton, MA: Edward Elgar Publishing, 2000) and John Bresnan, "The United States and the Indonesian Financial Crisis" (unpublished manuscript, 1998).

28. David E. Sanger, "One Year Later, Asian Economic Crisis Is Worsening," *New York Times*, July 6, 1998.

29. Jennifer Amyx, "Japan and the Evolution of Regional Financial Arrangements in East Asia," in *Beyond Bilateralism: U.S.-Japan Relations in the New Asia-Pacific*, ed. Ellis Krauss and T.J. Pempel. (Stanford: Stanford University Press, 2003), 198–220.

30. Saori N. Katada and Mireya Solís, "Institutional Responses Compared: Japan's New Approach to Regional Trade and Finance Integration," paper presented at the American Political Science Association's **Annual Meeting**, Philadelphia, PA, August 31–September 3, 2006.

31. Agreements on global telecom and financial services were negotiated with participation of most countries in the world in 1998 and 1999, respectively, including East Asian states, but APEC played no significant role. China joined all three sectoral accords—i.e., ISA, BTA, and FSA—following its accession to the WTO.

32. Chung Mo Koo and Dick Beason, "Prospects and Challenges for Northeast Asia Free Trade Agreement," *The Journal of the Korean Economy* 3, no. 1 (2002), 146.

33. See Aggarwal and Koo, "Beyond Network Power? The Dynamics of Formal Economic Integration in Northeast Asia," 189–216; Aggarwal and Koo, "The Evolution and Implications of Bilateral Trade Agreements in the Asia-Pacific," 279–99; Saori Katada and Mireya Solís, "East Asian Cross-Regionalism: Theory and Practice," Paper presented at the Center for International Studies' conference on East Asian Cross-regionalism (University of Southern California, Los Angeles, October 14, 2005); and T.J. Pempel and Shujiro Urata, "Japan: The Politics of Bilateral Trade Agreements," in *Bilateral Trade Arrangements in*

*the Asia-Pacific: Origins, Evolution, and Implications*, ed. Vinod K. Aggarwal and Shujiro Urata (New York: Routledge, 2006), 75–94.

34. Charles Armstrong, Gilbert Rozman, Samuel S. Kim, and Stephen Kotkin, eds., *Korea at the Center: Dynamics of Regionalism in Northeast Asia* (Armonk, NY: M.E. Sharpe, 2006).

35. In February 1998, South Korean President Kim Dae Jung 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.

36. Kim, "Northeast Asia in the Local-Regional-Global Nexus," 15.

37. On May 31, 2003, President George W. Bush announced the establishment of the Proliferation Security Initiative (PSI), which created international agreements and partnerships that allowed the United States and its allies to search planes and ships carrying suspect cargo and to seize illegal weapons or missile technologies. In the meantime, APEC and ARF, encouraged by the United States, have also adopted a series of counterterrorism measures. Although antiterrorism cooperation undertaken by NEA countries focuses on intelligence and information exchanges rather than substantive measures, this is a symbolically important move toward a regional security dialogue. See Amitav Acharya, "Asian Security after September 11: A View from Southeast Asia," paper presented at the Asia Pacific Foundation of Canada's Roundtable on the Foreign Policy Dialogue and Canada-Asia Relations, March 27, 2003; Buzan, "Security Architecture in Asia," 143–73; and Dittmer, "East Asia in the 'New Era' in World Politics," 38–65.

38. Denny Roy, "China-South Korea Relations: Elder Brother Wins Over Younger Brother," Special Assessment (Honolulu, HI: Asia-Pacific Center for Security Studies, 2004), 4.

39. Congressional Research Service (CRS), "Japan-U.S. Relations: Issues for Congress," CRS Issue Brief for Congress (March 21, 2005).

40. Simmering tensions between China and Japan came to a boiling point in April 2005, when a series of sometimes violent anti-Japanese rallies broke out in the major cities of China, damaging the Japanese Embassy in Beijing and consulates in other cities. These Chinese protests were inflamed by the Japanese government's authorization of history textbooks that have reinforced Japan's territorial claim to the disputed islands in the East China Sea, as well as glossing over its wartime atrocities. The Japanese campaign for a permanent UN Security Council seat also aroused Chinese public anger. China acknowledged that diplomatic relations with Japan were at a three-decade low, but blamed the dispute on Tokyo for refusing to face up to its militaristic past. This in turn evoked Japanese anger over China's lack of regret for violent anti-Japanese

protests. See Alexa Olesen, "China Blames Japan for Diplomatic Row, Calling It the Worst Since 1972," *Associated Press*, April 18, 2005.

41. Japan's Ministry of Defense, "National Defense Program Guideline for FY 2005 and After," December 10, 2004, <[http://www.mod.go.jp/e/policy/f\\_work/taikou05/index\\_e01.htm](http://www.mod.go.jp/e/policy/f_work/taikou05/index_e01.htm)> Accessed March 7, 2007. In sharp contrast, Sino-South Korean relations have improved dramatically since their diplomatic normalization in 1992. China became South Korea's largest trading partner in 2004 with the total value of bilateral trade exceeding \$100 billion. South Korea has emerged as the largest single source of foreign investment in China, making \$6.25 billion in fixed investments there in 2004, according to data from the Chinese Ministry of Commerce. Aside from strong bilateral economic ties, amicable relations between the two Cold War rivals are visible in military cooperation. Since the first visit to Seoul by a Chinese defense chief in January 2000, the two countries have stressed the importance of developing bilateral military ties.

42. Min Gyo Koo, *Scramble for the Rocks: The Disputes over the Dokdo/Takeshima, Senkaku/Diaoyu, and Paracel and Spratly Islands*, PhD dissertation in political science (Berkeley: University of California, 2005), 191–94.

43. David E. Sanger, "North Korea Says It Tested a Nuclear Device Underground," *New York Times*, October 9, 2006.

44. Kim, "Northeast Asia in the Local-Regional-Global Nexus," 27.

45. In June 2000, the State Department announced its decision to expunge the term "rogue state" from the U.S. foreign policy lexicon in favor of the more diplomatic-sounding "states of concern," explaining that "rogue state" category had outlived its diplomatic utility. Yet candidate Bush continued to use the term "rogue state" to refer to North Korea, Iran, and Iraq. Then came the "axis of evil" State of the Union speech in January 2002, which upgraded the rogue-state strategy to the evil-state strategy (see Kim, "Northeast Asia in the Local-Regional-Global Nexus," 27).

46. John S. Park, "Inside Multilateralism: The Six-Party Talks," *The Washington Quarterly* 28, no. 4 (2005), 76–84.

47. Todd Bullock, "U.S. Hopes Six-Party Talks Can Be Model for Northeast Asia: State's Hill Says Talks on North Korea's Weapons Programs Strengthen Ties," *The Washington File*, U.S. Department of State, 2005.

48. Jim Yardley and David E. Sanger, "In Shift, A Deal Is Being Weighed by North Korea," *New York Times*, February 14, 2007.

49. Peter J. Katzenstein and Nobuo Okawara, "Japan and Asian-Pacific Security," in *Rethinking Security in East Asia: Identity, Power, and Efficiency*, ed. J.J. Suh, Peter J. Katzenstein, and Allen Carlson (Stanford: Stanford University Press, 2004); Jack Pritchard, "Beyond Six Party Talks: An Opportunity to Establish a Framework for Multilateral Cooperation in the North Pacific," paper presented at the Hokkaido Conference for North Pacific Issues, Hokkai Gakuen University (October 7, 2004), 1–3; and Young-kwan Yoon, "The North Korean Nuclear Problem and Multilateral Security Cooperation in Northeast Asia,"

paper presented at “Northeast Asia’s Economic and Security Regionalism: Old Constraints and New Prospects” conference, Center for International Studies, University of Southern California (March 3–4, 2006).

50. See, for example, Aggarwal and Koo, “The Evolution and Implications of Bilateral Trade Agreements in the Asia-Pacific,” 279–99.

51. Business Roundtable, “The Case for U.S. Trade Leadership: The United States Is Falling Behind,” 2001, p. 1, <<http://www.businessroundtable.org/publications/index.aspx>> Accessed March 7, 2007.

52. The United States has since negotiated, or is in the process of negotiating, FTAs with Australia, Morocco, the South African Customs Union (SACU), Central America (including the Dominican Republic, Panama, and four Andean countries beginning with Colombia and Peru), South Korea, and Thailand.

53. Aggarwal and Koo, “Beyond Network Power? The Dynamics of Formal Economic Integration in Northeast Asia,” 205–06.

54. The other two types of goods—common pool resources and private goods—are not considered here. Meanwhile, we distinguish between different types of goods 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 noncontributors to the provision of goods from consuming them (see Vinod K. Aggarwal, “Reconciling Multiple Institutions: Bargaining, Linkages, and Nesting” in *Institutional Designs for a Complex World: Bargaining, Linkages, and Nesting*, ed. by Vinod K. Aggarwal [Ithaca, NY: Cornell University Press, 1998], 8–9). 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 nonrival and nonexcludable in consumption. Others, such as neoliberal institutionalists, see the game of trade liberalization and peace as a Prisoner’s Dilemma game, in which everyone could be better off if cooperation is achieved, but in which 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.

55. Ravenhill, “Political Economy of the New Asia-Pacific Bilateralism,” 31–34.

56. Rozman, “South Korean–Japanese Relations as a Factor in Stunted Regionalism,” paper presented at “Northeast Asia’s Economic and Security Regionalism: Old Constraints and New Prospects” conference, March 3–4, 2006.

57. In the first half of the 2000s, economic relations continue to expand dramatically. In 2004, China replaced the United States as Japan’s top trading partner. Bilateral trade has increased dramatically, with the total values rising from \$1 billion in 1972 to \$189 billion in 2005. The shifting structure of Sino-Japanese economic interdependence is worth noting. For a long period after the diplomatic normalization of 1972, the economic ties with Japan carried much more weight for China than did ties with China for Japan. More recently,

however, their bilateral economic relationships are increasingly becoming important for Japan, in both absolute and relative terms. The changes in the structure of Sino-Japanese economic interdependence are represented by Japan's increasing reliance on China vis-à-vis its economic growth. Japan's trade dependence on China more than doubled, from 1.48 percent to 3.59 percent, during the period of 1997–2004. There is little doubt that Japan's recent economic recovery owes much to its soaring exports to China. In addition to the acceleration in the number of Japanese companies setting up business in the Chinese market, the expansion of Chinese domestic demand and other factors have caused Japan's dependence on trade with China to drift upward. See Koo, *Scramble for the Rocks*, 189–91.

58. Koo, *Scramble for the Rocks*, 189–91.

59. Rozman, "South Korean–Japanese Relations as a Factor in Stunted Regionalism," paper presented at "Northeast Asia's Economic and Security Regionalism: Old Constraints and New Prospects" conference, March 3–4, 2006.

60. Unmistakably, the populist governments on both sides add fuel to the fires of contending nationalisms. Japanese Prime Minister Koizumi began to employ an assertive diplomacy by explicitly or implicitly promoting Japan's nationalist agenda. This strategy included revising Japan's fundamental laws (particularly Article 9 of the Peace Constitution), and allowing Japan to maintain regular armed forces, despite the worries of South Korea and China. As one of the most democratic but beleaguered presidents, Roh Moo Hyun has come under heavy pressure for a more definitive nationalist policy. In the middle of rising tension of the island flare-up in spring 2005 (and again in spring–summer 2006), he issued a statement with unusually strong anti-Japanese overtones that his government would risk diplomatic warfare unless Japan stopped employing a confrontational territorial policy. See Koo, *Scramble for the Rocks*, 135–36.

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