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2. Asia's New Economic Institutions

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2.1 Introduction

The decade since the East Asian financial crises has seen a remarkable proliferation of intergovernmental economic institutions in the region. Whereas in 1997, the only minilateral preferential trading arrangement involving Asian states was the (far from robust) ASEAN Free Trade Agreement (AFTA),² a decade later the region had become the most active site in the global trading system for the negotiation of bilateral and minilateral preferential trade arrangements. And the definition of the "region" for the purposes of such negotiations increasingly was expanded to include economies in South Asia, particularly India.³ East Asian states had also begun a program of unprecedented financial and monetary collaboration.

¹ I wish to acknowledge financial support from the Australia Research Council through project DP0453077, the efforts of Jonathan Chow in organizing the workshops, and helpful comments on drafts of this chapter from workshop participants and especially from the editors.

² For further details of the history of economic collaboration in Southeast Asia see Helen Nesadurai's chapter in this volume, and Nesadurai (2003).

³ The definition of "region" for the purposes of economic collaboration remains a matter of contestation. Since the establishment of APEC in November 1989, the principal dividing line has been between its trans-regional approach to economic collaboration and conceptions of the region as exclusively "East Asian", an approach formulated originally by former Malaysian PM Mahathir in his proposal for an East Asian Economic Group. The definition of "East Asia" itself is not straightforward, however, given Beijing's determination to exclude Taiwan from regional intergovernmental institutions. More recently, exclusively East Asian conceptions of the region have been challenged by efforts to include South Asia and Oceania in collaborative arrangements, most notably in the East Asian Summits, and in Japan's proposals for a "Comprehensive Economic Partnership in

At the same time as Asian governments embarked on this new trade policy activism, they allowed the principal trans-regional economic institution, the Asia-Pacific Economic Cooperation (APEC) grouping, to languish to the extent that some observers suggested that it was in danger of becoming "terminally irrelevant".⁴ It seemed that governments' new activism in the negotiation of discriminatory arrangements was coming at the expense of the two institutions that advocated non-discriminatory liberalization—at the trans-regional level, APEC, and at the global level, the WTO—although arguments about the diversion of resources away from these two institutions towards minilateral arrangements remain largely impressionistic and hotly contested by some governments.

2.2 Turning Points: Overcoming the Cold War Divide

The first of the turning points identified by the editors in their overview chapter to this volume—the ending of the Cold War—did indeed have a profound impact on the institutionalization of intergovernmental economic collaboration in Asia. Cold War divisions had long impeded economic collaboration among countries in Northeast Asia and in Southeast Asia, and across the Pacific. It was only with the waning of the Cold War, the cessation of hostilities in Vietnam and subsequently between Vietnam and its neighbors, and China's opening to the global economy that the construction of an intergovernmental institution that embraced most of East Asia as well as Oceania and North America became possible (and even then, China's participation in APEC was delayed by the Tiananmen Square incident of June 1989). APEC was constructed on more than two decades of patient efforts by academics, businesspeople and government officials who sought to facilitate economic collaboration in the Asia-Pacific region through the creation of an intergovernmental institution. These efforts had been institutionalized primarily through the Pacific Trade and Development (PAFTAD) Conferences and the tri-partite (business, government, academic) body, the Pacific Economic Cooperation Council (PECC).

It was only in the mid-1980s that the demand for a new intergovernmental institution to help manage economic tensions across the Pacific, which had been exacerbated by the trade imbalances between the United States on the one hand, and Japan and the Newly Industrializing Economies of

East Asia". For the purposes of this paper, when I refer to "region", unless otherwise specified, I mean "East Asia" understood as the ten member states of ASEAN, China, Hong Kong, Macau, Japan, Korea and Taiwan.

⁴ Gyngell and Cook (2005)

Northeast Asia on the other, was met by a new interest in official circles in supplying a significant trans-regional institution. Crucial to this development was the interest that Russia and China for the first time expressed in global and regional economic institutions. Even though Russia was not among APEC's founding members, Gorbachev's Vladivostok initiative of July 1986 was of enormous significance for APEC's foundation. In his speech, Gorbachev proclaimed that "the Soviet Union is also an Asian and a Pacific country", and expressed an interest in Soviet participation in regional economic institutions that had previously been vilified as tools of Western imperialism. PECC responded immediately by admitting a Soviet observer at its fifth conference, held in Vancouver in November of that year.⁵ Gorbachev's Vladivostok speech in retrospect was an acknowledgement that the Cold War in the Pacific was for all practical purposes over and that the U.S. had won. Strategic considerations would no longer pose a major barrier to the realization of institutionalized interstate regional economic collaboration.

Of arguably equal importance was China's economic opening from 1978 on. Beginning in 1982, China obtained observer status in General Agreement on Tariffs and Trade (GATT) ministerial meetings and in 1986 it formally applied for readmission to the global trade body. In the same year, China accepted an invitation to join PECC. The Tiananmen Square incident prevented China's early admission to APEC but this eventually occurred in November 1991, just two years after APEC's inaugural meeting.

The Cold War had arguably played an initially positive role in sustaining collaboration among the countries of Southeast Asia in the Association of Southeast Asian Nations (ASEAN), although even here the effect was ambiguous because the dream of ASEAN's founders of creating an institution that would embrace all ten of the countries of Southeast Asia would not be realized until the legacies of the Vietnam conflict were finally buried in the 1990s.

⁵ The dispute with Japan over the Kurile Islands delayed the admission of the Soviet Union to full membership status in PECC. Eventually this membership was granted in September 1991, but with the breakup of the Soviet Union a few months later, Russia took over the membership. Russia joined APEC in November 1998.

2.3 Turning Points: The Financial Crises of 1997-98

The Asian financial crises coincided with the move to minilateral discriminatory trading arrangements in the region. Their importance lay primarily in accelerating a trend that was already under way, rather than precipitating a radical departure from the status quo. They did lead, however, to an important new dimension of collaboration among East Asian states—on financial and monetary matters.

One important consequence of the crises was to weaken existing regional and trans-regional institutions and to reinforce perceptions among state elites of the need to find alternative means of pursuing economic collaboration. The crises had a particularly negative effect on APEC—though it is difficult to determine the extent to which this was caused by 1) APEC's ineffective response to the impact of the crises on several of its members, as opposed to 2) the simultaneous collapse of its efforts to accelerate trade liberalization on a sector-by-sector basis through its early voluntary sectoral liberalization (EVSL) program. APEC's venture down this path had been sparked by the success in the WTO of the Information Technology Agreement, an initiative of the Quad Group (Canada, the EU, Japan and the United States), which most APEC countries had backed. But it was soon evident that APEC's own efforts at pursuing liberalization through a sectoral approach would serve only to exacerbate existing tensions—evident from the Osaka APEC meetings of 1995—over what APEC's priorities should be, and especially whether it should be a venue for negotiation of trade liberalization that went beyond countries' commitments at the WTO.⁶ The collapse of the EVSL program at the Kuala Lumpur meetings in 1998 was significant both in that it effectively removed trade liberalization from APEC's agenda and because of its effect in alienating countries that had the resources to provide leadership to the institution. This was particularly the case for Japan, which together with Australia had been the most enthusiastic supporters of APEC from the time of the negotiations for its establishment.⁷ But it also reinforced skepticism in the United States, especially in its business community, that APEC could ever be used as an effective instrument for the pursuit of U.S. foreign economic policy objectives.

The failure of APEC to take any action to address the financial crises, beyond endorsing the International Monetary Fund's (IMF) approach, was

⁶ For discussion of the failure of the EVSL program see Ravenhill (2001), Krauss (2004) and Wesley (2001).

⁷ Aggarwal and Morrison (1998) and Ravenhill (2001)

important as much for its symbolism than for what it said about APEC's capabilities. After all, APEC was an institution whose primary focus was trade. Annual meetings of finance ministers from APEC economies had begun in 1994 but were confined to discussions about developments in finance at the regional and global levels. APEC itself had not taken any initiatives to promote financial coordination. That APEC would not itself be able to fashion an effective response to the huge re-direction of capital flows that afflicted many East Asian economies in 1997 thus should not have come as a surprise to any reasonably dispassionate observer. Nonetheless, the apparent indifference of APEC's Western members to the plight of crisis-stricken economies, exemplified by the failure of the U.S. government to participate in the rescue package put together for Thailand, was a significant stimulus to intergovernmental economic collaboration among East Asian governments. It prompted them (initially unsuccessfully) to search for a regional alternative to the IMF as a source of crisis financing, to promote a regional bond market as a means of reducing reliance on debt financing, and to pursue preferential trade agreements.

Perceptions of ASEAN's current and future potential as an effective institution for economic collaboration were similarly adversely affected by the financial crises. Again, it would have been unrealistic to assume that ASEAN itself could have provided an effective antidote to the financial panic that spread throughout Southeast Asia in 1997. But few expected that it would be so completely ineffective in addressing the crises. Its failure to take any decisive action further reinforced the skepticism of some of its members, most notably its highest income economy, Singapore, that the "region" as defined by ASEAN could provide an effective stimulus to their economic development.

Finally, at the global level, countries seeking further liberalization were increasingly skeptical of the prospects for rapid progress through the WTO. The first WTO ministerial meeting, held in Singapore in December 1996, was not the embarrassing disaster of the third meeting in Seattle three years later. Nonetheless, the negative reaction of developing economies to the new issues placed on the agenda in 1996—when the ministerial meeting mandated the establishment of working groups to review the so-called "Singapore issues" of investment, competition policy, transparency in government procurement, and trade facilitation—was an early indication that further liberalization at the global level was likely to encounter significant opposition.

2.3.1 Post-1997 Enthusiasm for Bilateral Trade Agreements

The move to discriminatory trade did not come entirely out of the blue. Preferential trade agreements had been put forward in APEC's early years

as a possible strategy for realizing its goal of trade liberalization. During his re-election campaign in 1992, George H.W. Bush issued a manifesto, "Agenda for American Renewal", which proposed a global web of free trade agreements, building on the yet to be ratified North American Free Trade Agreement (NAFTA). This proposal, developed by Robert Zoellick, then aide to White House Chief of Staff James Baker, identified a number of Western Pacific Rim countries, including Australia, as possible candidates for agreements. It met with little enthusiasm, however, as Western Pacific Rim governments were concerned that it would lead to the development of a hub-and-spoke system, an economic counterpart to the San Francisco system, to their disadvantage. The proposal for negotiating free trade agreements with Western Pacific Rim countries was not resurrected until March 1997 when United States Trade Representative (USTR)-designate Charlene Barshefsky released "The President's Trade Policy Agenda" which included the commitment that

...the United States will continue to negotiate reciprocal free trade agreements with individual nations in the Asia-Pacific. Australia, New Zealand, and Singapore are a few of the possible partners in this respect.

Again, it is notable that this document preceded the financial crises that developed later in that year. The USTR followed up on this commitment in its November 1997 proposal for a "Pacific 5" free trade agreement with Australia, Chile, New Zealand and Singapore. But it failed to pursue this proposal. Significant factors here were the inability of the Clinton administration to secure "fast-track" negotiating authority and ongoing domestic opposition to free trade agreements, particularly over labor and environmental concerns, following the implementation of NAFTA. Australia and New Zealand, moreover, posed potential problems for agricultural interests in the U.S. (to compound, in the case of New Zealand, the political stand-off over that country's ban on port visits by U.S. nuclear vessels).

The inclusion of Singapore on the list of possible participants was particularly significant. Its government had frequently indicated its impatience with the slow pace of progress of ASEAN's Free Trade Area. Whatever emotional commitment it had to the idea of furthering Southeast Asian integration was tempered by recognition that this region would never provide a market for more than a small share of its overall exports. The financial crises and political instability that afflicted its neighbors in 1997-98 merely reinforced views in the island state about the need to widen the range of trade partners with which it sought preferential agreements.

Few governments are as well placed as that of Singapore to negotiate free trade agreements. It has very few tariffs on imported manufactures—automobiles, beer, gasoline and tobacco are the exceptions. Consequently, in any exchange of tariff concessions on manufactures in trade negotia-

tions, Singapore is likely to come out ahead. Moreover, because of the structure of its economy—with the bulk of activities in the hands of subsidiaries of foreign corporations or government-linked companies—the Singaporean state enjoys unrivaled autonomy (for any high-income economy) from domestic interests in formulating its foreign economic policies. Any political costs that Singapore would incur in trade agreements would be borne primarily by the service sector.

Singapore became the first East Asian economy to sign a bilateral free trade agreement. When the U.S. failed to pursue its proposal for a P5 grouping, Singapore approached the New Zealand government for a bilateral agreement.⁸ Negotiations began in September 1999, with the ensuing agreement entering into force at the start of 2001. Singapore's calculations in choosing New Zealand for its first trade agreement outside of ASEAN reveal some of the multiple considerations that governments have in pursuing such agreements. Certainly it would be hard to argue that its choice of New Zealand owed anything to its significance as an economic partner—at the time of the negotiation of the agreement, New Zealand accounted for little more than 0.25 percent of Singapore's total exports. Indeed, the contrary case can be made: it was precisely New Zealand's lack of economic significance that made it an attractive proposition for Singapore's first bilateral PTA.⁹ To this was added New Zealand's enthusiasm for pushing the pace of trade liberalization beyond what APEC was perceived as being capable of delivering.

Singapore was not the only government in the region actively reconsidering its approach to trade liberalization. Japan's Ministry of International Trade and Industry (MITI) had begun in the second half of the 1990s to conduct studies of regionalism and of the potential costs and benefits to Japan of pursuing preferential trade arrangements. The first public indication that the Japanese government was seriously reconsidering its stance on regional trade agreements came in the publication of MITI's *White Paper on International Trade 1999*.¹⁰ Noting that whereas Japan had traditionally stressed the negative impact of regional arrangements on third parties and thereby had distanced itself from the majority of countries in the international community that were now participating in such arrangements, the *White Paper* asserted that evidence was now accu-

⁸ In addition, Singapore began to explore the possibility of a smaller-scale P-group: one initially based on Chile, New Zealand and Singapore (see below).

⁹ As one Singaporean official put it, if anything went wrong because of the agreement, the consequences would be minimal. Interview, February 2006.

¹⁰ Ministry of International Trade and Industry (1999)

mulating of the positive effects that regional arrangements were generating not just for participating states but for the global trading system as a whole. The *White Paper* concluded that Japan should reconsider its policy on regionalism and use it as a supplement to approaches taken at the level of the global trading system.

A report issued in the following year, *The Economic Foundations of Japanese Trade Policy—Promoting a Multi-Layered Trade Policy*, articulated the new approach in more detail.¹¹ This report suggested that a broadening and deepening of regional integration had occurred in response to the growth of economic interdependence, reflected in flows of trade and foreign direct investment. The new regionalism had generated positive effects for participating economies not just through conventional Vinerian trade creation and enhancing the competitiveness of domestic industries, but also because these arrangements had encouraged investment flows. MITI noted that the new regionalism moreover typically involved “deeper integration”, with provisions relating not just to border barriers but also to investment and services, etc. Conventional economic models that focused only on the static effects of integration therefore tended to underestimate the gains from such arrangements. MITI was particularly impressed with the benefits that NAFTA appeared to have delivered in the form of accelerated growth for its member economies. Moreover, various studies of the new regionalism seemed to suggest that it had relatively few negative consequences for non-participants.¹² MITI also noted that by entering into regional arrangements, participants had strengthened their negotiating position in their talks with members of other regional groupings. Furthermore, in a globalizing economy, it was beneficial for a country if the technical standards used by its industries were adopted throughout the wider geographical area that a regional trading agreement might encompass.

Calls for Japan to reconsider its policies towards preferential trade agreements also came from the private sector. Keidanren, the Japan Federation of Economic Organizations, in its statement on the agenda for the proposed “Millennium” round of WTO negotiations, asserted that Japan needed to give “concrete consideration” to pursuing WTO-consistent free trade agreements.¹³ In July of the following year, Keidanren issued a more detailed call for the government to negotiate FTAs, noting that businesses

¹¹ Ministry of Economy, Trade and Industry (2000)

¹² But contrast with Wall (2001) who suggests that Japan’s exports might be as much as 19 percent lower than they would otherwise have been because of the negative effects of NAFTA and the EU.

¹³ Keidanren (1999a)

were concerned that government action on this issue, despite business pressure, had been “lamentably slow”.¹⁴

In pressing its case that the government should not confine its negotiation of FTAs to a specific region, Keidanren restated some of MITI’s arguments about how such agreements might complement actions within the WTO and indeed facilitate multilateral negotiations. It also emphasized the beneficial effects such agreements might have on promoting Japan’s own structural reform. However, Keidanren also added specific business concerns to the case for FTAs. Because the new regional agreements were typically “WTO Plus” in providing for investment protection and liberalization, harmonization and mutual recognition of standards, and liberalization of trade in services, they would offer expanded opportunities for Japanese business in the economies of partner states. Moreover, with North American and European countries aggressively expanding the number of preferential agreements to which they were party, Japanese companies would be at a disadvantage unless the government negotiated similar arrangements. Keidanren pointed to the case of Mexico, where American firms enjoyed preferential access to the market through the NAFTA arrangements, and European firms had similar access because the EU had signed a bilateral free trade agreement with Mexico. In contrast, Japanese companies faced Mexican tariffs of 10 to 20 percent on key exports such as automobiles and household electrical appliances, and were excluded from bidding for government contracts.¹⁵ The intervention of Keidanren appeared to lend support to Richard Baldwin’s “domino” theory of regionalism: the argument that once momentum on PTAs gathers pace, the process becomes self-sustaining because export-oriented companies in countries that are non-participants will lobby their governments to negotiate equivalent concessions.¹⁶

The pressure from Keidanren marked a significant development in the evolution of the regionalism debate not just in Japan but in the region more widely. Previously, regionalism in the Asia-Pacific had been largely a governmental affair. Although business had participated in the tripartite PECC, governments had enjoyed little success in interesting large corporations in the activities of the principal regional arrangement, APEC. Indeed, the capacity of business to operate successfully across national boundaries in East Asia and its consequent lack of interest in regionalism was often

¹⁴ Keidanren (2000)

¹⁵ Keidanren (1999b)

¹⁶ Baldwin (1997). For further discussion of Keidanren’s role in the FTA debate in Japan see Yoshimatsu (2005).

held to be one of the most significant factors in the lack of institutionalization of intergovernmental collaboration in the Asia-Pacific.¹⁷

Japan's eventual entry into negotiations for preferential trade agreements, however, came in response to invitations from potential partners. The decisive political breakthrough in Tokyo's consideration of the role of regionalism in its foreign economic policies came with Korean President Kim Dae-jung's October 1998 visit to Japan. The visit produced a Joint Declaration on a New Japan-Republic of Korea Partnership Towards the 21st Century; the action plans appended to the Declaration included provisions for strengthening economic ties. Building on the spirit of reconciliation that the presidential visit had created, the Korean trade minister in the following month proposed to his Japanese counterpart at an APEC ministerial meeting that the two countries should establish a joint study group on the future of bilateral economic relations, including the possibility of negotiating a free trade agreement.¹⁸ At the same time, Mexican President Ernesto Zedillo proposed that Japan should enter into a free trade agreement with his country to parallel that which Mexico was about to negotiate with the EU.

But Japan's first PTA was a response to an invitation from the Singaporean government. Japan's failure to reject the initiatives from Korea and Mexico was perceived as a signal that the government was undertaking a reconsideration of its policies on preferential agreements, providing the encouragement the Singapore government needed to begin informally to explore the interest that Tokyo might have in negotiating a bilateral accord. Munakata (2001) reports that the initial response of the Japanese government to the Singaporean initiative was one of skepticism, in part because of the relatively small size of the Singaporean economy, but also because of doubts about the wisdom of abandoning the previous policy of emphasizing multilateral approaches to trade liberalization. Tokyo remained concerned about the potential backlash of other countries—within and outside the region—to such a move. Nonetheless, negotiations, which built on the report of a joint study group launched in November 1999, pro-

¹⁷ For further elaboration see Ravenhill (2001).

¹⁸ The results of a study conducted by government think tanks on the future of Japan-Korea economic relations were published in May 2000. Munakata (2001), a former Director of Policy Planning in MITI, provides a detailed discussion of the developments that led to Tokyo's decision to pursue bilateral trade agreements.

gressed relatively rapidly—not least because the Singaporean government was willing to accept an agreement markedly uneven in its obligations.¹⁹

No other Asian government has spelled out in as much detail as Japan the reasons behind its change in thinking on the desirability of adding preferential trade agreements to its armory of foreign economic policies. The discussion of the Japanese debate above suggests that while the financial crises of 1997-98 may have provided a stimulus to more actively consider alternatives to existing regional institutions, it was a matter of reinforcing a trend that was already under way rather than of prompting a radical departure from ongoing considerations. The Japanese case points in particular to several factors underlying the official rethink:

- 1) A positive assessment of the effects of preferential trade agreements in other parts of the world (in facilitating WTO Plus liberalization and in stimulating investment), and the conclusion that besides stimulating the economies of participating countries they had no significant deleterious impact on the global economy as a whole;
- 2) Notwithstanding the conclusion that the European and North American agreements did not substantially disadvantage non-participants, a concern that failure to go down the preferential route would potentially weaken economies in three principal ways:
 - a) it would deny them the perceived advantages that Europe and North America were gaining from promoting larger integrated markets
 - b) it would diminish their bargaining power in global trade negotiations;
 - c) it would directly disadvantage their domestic corporations in the markets of countries that had negotiated PTAs with the EU or with the United States.

2.3.2 Financial and Monetary Cooperation

The most immediate move toward enhanced regional collaboration in the wake of the financial crises, however, came not in the trade sphere but in

¹⁹ In contrast, the proposals for agreements with Korea and Mexico, even though launched a year earlier, proceeded much more slowly (and nearly a decade later, no agreement has been reached with Korea).

that of finance—entirely appropriate, if not predictable, given the origins of the crises. This was the proposal by the Japanese Vice-Minister for Finance, Eisuke Sakakibara, to establish an Asian Monetary Fund (AMF). The history of this proposal is well-known and warrants little discussion here save to note that it was a direct response to a perceived anti-Asian bias in the response of the IMF to the financial crises, and to East Asia's under-representation within the Fund itself. Its significance lay also in its paving the way for later initiatives on financial collaboration.²⁰

As Jennifer Amyx argues, however, while the financial crises may have been a catalyst for financial cooperation, the subsequent moves to establish new vehicles for interstate collaboration were driven by other forces. In particular, she points to changing attitudes on the part of the Chinese government, which had opposed Sakakibara's original AMF proposal. The key meeting in this regard was the third ASEAN Plus Three summit in Manila, which institutionalized this new regional grouping.²¹ At this meeting, the Chinese government proposed an annual meeting of ASEAN Plus Three finance ministers. At their first meeting in Chiang Mai, Thailand, in May of the following year, the ministers endorsed a Japanese proposal, which came to be known as the Chiang Mai Initiative (CMI), for a network of bilateral currency swaps, which would enable a country whose currency was under speculative pressure to draw on the reserves of its partners. Building on a similar but very small facility that ASEAN had created in 1977 (which limited the total liability of any country under the arrangement to \$20 million),²² the initial CMI established 16 bilateral agreements with total funds of \$36.5 billion.

The need for quick access to larger sums of foreign exchange than were available to East Asian states in 1997 was the first lesson drawn from the financial crises (although the principal means for addressing this problem has come through unilateral action—the very substantial increase in foreign exchange positions that most East Asian governments have built in the decade since the crises—against which the total funding available under the CMI pales in comparison). The second lesson was the desire to reduce dependence on bank loans for development financing. Again, the principal solutions for addressing this problem would most likely be found

²⁰ For discussion of the motivations of the Japanese government and the reasons for the proposal's failure see Amyx (2004) and Lee (2006).

²¹ The first informal meeting of leaders from ASEAN plus China, Japan and Korea had taken place during the second ASEAN informal summit in Malaysia in December 1997—a meeting that had been planned before the onset of the financial crises.

²² ASEAN Secretariat (1977)

at the national level, but it also attracted interest at the regional level, initially through the previously obscure grouping of central banks, the Executives' Meeting of the East Asia and Pacific Central Banks (EMEAP).²³ Discussion of an initiative to launch a regional bond fund to promote the development of bond markets in Asia began in earnest in 2002. In 2003, EMEAP launched a modest \$1 billion fund in dollar-denominated securities issued by eight EMEAP economies. A further \$2 billion in bonds was launched in 2005. Meanwhile, the ASEAN Plus Three finance ministers sought to take up the running on this issue (causing some friction with EMEAP) by adopting the Asian Bond Markets Initiative in 2003, which encouraged the issuance of local currency-denominated bonds.

2.4 The 9/11 Attacks and Asian Economic Institutions

The third turning point the editors identify in their Introduction, the events of September 11th and the subsequent "War on Terror", has had relatively little impact on Asia's economic institutions.

The one exception to this argument is the role that the events played in shaping U.S. economic initiatives in the region. Even before September 11th, there was a tendency for Washington to use PTAs as a means of rewarding allies and to withhold offers to negotiate from countries regarded as unsupportive of the U.S. foreign policy agenda (New Zealand, for instance, because of its refusal to allow port visits by U.S. nuclear vessels). It was probably no accident that Singapore, a key supporter of the U.S. role in the region, was the first Asian state to succeed in negotiating an FTA with Washington. This success was not just a matter of supply, however, but also of demand—the Singaporean government deliberately choosing to use FTAs as a strategy for attempting to enmesh all of its key strategic partners.²⁴

Yet while an argument regarding the securitization of U.S. foreign economic policy has a certain *prima facie* plausibility given the worldwide

²³ EMEAP had been established in 1991 at the initiative of the Japanese government. It provides yet another definition of the region, alternative to that of ASEAN Plus Three: its membership comprises the Reserve Bank of Australia, the People's Bank of China, the Hong Kong Monetary Authority, Bank Indonesia, Bank of Japan, Bank of Korea, Bank Negara Malaysia, the Reserve Bank of New Zealand, Bangko Sentral ng Pilipinas, the Monetary Authority of Singapore, and the Bank of Thailand.

²⁴ Hence, subsequent bilateral negotiations with Japan (FTA implemented 2002), China (negotiations resumed in 2006), and India (FTA implemented 2005).

pattern of the preferential agreements that the Bush administration negotiated between 2001 and 2006,²⁵ it can easily be pushed too far with respect to U.S. policy toward the Asia-Pacific region. To be sure, the linkage between the Australia-U.S. FTA and the Howard government's support for the Bush administration's Iraq policy was explicit. Yet subsequent U.S. policy toward East Asia provides less compelling evidence. In 2006, the U.S. was negotiating PTAs with three East Asian countries: Thailand, Malaysia, and South Korea; the latter was concluded in 2007. An FTA with Thailand (before the 2006 coup, which led to a suspension of the negotiations) might arguably fit the "PTAs as reward for allies" proposition: negotiations with Malaysia, a longtime critic of U.S. foreign policy in general, and the Iraq War in particular, much less so. And the Bush Administration's October 2002 Enterprise for ASEAN Initiative, which promised support for Cambodia, Laos and Vietnam's accession to the WTO, and the possibility of eventual negotiation of FTAs with all ASEAN economies, made no distinction between longstanding friends in the region and, for instance, the three WTO aspirants whose relations with Washington had traditionally been little more than lukewarm.²⁶

Similarly, while South Korea had long been a staunch ally of the United States, the administration of Roh Moo-hyun, with which it began negotiations for an FTA, was widely perceived in Washington as having done more than any of its predecessors to undermine U.S. influence in the region (one could save the securitization hypothesis by arguing that Washington was offering PTAs to wavering allies in an effort to cement faltering relationships, but this really seems to be stretching the credibility of the argument).

2.5 The Rise of China

Arguably of greater importance than the events of September 11th for reshaping regional economic institutions has been the rise of China. The impact has been twofold: first, through its effect on trade and investment patterns in the region; second, through the new competition for diplomatic and economic influence it has provoked, a significant stimulus to other Northeast Asian economies to offer FTAs to other economies in the region.

²⁵ See, for instance, Feinberg (2006) and Higgott (2004)

²⁶ On the Enterprise for ASEAN Initiative see The White House (2002).

China's ongoing rapid economic growth has encouraged regional institutions through both "negative" and "positive" effects. The negative effect comes from the fear of China as rival: both as a host for foreign direct investment and as a source of exports for third country markets. As Helen Nesadurai's chapter demonstrates, a fear of China was an important stimulus to ASEAN's efforts to agree to and accelerate the implementation of its Free Trade Area.²⁷

The "positive" effect comes from the attraction to other regional economies of gaining preferential access to China's burgeoning market. China's emergence as the world's assembly plant has dramatically changed patterns of trade within East Asia and across the Pacific. The trade triangles that developed following the Plaza Accord have been replaced by a new triangulation in which components from other Northeast Asian economies and from Southeast Asia are assembled in China for export to North American and European markets. As Chinese officials are quick to point out, most of the negotiations for PTAs currently involving China are the result of initiatives of trading partners anxious to improve their market access.

One significant exception to this is the China-ASEAN FTA framework agreement. The China-ASEAN FTA was proposed by former Chinese Premier Zhu Rongji at the 4th ASEAN Informal Summit in November 2000.²⁸ The proposal was significant as much for its political as its economic dimensions. It was a diplomatic masterstroke by Beijing in that it helped to assuage ASEAN concerns about the rivalry they faced from China (low-income ASEAN economies had been identified by various World Bank studies as the most likely losers from China's accession to the WTO) and simultaneously placed the other Northeast Asian countries—Korea but more importantly Japan—on the diplomatic back foot because of their reticence in offering PTAs to ASEAN states (a reticence driven primarily by governmental fears at upsetting powerful domestic agricultural lobbies). The agreement is also notable in that it is a rare instance in the recent wave of preferential trade agreements where the larger party to the treaty made more concessions than its weaker partners.

²⁷ For further discussion of the "China threat" to Southeast Asia, see Ravenhill (2006a).

²⁸ Timing is significant here. China's new enthusiasm for preferential trade came only after it had locked into place the principal components of the provisions for its accession to the WTO.

Table 2.1: Bilateral/minilateral PTAs involving East Asian countries

Country	Currently Implemented	Under Negotiation	Under Study
ASEAN	AFTA China Korea	Australia-New Zealand India Japan	US
Brunei	AFTA Chile-New Zealand-Singapore*	Japan	
China	ASEAN Hong Kong Macau Pakistan Thailand	Australia Chile Gulf Cooperation Council New Zealand SACU Singapore	India Korea
Hong Kong	China	New Zealand	
Indonesia	AFTA	Japan	Pakistan
Japan	Malaysia Mexico Philippines Singapore Thailand	ASEAN Brunei Indonesia Korea	Australia Chile India South Africa Switzerland
Korea	ASEAN** Chile EFTA Singapore	Canada Japan US (awaiting ratification)	China India Malaysia MERCOSUR Mexico***
Malaysia	AFTA	Australia Japan New Zealand US	India Korea
Singapore	AFTA Australia EFTA India Japan Jordan Korea New Zealand US Brunei-Chile-New Zealand*	Bahrain Canada China Egypt Kuwait Mexico Panama Peru Qatar	Pakistan Sri Lanka
Taiwan	Guatemala Nicaragua Panama	Dominican Republic El Salvador Honduras	
Thailand	AFTA Australia Bahrain China India BIMSTEC****	EFTA New Zealand Peru US	

Notes for Table 2.1

*After the Clinton administration's proposal for an FTA among the United States, Australia, Chile, New Zealand and Singapore lapsed, Chile, New Zealand and Singapore signed the "Pacific-Three FTA" in October 2002. On 3 June 2005, with Brunei's accession to the agreement, it was renamed the Trans-Pacific Strategic Economic Partnership.

**Excludes Thailand, which refused to sign after Korea excluded rice and 200 other agricultural products from the agreement.

***After failing to reach agreement on negotiation of an FTA, Korea and Mexico agreed in September 2005 to negotiate a more limited economic cooperation agreement.

****Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, Thailand).

The Chinese initiative, which led to the 2002 signature of a framework agreement in which China and ASEAN states agreed to introduce an FTA by 2010 (for the six original ASEAN members) sparked a flurry of negotiation of preferential agreements on the Western Pacific Rim—in which the desire not to be left out of a snowballing process, either for diplomatic and/or economic reasons, energized governments from Malaysia to Taiwan (see Table 2.1).

Another significant consequence of China's increasing economic and diplomatic influence has been an intensification of the competition between alternative definitions of the "region". In particular, the Japanese government became concerned that the ASEAN Plus Three grouping would be a vehicle for Beijing's domination of the region, a sentiment shared by some Southeast Asian countries. Although the report of the East Asian Vision Group (2001), established by the ASEAN Plus Three grouping at the suggestion of Korean President Kim Dae-jung, notably failed to specify the composition of "East Asia", the subsequent report of the East Asia Study Group (2002), whose mandate was to devise practical measures to implement the "East Asian Vision", made it clear that its conception of "East Asia" was identical to the ASEAN Plus Three grouping. When, however, preparations began for the first East Asia Summit, one of the nine mid- and long-term measures proposed by the East Asia Study Group, invitations were extended at the insistence of Japan to Australia, India and

New Zealand, provided that they first signed ASEAN's Treaty of Amity and Cooperation.²⁹

The recent origins of the East Asia Summit make it impossible to judge what relationship it will have with either the ASEAN Plus Three grouping or with APEC. At the second East Asia Summit held in the Philippines in January 2007, leaders signed the Cebu Declaration on Energy Security, in which they pledged to strengthen regional cooperation on energy security to ensure stable and affordable supplies over the long term. This agenda directly overlaps with the work of APEC's Working Group on Energy, one of APEC's most active working groups, and with one of the nine medium- and long-term concrete measures proposed by the East Asia Study Group (to "build a framework for energy policies and strategies, and action plans"). Japan's proposal for a "Comprehensive Economic Partnership for East Asia" did not, however, gain sufficient support at the July 2006 meeting of the foreign ministers of the East Asia Summit countries to be placed on the agenda for the January 2007 meeting (with China, Korea and some ASEAN countries expressing opposition)—but the Summit did agree that the ASEAN Secretariat would coordinate a study into the proposal. The East Asia Summit at the moment may be primarily symbolic but this in itself is significant in that it signals the increasing interest in extending East Asia southwards.

2.6 Extending the Region to South Asia

Growing concerns about China's potential dominance of exclusively East Asian groupings have coincided with increasing awareness in the region of India's own "economic miracle" and the market opportunities that this presents. Diplomatic, strategic and economic interests have coincided in increasing efforts to enmesh India within a greater "Asian" region.

A framework agreement to "Enhance ASEAN-India Trade and Economic Co-operation", including provisions for an FTA, was signed at the ASEAN summit in Bali in October 2003. Progress in negotiating the agreement has been slow, noticeably much more so than ASEAN's agreement with China. The early harvest scheme which was to precede the FTA had to be dropped because of disagreement over the issue of rules of origin. Both sides have been unwilling to open their markets to one another—with ASEAN objecting to India's initial proposal to exclude 1500 items from liberalization. Negotiations on goods were supposed to have been completed by mid-2005 but were ongoing at the time of writing (early

²⁹ Ministry of Foreign Affairs (2005)

2007). ASEAN had suspended negotiations in July 2006 because of India's continued determination to exclude a large number of products from the agreement; after negotiations resumed, ASEAN stunned the Indian government in December 2006 by proposing to double the number of products it had originally proposed to exclude from the agreement. Meanwhile, India sought to maintain protection in its textiles, machinery, autos, chemicals and plastics industries.

A similar lack of substantive progress has characterized India's economic negotiations with China. Although a bilateral investment agreement and two protocols facilitating Indian exports of iron ore and rice were signed during the visit of Chinese President Hu Jintao to New Delhi in November 2006, India resisted China's efforts to speed up negotiations of an FTA. The Indian government was reportedly reluctant to grant market economy status to China, something on which China had insisted before entering into FTA negotiations with Australia and New Zealand, and which it now insists is a pre-requisite for countries wishing to negotiate an FTA. A joint task force studying the feasibility of an FTA was scheduled to report in October 2007.

The only East Asian country that has succeeded in negotiating a bilateral PTA with India is Singapore. Negotiations for the India-Singapore Comprehensive Economic Cooperation Agreement (CECA) were launched on May 27, 2003 in New Delhi, following the report of a joint study group. After 13 rounds of negotiation, an agreement was signed in June 2005. The Agreement encompasses trade in goods, trade in services, investment protection and mutual recognition agreements. The Agreement's coverage of merchandise trade is decidedly less than comprehensive, however, far more so than in any of Singapore's other FTAs.

The other principal agreement currently linking parts of East and South Asia is the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), whose membership comprises Bangladesh, Myanmar, India, Sri Lanka, Thailand, Nepal and Bhutan. The foundation of the grouping coincided with the onset of the Thai financial crisis in mid-1997, and originally only included Bangladesh, India, Sri Lanka as well as the sole Southeast Asian representative, Thailand. Myanmar was admitted at the end of 1997; Bhutan and Nepal in 2004. Despite being of greater longevity than most East and South Asian regional groupings, BIMSTEC has made little headway on its aspirations to create a free trade area. A framework agreement was supposed to be in place by mid-2006 with trade liberalization to begin by July 1. By the end of 2006, its Trade Negotiating Committee had yet to reach agreement. BIMSTEC's lack of progress is typical of South Asian regional economic collaboration; intra-

regional trade in the South Asia Free Trade Area, established in 2004, for instance, accounts for less than 4 percent of the region's total trade.³⁰

2.7 Making Sense of Asia's New Institutional Architecture

The decade since the East Asian financial crises has been characterized by a proliferation of economic institutions in Asia at the regional (e.g., ASEAN Plus Three), trans-regional (e.g., South Asia-East Asia), minilateral (e.g., Trans-Pacific Strategic Economic Partnership) and especially the bilateral level. So frequent are the proposals and negotiations for new agreements that even the most careful researcher has difficulty in accurately tracking them.

Accounting for the origins of the proliferating proposals is reasonably straightforward although a full account inevitably points to an array of factors that motivated governments. Of the three turning points identified by the editors in their Introduction to this volume, by far the most important were the ending of the Cold War and the Asian financial crises. Overcoming Cold War divisions was a pre-requisite for launching region-wide intergovernmental collaboration, initially through the APEC forum. The financial crises in turn were significant for encouraging trends that were already under way—reinforcing skepticism towards the principal existing economic institutions (especially APEC and ASEAN) and bolstering a desire both for collaboration on an “East Asian” basis, and for the pursuit of trade agreements through arrangements that had a much more “practical” scale (i.e. bilateral or minilateral in scope). The events of September 11, 2001 were arguably of less significance in their impact on economic collaboration than were developments within Asia—most notably, the rapid growth of the Chinese and Indian economies.

Ideas were important in some instances. The financial crises were significant both for prompting East Asian governments to look for sources of emergency finance that did not carry the strings imposed by the IMF, and for prompting a search for alternatives to debt-based development financing. It is easy, however, to overstate the role of the crises in fostering a new sense of regionalism. To the extent that it created a sense of unity it was based more on anti-Western sentiment rather than on a positive notion of “East Asian-ness”. Rivalries between East Asian countries soon re-emerged—nowhere more apparent than in China's refusal to support Japanese proposals for an Asian Monetary Fund. Even if the current political

³⁰ For further discussion see Chapter Eight by Aggarwal and Mukherji in this volume.

tensions between Japan, China and Korea are reduced, the chances of a region-wide PTA are slim indeed.

Material factors provide a more satisfactory explanation for the new enthusiasm of Asian states for constructing collaborative arrangements. But these were by no means exclusively economic. Governments enter economic agreements for multiple reasons. Variance in motivations exists not only across different governments and across different agreements entered into by the same government, but also within governments in the negotiation of a single agreement. Foreign ministries, for instance, have often been more enthusiastic in their advocacy of bilateral trade agreements than have ministries of trade, a reflection of the former's perception of their desirability for diplomatic reasons, and of the latter's concern for their possible impact on the WTO or, more frequently, on clients in protected domestic sectors.

It would be unfair, therefore, to evaluate the new agreements solely on their potential contribution to the economic welfare of the participating states. The new agreements are serving a variety of diplomatic purposes from confidence-building among countries with little previous institutionalized contact with one another, to scoring diplomatic points over regional rivals, to attempting to confirm an international legal personality (in Taiwan's case), to attempting to lock extra-regional powers into the region. No assumption can be made, however, that the negotiation of the agreements will necessarily have a positive impact on diplomatic relations. It would be difficult to argue that a decade of negotiations for a PTA between Japan and Korea has improved relations between those countries. Likewise, relations between Korea and Thailand soured when Korea excluded rice from its PTA with ASEAN, a decision that prompted Thailand's refusal to sign the agreement. Conflicts are to be expected in all trade negotiations but unless resolved within a reasonable period of time can do lasting damage.

PTAs are “club” and “positional” goods: they benefit only members, and they confer maximum advantage when others do not have access to them. These characteristics are potential sources of conflict. Nowhere is this more obvious than in the agreement between Korea and the United States concluded in April 2007. Should this agreement be ratified by both parties, which was by no means certain at the time of writing, it has the potential to have profound economic and strategic implications for the region. One factor is the likely non-renewal by the U.S. Congress of Trade Promotion Authority (TPA): if the Korean agreement is ratified and TPA is not renewed, Korea is likely to enjoy better access to the U.S. market than do other East Asian economies (with the exception of Singapore, which already has a bilateral agreement with the U.S.) for perhaps as long as a decade. Moreover, Korea is also negotiating an FTA with China, and

plans to negotiate one with the EU. Should these negotiations prove successful, Japan will be increasingly isolated in the region, lacking preferential agreements with all its major trading partners (ASEAN, with which Japan has been negotiating collectively and individually, accounts for under 12 percent of Japan's exports compared with 23 percent each for the United States and China/Hong Kong).

Participation in the new PTAs across the region has been very uneven. Taiwan has effectively been excluded from negotiating arrangements with other Asian countries by Beijing insistence that the "one China" principle must extend to trade agreements (contrary to both the WTO and APEC). But, as Table 2.1 illustrates, so too have most of the lower income countries in the region, who simply are not attractive partners save as part of a larger (in this instance, ASEAN) coalition. Of the various PTAs, it is notable that only one—the Trans-Pacific Strategic Economic Partnership—has explicitly proclaimed its openness to new members.

To what extent have the new economic institutions had a significant economic impact? Here, it is difficult to go beyond the answer that to date they have made very little difference.³¹ The ambitious attempts at financial cooperation have generated two schemes—the Chiang Mai Initiative and the Asian Bond Markets Initiatives—notable for their very limited funding. Their significance lies primarily in the learning experience that governments are going through over what is required to make bond markets operate effectively, with implications for domestic as well as regional markets. Many of the PTAs are between countries that are minor trading partners, are less than comprehensive in their product coverage for understandable political economic reasons, and frequently have a long lead time and an ambiguous definition of "free" trade. The real regional economy continues to be driven primarily by private sector actors rather than governments.

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³¹ For reasons that I discuss in detail elsewhere: Ravenhill (2006b).

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3. Building Asian Security Institutions Under the Triple Shocks: Competitive, Complementary or Juxtaposed?

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3.1 Changing Threats and Changing Institutions

Asia presents scholars of international security institutions with a bewildering variety of arrangements to examine. This chapter provides a broad overview of the regional institutions that Asian countries are using to manage security, their characteristics and the driving forces that have shaped them over the past two decades. In so doing, I attempt to avoid being confined by any single theoretical commitment, whether it be neorealist, neo-liberal or constructivist, and instead share Peter Katzenstein and Rudra Sil's view that regional phenomena in Asia are so complex that a variety of theoretical approaches is necessary to capture their multiple facets.² Having said that, I believe that we can derive a great deal of explanatory power from a constructivist approach that emphasizes how cognitive and perceptual shifts interact with material structures such as military power and existing institutions. These interactions, in turn, can mitigate material constraints and ultimately lead to structural transformations in regional politics. Given that there have been significant shifts in Asia's power dynamics and security institutions, a constructivist approach seems to be a good place to start.

The role of actors' perceptions is particularly salient when discussing security. For example, Stephen Walt notes that states engage in balancing

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² Ravenhill (2002); Ikenberry and Mastanduno (2003); Alagappa (2003); Katzenstein and Sil (2004)