

**THE CONSTRUCTION OF REGIONAL INSTITUTIONS  
IN THE ASIA-PACIFIC AND EAST ASIA:  
ORIGINS, MOTIVES, AND EVOLUTION**

by

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## **The Construction of Regional Institutions in the Asia-Pacific and East Asia: Origins, Motives, and Evolution**

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Despite earlier failed attempts to establish similar regional arrangements, why were the Asia-Pacific Economic Cooperation (APEC) and the ASEAN+3 (APT) successfully created in the late 1980s and the late 1990s, respectively? Why did they take the institutional forms that they took, and why did they evolve in the way they did?

To analyze the formation of these regional arrangements, this dissertation proposes an institutionalist framework that addresses two related but analytically distinct questions: *why* are regional institutions created, and *how* are they created? Accordingly, the first stage of analysis explores the variation of state preferences concerning regionalism among key governments. It reveals that intraregional developments, such as a rise of regional economic interdependence or the development of regionalist ideas, did not quickly alter the configuration of state preferences in favor of a regionalist approach. Rather, it argues that the urgent governmental demand for both APEC and the APT was primarily driven by the defensive motive to respond to extraregional challenges.

The second stage of analysis investigates the actual political processes by exploring who played a leadership role. It suggests that at critical junctures precipitated by crises, non-great powers can exercise entrepreneurial leadership in proposing a new regionalist initiative. Both stages highlight the trigger mechanisms for inducing an urgent governmental demand for a regional mechanism and for generating political opportunities for non-great powers to take on a new initiative. In short, this dissertation concludes that the creation of both APEC and APT can be explained by three factors: a set of extraregional developments as triggers for institutional creation; the governmental demand for a regionalist project; and the supply of political leadership by non-great powers.

To analyze the institutional forms and evolution of APEC and APT, this dissertation investigates the four dimensions of institutions: membership, organizational structure, external orientation, and issue areas. The dissertation suggests that the institutional designs of both institutions reflect the common denominators of not only large states, but also small ones. More specifically, the organizational structure of both institutions was strongly shaped by the institutional preferences of ASEAN members.

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## PREFACE

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## LIST OF ABBREVIATIONS

ABAC	APEC Business Advisory Council
ABF	Asian Bond Fund
ABMI	Asian Bond Markets Initiative
ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
AMF	Asian Monetary Fund
AMM	ASEAN Ministerial Meeting
ANU	Australian National University
APEC	Asia-Pacific Economic Cooperation
APT	ASEAN Plus Three (ASEAN+3)
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
ASEM	Asia-Europe Meeting
ASP	ASEAN Surveillance Process
ASA	ASEAN Swap Arrangement
ASPAC	Asia Pacific Council
CMI	Chiang Mai Initiative
CRS	Congressional Research Service (The United States)
CSIS	Centre for Strategic International Studies (Indonesia)
DFAT	Department of Foreign Affairs and Trade (Australia)
EAEC	East Asian Economic Caucus
EAEG	East Asian Economic Group
EAFTA	East Asian Free Trade Area
EASG	East Asia Study Group
EAS	East Asia Summit
EAVG	East Asia Vision Group
EC	European Community

ECSC	European Coal and Steel Community
ECOTECH	Economic and Technical Cooperation (APEC)
EEC	European Economic Community
EFTA	European Free Trade Association
EMEAP	Executives' Meeting of East Asia Pacific Central Banks
EPG	Eminent Persons Group (APEC)
ERPD	Economic Review and Policy Dialogue (ASEAN+3)
ESCAP	Economic and Social Commission for Asia and the Pacific (UN)
EVSL	Early Voluntary Sectoral Liberalization
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Area
GATT	General Agreement on Trade and Tariffs
IMF	International Monetary Fund
MERCOSUR	Common Market of the South
METI	Ministry of Economy, Trade and Industry (Japan)
MFG	Manila Framework Group
MITI	Ministry of International Trade and Industry (Japan)
MOF	Ministry of Finance (Japan)
MOFA	Ministry of Foreign Affairs (Japan)
NAFTA	North American Free Trade Area
NATO	North Atlantic Treaty Organization
NIES	Newly Industrializing Economies
OAA	Osaka Action Agenda (APEC)
OECD	Organization for Economic Cooperation and Development
OPTAD	Organization for Pacific Trade and Development
PAFTA	Pacific Free Trade Area
PAFTAD	Pacific Trade and Development Conference
PBF	Pacific Business Forum (APEC)
PBEC	Pacific Basin Economic Council
PBCSG	Pacific Basin Cooperation Study Group

PECC	Pacific Economic Cooperation Council (formerly Pacific Economic Cooperation Conference)
PMC	Post-Ministerial Conference (ASEAN)
PTA	Preferential trade agreement
SADC	Southern African Development Community
SEATO	Southeast Asia Treaty Organization
SOM	Senior Officials' Meeting
TAC	Treaty of Amity and Cooperation
TILF	Trade and Investment Liberalization and Facilitation (APEC)
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

## 1.0 INTRODUCTION

While many regional organizations were established after World War II in many parts of the world, the Asia-Pacific region lacked any formal region-wide institutions until 1989. Early attempts to create regional institutions in the post-war era, including the Southeast Asian Treaty Organization (SEATO) and the Asia Pacific Council (ASPAC), proved largely unsuccessful; both disappeared by the 1970s. The only exceptions were the Asian Development Bank (ADB), created in 1966 to facilitate economic development of Asian countries, and the Association of Southeast Asian Nations (ASEAN), formed in 1967 by five countries in Southeast Asia to promote peace and stability in the region.

Given the region's extreme diversity with respect to cultural heritage, religion, historical experience, political systems, and economic development, the Asia-Pacific region had no tradition of intergovernmental collaboration at the regional level. The Asian region was characterized by historical antagonism and mutual mistrust, which contributed to preventing the construction of region-wide institutions in Asia. Moreover, many Asian countries were generally afraid that if a regional institution was created, it would be dominated by larger powers. In fact, the United States constructed a hub-and-spokes system of bilateral relationship in Asia with the United States at the center, which marked a sharp contrast with its preference for multilateralism in Europe.<sup>1</sup> Although economic transactions within the region and the regional economic interdependence grew in the 1970s and greatly accelerated in the latter half of the 1980s, the Asia-Pacific region lacked formal intergovernmental institutions to promote economic and political cooperation.

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<sup>1</sup> Christopher Hemmer and Peter J. Katzenstein, "Why is There No NATO in Asia? Collective Identity, Regionalism, and the Origins of Multilateralism," *International Organization* 56, no. 3 (2002): 575-607; Peter J. Katzenstein, *A World of Regions: Asia and Europe in the American Imperium* (Ithaca, N.Y.: Cornell University Press, 2005), 44-60.

However, the institutional landscape in Asia and the Pacific dramatically changed in 1989, when the Asia-Pacific Economic Cooperation (APEC) forum was established. APEC became the first-ever region-wide forum at the governmental level. In the security domain, the ASEAN Regional Forum (ARF) was formed in 1994. The ARF was the first regional dialogue to discuss security issues in the area. In 1996, the inaugural Asia-Europe Meeting (ASEM) brought together leaders from both Asia and Europe. The ASEM process addresses political, economic, and cultural issues with the aim of strengthening the relationship between the two regions. Beginning in 1997, a new process of regional institution-building emerged, involving only East Asian nations and excluding the United States. This newly emerged regional forum, which came to be known as the ASEAN Plus Three (APT), brought together for the first time the ASEAN countries and the three Northeast Asian countries, namely, Japan, South Korea, and China, without the presence of Western powers like the United States. The successful launch of the APT process marked a sharp contrast with the earlier fruitless proposal by Malaysian Prime Minister Mahathir bin Mohamed for the establishment of the East Asian Economic Group (EAEG), whose proposed membership was almost identical with that of the APT. In December 2005, the East Asia Summit was inaugurated in Kuala Lumpur, inviting Australia, New Zealand, and India as well as all the APT members. (See Table 1 for membership of these regional groupings). This proliferation of many regionalist projects in a region that was once characterized by the conspicuous absence of regional institutions requires explanation. This dissertation focuses on the emergence and evolution of “Asia-Pacific” and “East Asian” regional arrangements as represented by APEC and the APT, respectively, because of their respective significance as regionalist projects in Asia and the Pacific.<sup>2</sup>

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<sup>2</sup> I will use the term “Asia-Pacific” to refer to an area roughly corresponding to the contemporary membership of APEC, while the term “East Asia” will be used to refer to a region covering both Northeast and Southeast Asia.

**Table 1-1: Membership of Main Regional Arrangements in the Asia-Pacific**

	ASEAN	APEC	(EAEG/C)	ARF	ASEAN+3	EAS
Year Established (Proposed) Members	1967 (10)	1989 (21)	(1990/93) (15 or 16)	1994 (24+EU)	1997 (13)	2005 (16)
Japan		•	□	•	•	•
South Korea		•	□	•	•	•
North Korea			*	• (2000)		
Taiwan		• (1991)	□			
China		• (1991)	□	•	•	•
Hong Kong		• (1991)	□			
Mongolia				• (1999)		
India				• (1996)		•
Pakistan				• (2004)		
United States		•		•		
Canada		•		•		
Mexico		• (1993)				
Peru		• (1997)				
Chile		• (1994)				
Thailand	•	•	□	•	•	•
Indonesia	•	•	□	•	•	•
Philippines	•	•	□	•	•	•
Malaysia	•	•	□	•	•	•
Brunei	• (1984)	•	□	•	•	•
Singapore	•	•	□	•	•	•
Vietnam	• (1995)	• (1997)	□	•	•	•
Laos	• (1997)		□	•	•	•
Cambodia	• (1999)		□	• (1995)	•	•
Myanmar	• (1997)		□	• (1996)	•	•
East Timor				• (2005)		
Australia		•		•		•
New Zealand		•		•		•
Papua New Guinea		• (1993)		•		
Russia		• (1997)		•		
EU				•		

• Members; ◊ observers; □ Expected initial members; \*Unknown

ASEAN: Association of Southeast Asian nations  
 EAEG/C: East Asian Economic Grouping/Caucus  
 APEC: Asia-Pacific Economic Cooperation  
 ARF: ASEAN Regional Forum  
 ASEAN+3: ASEAN Plus Three (Japan, Korea, and China)  
 EAS: East Asia Summit

## 1.1 RESEARCH QUESTIONS

This dissertation addresses two sets of questions. The first set of questions relates to the formation of APEC and the APT in 1989 and in 1997, respectively. Why did Asia-Pacific institution-building finally take off at the end of the 1980s, while previous proposals for institutionalizing intergovernmental collaboration had failed to garner support from key potential members for the preceding two decades? What accounts for the political process in which non-major powers like Australia took the initiative in creating APEC? Similarly, why did the formation of the APT framework, which excluded the United States, become possible in the late 1990s, despite the earlier failure to establish an East Asian regional grouping in the early 1990s? How is it to be explained that ASEAN successfully launched the APT process, in spite of initial reluctance on the part of Northeast Asian countries, especially Japan? The comparative analysis between the successful take-off of the two regionalist projects and the failure of similar proposals in the earlier period provides insights for a more general puzzle: *Why do some regionalist projects get off the ground, while many others do not?* In other words, what are the conditions under which regionalist projects are successfully launched?

The second set of questions is concerned with the institutional form and evolution of these regional frameworks. Why did APEC and the APT both take informal and loose organizational structures and adopt non-legalistic and consensus-based decision-making procedures? What accounts for APEC's embrace of "open regionalism," despite the U.S. concerns about free-riding by other extraregional actors, especially the European Union? Why did APEC adopt the principle of "concerted unilateralism," despite the U.S. preference for a more rigid approach with fixed timelines and binding obligations? What explains the shift in its emphasis across APEC's different agendas? Why did APEC lose its momentum in the latter half of the 1990s? With regards to APT, what accounts for the composition of the APT participants? How is it to be explained that the "Plus Three" Northeast Asian countries have attended the APT summits officially only as the "guests" of the ASEAN members by their invitation? Why did the APT process develop relatively quickly, especially in the area of financial cooperation, despite its moderate start in 1997? Why have APT participants chosen the APT rather than APEC as a central forum to promote financial cooperation? Why has the APT continued to resist the establishment of a secretariat, despite Malaysian's enthusiastic push?

This set of question constitutes part of a larger puzzle: *Why do regional institutions in different regions take different forms? What accounts for institutional evolution?* The variation of the institutional forms that different regional projects take is of an increasing interest for scholars of comparative regional institutions. The changing institutional architecture in Asia and the Pacific also requires a more careful examination. In sum, the main objective of this dissertation is to analyze *why and how regional institutions are created and why and how they evolve*. Thus, it should be clear at the outset that the primary focus of analysis is placed on institutional creation and evolution, not institutional *effects*, which, albeit important, is outside the scope of the present study. The following section briefly overviews the main arguments put forward in the dissertation.

## 1.2 ARGUMENTS IN BRIEF

To account for the timing, motivations, and processes of regional institution-building in the Asia-Pacific and East Asia, this dissertation proposes an institutionalist framework that highlights three elements: 1) triggering mechanisms for institutional creation; 2) the variation of state preferences concerning regionalism; and 3) the provision of political leadership and regionalist ideas. With regard to the first element of the framework, it is argued that triggering events not only generate an urgent demand for a new institutional mechanism, but also provide windows of opportunity for policy entrepreneurs to exploit. Therefore, they often precipitate a critical juncture at which a new regionalist option is chosen. The next two elements address two related but analytically distinct questions concerning institution-building: *why* regional institutions are created and *how* they are created.<sup>3</sup> Put differently, these questions analyze demand- and supply-conditions of regional institution-building, respectively.<sup>4</sup>

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<sup>3</sup> The idea of separating these questions into “why” and “how” questions was taken from the following book, in which the author addresses distinguishing the question of *why* nations cooperate from the question of *how* they cooperate. However, the theoretical framework proposed here is completely different from his. See Lloyd Gruber, *Ruling the World: Power Politics and the Rise of Supranational Institutions* (Princeton, NJ: Princeton University Press, 2000).

<sup>4</sup> I use the terms “demand” and “supply” only as a metaphor. While the usage varies, the metaphor is used by some scholars of international regimes and regional integration. For applications of the metaphor to international regimes, see, for example, Robert O. Keohane, “The Demand for International Regimes,” in Stephen D. Krasner, ed.,

Demand-side theories of institution-building require explanation of not only why some states demand a regionalist approach, but also why others resist it. In short, this part of the analysis explores the variation in state preferences for and against regionalist projects over time across key states in order to explain the demand for regional institution-building. On the other hand, supply-side theories explore the political processes of regional institution-building. It is suggested that at critical junctures, non-great powers can play an “entrepreneurial leadership” role by assuming the “costs of organizing” in initiating and mobilizing support for a regional initiative.<sup>5</sup> This stage of analysis also explores the roles played by transnational policy networks in providing regionalist ideas and institutional solutions. Differentiating the *why* and *how* questions allows the researcher to distinguish between the question of actors’ motivations, on the one hand, and the issues related to political processes, including actors’ capabilities and strategies, on the other hand.

The empirical studies reviewed in this dissertation suggest that the demand for both Asia-Pacific and East Asian regionalist projects were primarily triggered by political urgency to respond to extraregional challenges. In the case of APEC, its formation was motivated by a sense of crisis in the global liberal trading system because of the perceived fear of emerging trading blocs and increasing U.S. unilateralism in the late 1980s. In other words, the governmental interest in an Asia-Pacific regionalist project among Western Pacific countries was driven more by their desire to avoid potential losses than by a clear sense of potential gains.<sup>6</sup> In the late 1990s, the demand for an East Asian regionalist project grew as a collective regional response to the Asian financial crisis, which led to the creation of the APT process. More specifically, the failures of the existing institutional arrangements both at the regional and global levels to cope with the crisis prompted government leaders in East Asia to establish a new regional mechanism on an East Asian basis. In short, both cases highlight that the demand for a

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*International Regimes* (Ithaca: Cornell University Press, 1983), 141-171; Vinod K. Aggarwal, *Liberal Protectionism: The International Politics of Organized Textile Trade* (Berkeley: University of California Press, 1985). For applications to regional integration and regionalism, see Vinod K. Aggarwal, "Building International Institutions in Asia-Pacific," *Asian Survey* 33, no. 11 (1993): 1029-1042; Walter Mattli, *The Logic of Regional Integration: Europe and Beyond* (Cambridge: Cambridge University Press, 1999).

<sup>5</sup> The concept of entrepreneurial leadership is adopted from Oran R. Young, "Political Leadership and Regime Formation: On the Development of Institutions in International Society," *International Organization* 45, no. 3 (1991): 281-308.. The concept of “the costs of organizing” is from Wayne Sandholtz, *High-Tech Europe: The Politics of International Cooperation* (Berkeley: University of California Press, 1992), 20-21. Both concepts are discussed more in detail in Chapter 3.

<sup>6</sup> As discussed in Chapters 3 and 8, this is consistent with the implication of prospect theory.

regional mechanism was driven by governmental recognition of the inadequacy of the existing policy apparatus to cope with extraregional challenges.

The supply-side argument suggests that middle or small powers, such as Australia and ASEAN members as a group, played an entrepreneurial leadership role in initiating the process of regional institution-building at the critical juncture precipitated by crises. Given a more permissive configuration of state preferences concerning regionalist projects, these initiators successfully brought together initially reluctant key governments on board. In the case of APEC, it was Australia's entrepreneurial leadership role as an initiator that set the process of regional institution-building in motion without excessively arousing ASEAN's fear. Nevertheless, as some experts have pointed out, the Japanese Ministry of International Trade and Industry (MITI) also played a substantial "behind-the-scenes" role in providing the institutional blueprint for APEC and letting the Australian government take explicit leadership.<sup>7</sup> Building on the existing work concerning the roles that both Australia and Japan played in the process of creating APEC, this part of the analysis suggests that Australia's explicit entrepreneurial leadership as an initiator and Japan's role in providing intellectual leadership were both crucial for the creation of APEC.

The analysis of the process of creating the APT reveals that ASEAN played a pivotal role in successfully inviting the three Northeast Asian countries to its summit meeting. The study shows that the incremental and gradual approach that the ASEAN states deliberately employed prior to the first APT informal summit in 1997 was particularly helpful in eliciting the participation of Japan, which had been extremely cautious about joining any EAEC-like grouping due to U.S. opposition. Incidentally, the Asian financial crisis provided a great opportunity for the development of the APT process, prompting both Japan and China to seek active engagement in the Southeast Asian region in response to the demand from the crisis-afflicted countries. The change in the Japanese attitude toward the East Asian grouping was crucial for the successful launch of the APT process.

The dissertation also analyzes why and how APEC and the APT took the forms that they did and evolved in the way they did. It characterizes the institutional features of the two regional

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<sup>7</sup> Richard A. Higgott, "APEC - A Sceptical View," in Andrew Mack and John Ravenhill, eds., *Pacific Cooperation: Building Economic and Security Regimes in the Asia-Pacific Region* (Boulder, CO: Westview Press, 1995), 81. Takashi Terada argues that "APEC was a joint enterprise between Japanese and Australian leaders." See Takashi Terada, "The Genesis of APEC: Australia-Japan Political Initiatives," in *Pacific Economic Papers* (Australia-Japan Research Centre, Canberra, 1999). See also Yoichi Funabashi, *Asia Pacific Fusion: Japan's Role in APEC* (Washington, DC: Institute for International Economics, 1995).

institutions in terms of four dimensions: 1) membership; 2) organizational structure; 3) external orientation; and 4) issue areas. It illustrates the path-dependent nature of institution-building by highlighting the importance of the preexisting institutional arrangements. In particular, the institutional form of APEC was highly affected by the institutional features and practices of ASEAN and the Pacific Economic Cooperation Council (PECC).<sup>8</sup> The APT was formed on top of ASEAN activities. Therefore, both APEC and APT highly reflect the institutional preferences of ASEAN. Moreover, nongovernmental transnational policy networks have sometimes provided important ideational inputs which prove important for explaining the evolution of the both institutions. These specifically challenge the neorealist perspective, which suggests that smaller powers cannot determine the shape of international institutions and that non-state actors have little or no influence on state decisions.

### 1.3 DEFINING REGIONALISM

#### 1.3.1 Regionalism vs. Regionalization

It has become increasingly commonplace to distinguish between “regionalism” and “regionalization” as distinct concepts. *Regionalism* can be defined as state-led political projects which aim at promoting intergovernmental policy collaboration at the regional level.<sup>9</sup> It is the top-down processes in which governments deliberately attempt to enhance cooperation primarily through the creation of regional institutions.<sup>10</sup> Thus, by definition, the government is the principal architect of regionalism. The two regional arrangements that this dissertation focuses on, namely, APEC and the APT, are examples of regionalism. *Regionalization*, on the other

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<sup>8</sup> As detailed in Chapters 4 and 5, PECC is a non-governmental organization made up from academics, business leaders, and government officials participating in their private capacity.

<sup>9</sup> Andrew Hurrell, "Regionalism in Theoretical Perspective," in Louise Fawcett and Andrew Hurrell, eds., *Regionalism in World Politics: Regional Organization and International Order* (Oxford: Oxford University Press, 1995), 39-40; Anthony Payne and Andrew Gamble, "Introduction: The Political Economy of Regionalism and World Order," in Andrew Gamble and Anthony Payne, eds., *Regionalism and World Order* (New York: St. Martin's Press, 1996), 2-3; Shaun Breslin, Richard A. Higgott, and Ben Rosamond, "Regions in Comparative Perspective," in Shaun Breslin, et al., eds., *New Regionalisms in the Global Political Economy: Theories and Cases* (London: Routledge, 2002), 13-14.

<sup>10</sup> T. J. Pempel, "Introduction: Emerging Webs of Regional Connectedness," in T. J. Pempel, ed., *Remapping East Asia: The Construction of a Region* (Ithaca: Cornell University Press, 2005), 6, 19.

hand, refers to the bottom-up processes of increasing regional interactions driven primarily by nongovernmental actors.<sup>11</sup> In other words, it is essentially not based on the conscious policy of states. Focusing on the economic domain, regionalization refers to the intensification of trade and investment flows in a geographically defined area relative to that area's trade and investment flows with the rest of the world.<sup>12</sup> The most important actors at work in economic regionalization are multilateral corporations, which engage in cross-border economic transactions by creating regional production networks.

This relationship between the two processes corresponds to the distinction that William Wallace has made between "formal" and "informal" integration. He defines integration as "the creation and maintenance of intense and diversified patterns of interaction among previously autonomous units."<sup>13</sup> Adopting this definition of integration, he suggests that *formal integration* refers to the creation of and changes in the institutional framework of rules by governmental actors through agreement or treaty, while *informal integration* refers to "those intense patterns of interaction which develop without the impetus of deliberate political decisions, following the dynamics of markets, technology, communications networks, and social change."<sup>14</sup> Similarly, Richard Higgott draws a distinction between *de facto* economic integration and *de jure* political cooperation.<sup>15</sup>

Differentiating these two levels of regional processes, scholars of regionalism have debated the relationship between the two. Does regionalization create pressures for the pursuit of regionalist projects,<sup>16</sup> as economic interdependence theory would suggest? Or, conversely, does regionalism promote regionalization processes as intended? As Higgott observes, the history of the Asia-Pacific regional economy shows that the *de facto* economic integration has preceded the emergence of *de jure* processes of institutionalization in this region.<sup>17</sup> Yoshinobu Yamamoto once characterized the absence of formal regional institutions in the Asia-Pacific until 1989 despite the relatively high level of *de facto* economic integration as "regionalization

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<sup>11</sup> Ibid.

<sup>12</sup> John Ravenhill, "Competing Logics of Regionalism in the Asia-Pacific," *Journal of European Integration* 18, no. 2-3 (1995): 179.

<sup>13</sup> William Wallace, "Introduction: The Dynamics of European Integration," in William Wallace, ed., *The Dynamics of European Integration* (London: Pinter Publishers for the Royal Institute of International Affairs, 1990), 9.

<sup>14</sup> Ibid.

<sup>15</sup> Richard A. Higgott, "De Facto and De Jure Regionalism: The Double Discourse of Regionalism in the Asia Pacific," *Global Society* 11, no. 2 (1997): 165-183.

<sup>16</sup> I use the adjective "regionalist" to correspond to the term "regionalism" and "regional" to "regionalization."

<sup>17</sup> Higgott, "De Facto and De Jure Regionalism: The Double Discourse of Regionalism in the Asia Pacific," 181.

without regionalism.”<sup>18</sup> There is consensus among scholars that the dominant feature of the Asia-Pacific regional economy was characterized by *de facto* regionalization rather than *de jure* regionalism. Many experts assume that the regionalization process created the bottom-up forces for the creation of regional institutions.

Nonetheless, as demonstrated in the subsequent chapters, the relationship between the two is not entirely straightforward. If the regionalization process generated the pressures for the construction of regionalism, why did the Asia-Pacific region have to wait until 1989 to witness the creation of the first-ever intergovernmental framework? What are the links that connect these two different levels of regional processes? What are the mechanisms by which the forces from below translate into the top-down regionalist projects by states? There are two possible paths that may link these two levels. The first possibility is that private firms that operate in the regional production networks generate pressures for governments to create intergovernmental mechanisms to enhance the efficiency of their economic activities. In return, the government may respond to the increasing demand from below for regionalist projects. The other possible link between the two is that track-II nongovernmental actors generate the bottom-up forces that demand the creation of formal institutions.

However, as this dissertation demonstrates in Chapters 4 and 6, the bottom-up forces do not automatically lead to the creation of regionalist projects. Certainly, these two kinds of actors played an important role in generating the “push effect” for the construction of regionalism. However, as will be argued in subsequent chapters, it is imperative to pay more attention to extraregional factors to explain the growth of regionalism in the Asia-Pacific and East Asia.<sup>19</sup> Undoubtedly, the relationship between regionalization and regionalism is an issue of critical importance both theoretically and empirically. However, this dissertation stresses the importance of exploring the “pull factor” of the forces associated with globalization and the growth of regionalisms in other parts of the world as a more decisive factor for inducing the

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<sup>18</sup> Yoshinobu Yamamoto, ed., *Globalism, Regionalism and Nationalism: Asia in Search of its Role in the Twenty-First Century* (Oxford: Blackwell Publishers, 1999).

<sup>19</sup> Richard Higgott makes a similar point, suggesting that lack of attention to extraregional relations was the major deficiency of the early integration literature. See Richard A. Higgott, "The Theory and Practice of Region: The Changing Global Context," in Bertrand Fort and Douglas Webber, eds., *Regional Integration in East Asia and Europe: Convergence or Divergence?* (Oxford: Routledge, 2006), 24. Similarly, Mark Beeson points out the importance of “extraregional geopolitical forces” that shape regional processes. See Mark Beeson, "Rethinking Regionalism: Europe and East Asia in Comparative Historical Perspective," *Journal of European Public Policy* 12, no. 6 (2005): 970.

formation of regionalism. The analysis of the relationship between the global and regional processes as well as the relationship *between* regions is an increasingly important topic in the growing literature of “new regionalism,” a topic to which I turn below.<sup>20</sup>

### 1.3.2 “Old Regionalism” vs. “New Regionalism”

Since the late 1980s, a “new wave of regionalism”<sup>21</sup> has emerged such as the European Union (EU), the North American Free Trade Agreement (NAFTA), MERCOSUR (Common Market of the South), and the Southern African Development Community (SADC). Put in this context, the emergence of Asia-Pacific and East Asian regionalist projects, represented by APEC and the APT, is not an isolated phenomenon.

A growing body of literature on “*new regionalism*”<sup>22</sup> emphasizes that the current wave of regionalism since the late 1980s is qualitatively different from the *old regionalism* that emerged during the period from the 1950s to the 1970s. The first wave of regionalism originated in Western Europe with the establishment of the European Coal and Steel Community (ECSC) in 1951, the European Economic Community (EEC) and the European Atomic Energy Community (or Euratom) in 1958, and the eventual consolidation into the European Community (EC) in 1967. Regionalist projects in other parts of the world included the formation of the Central American Common Market (1960), the Organization of African Unity (1963), the Association of Southeast Asian Nations (1967), and the Caribbean Community and Common Market (CARICOM) (1973), and the Economic Community of West African States (ECOWAS) (1975). With the exception of rather proactive regionalist projects in Europe, old regionalism was primarily characterized by developing countries’ attempts to seek regional autonomy from the great power rivalry and to reduce North-South economic linkages.<sup>23</sup>

The late 1980s and the 1990s witnessed the emergence of *new regionalism*. APEC provides an excellent example of this new type of regionalism. Paul Bowles observes that new

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<sup>20</sup> Higgott, “The Theory and Practice of Region: The Changing Global Context,” 27.

<sup>21</sup> Edward D. Mansfield and Helen V. Milner, “The New Wave of Regionalism,” *International Organization* 53, no. 3 (1999): 589-627.

<sup>22</sup> For example, see Björn Hettne, András Inotai, and Osvaldo Sunkel, eds., *Globalism and the New Regionalism* (New York: St. Martin's Press, 1999); Fredrik Söderbaum and Timothy M. Shaw, eds., *Theories of New Regionalism: A Palgrave Reader* (Basingstoke: Palgrave Macmillan, 2003).

<sup>23</sup> Paul Bowles, “ASEAN, AFTA, and the ‘New Regionalism,’” *Pacific Affairs* 70, no. 2 (1997): 225.

regionalism has two important features distinct from the older form: 1) *North-South regionalism*; and 2) *multiple regionalism*. North-South regionalism refers to the fact that many of the new regionalist groupings are made up of members from both developing and advanced countries. As Bowles points out, the objective of new regionalist projects is no longer based on the desire to enhance independence from the global economy but can rather be seen as “a measure to ensure continued participation in it. The fear of developing countries was no longer one of dependence on the global economy but one of being excluded from it.”<sup>24</sup> ASEAN members’ participation in this type of North-South regionalism in the form of APEC can be analyzed from this perspective. The second feature of the new wave of regionalism is the fact that “countries belong to different regional groupings and organizations (some of which have, in practice, overlapping memberships).”<sup>25</sup> The emergence of various regionalist projects, such as APEC, the ARF, the APT, and the EAS, is a case in point.

Although the earlier literature on regionalism tends to treat a region as a more or less autonomous sub-system of the broader international system, the growing literature on new regionalism emphasizes the relationship between regionalism and *extraregional environment*.<sup>26</sup> In particular, many scholars investigate the relationship between regionalism and globalization. There has emerged a debate between those who see regionalism as stumbling blocks to globalization and those who view regionalism as stepping stones to it.<sup>27</sup> But many scholars of new regionalism tend to view regionalization and globalization as mutually reinforcing, rather than contradictory, processes. For them, the emergence of new regionalism can partly be seen as a response to globalization, but not as resistance to it. In the age of globalization, as Peter J. Katzenstein argues, states often turn to regionalism because regionalist projects “often mediate between national and global effects.”<sup>28</sup> Similarly, Helen Wallace sees regions as a “filter for globalization.”<sup>29</sup>

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<sup>24</sup> Ibid.

<sup>25</sup> Ibid.: 226.

<sup>26</sup> Fredrik Söderbaum, "Introduction: Theories of New Regionalism," in Fredrik Söderbaum and Timothy M. Shaw, eds., *Theories of New Regionalism: A Palgrave Reader* (Basingstoke: Palgrave Macmillan, 2003), 4.

<sup>27</sup> Robert Lawrence, "Emerging Regional Arrangements: Building Blocks or Stumbling Blocks," in Richard O'Brien, ed., *Finance and the International Economy: The AMEX Bank Review Prize Essays in Memory of Robert Marjolin* (New York: Oxford University Press, 1991), 24-36.

<sup>28</sup> Peter J. Katzenstein, "Regionalism and Asia," in Shaun Breslin, et al., eds., *New Regionalisms in the Global Political Economy: Theories and Cases* (London: Routledge, 2002), 104.

<sup>29</sup> Helen Wallace, "Europeanisation and Globalisation: Complementary or Contradictory Trends?," in Shaun Breslin, et al., eds., *New Regionalisms in the Global Political Economy: Theories and Cases* (London: Routledge, 2002), 149.

The new regionalism literature emphasizes the outward-looking orientation of new regionalism, in sharp contrast with the inward-looking regionalism in earlier times. APEC's endorsement of the principle of "open regionalism" is a case in point, as discussed in more detail in Chapters 4 and 5. The idea that regions can be a mediating factor between national and global processes is particularly helpful for analyzing the motives behind the formation of ASEAN+3, as we will see in Chapters 6 and 7. In short, the new regionalism literature suggests that "regionalism can be simultaneously a response to and a dynamic behind globalization."<sup>30</sup>

### 1.3.3 Regional Institutions

If regionalism is construed essentially as a project of constructing intergovernmental institutions at the regional level as discussed above, how should we define institutions? Defining institutions has given rise to a great deal of debate in the literature of institutionalism and international relations (IR). Before discussing the variation in the definitions of institutions, it is first important to distinguish institutions from organizations. Oran Young suggests that institutions can be thought of as "social practices consisting of easily recognized roles coupled with clusters of rules or conventions governing relations among the occupants of these roles," whereas organizations are "material entities possessing physical location (or seats), offices, personnel, equipment, and budgets."<sup>31</sup> Although multilateral institutions are often accompanied by organizations,<sup>32</sup> it is not always the case.

There is not yet one universally accepted definition of institutions. For a rational choice institutionalist like Douglas North, institutions consist of "informal constraints and formal rules and of their enforcement characteristics. Together they provide the rules of the game of human interaction."<sup>33</sup> Proponents of historical institutionalism define institutions more broadly as "the formal or informal procedures, routines, norms and conventions embedded in the organizational

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<sup>30</sup> Breslin, Higgott, and Rosamond, "Regions in Comparative Perspective," 8.

<sup>31</sup> Oran R. Young, *International Cooperation: Building Regimes for Natural Resources and the Environment* (Ithaca: Cornell University Press, 1989), 32.

<sup>32</sup> Robert O. Keohane, "Multilateralism: An Agenda for Research," *International Journal* 45, no. 4 (1990): 733.

<sup>33</sup> Douglass C. North, "Institutions and Their Consequences for Economic Performance," in Karen S. Cook and Margaret Levi, eds., *The Limits of Rationality* (Chicago: University of Chicago Press, 1990), 384.

structure of the polity or political economy.”<sup>34</sup> Sociological institutionalists tend to equate institutions with the broader normative structures themselves.<sup>35</sup> For them, institutions not only provide structures of incentives and constraints as rational choice institutionalists assume, but also help define actors’ interests and identity.

From a neoliberal institutionalist perspective, in the IR literature, Robert O. Keohane defines institutions as “persistent and connected sets of rules, formal and informal, that prescribe behavioral roles, constrain activity, and shape expectations.”<sup>36</sup> Following the same tradition, Barbara Koremenos, Charles Lipson, and Duncan Snidal define international institutions as “explicit arrangements, negotiated among international actors, that prescribe, proscribe, and/or authorize behavior.”<sup>37</sup> These definitions of institutions, however, are not particularly helpful for the purpose of this study. Particularly problematic is that these definitions are not neutral to the *effects* of the institutions in the sense that they are defined in terms of the functions that the institutions perform.

So what do we mean by a regional institution here? Can we view regional arrangements such as APEC and the APT as examples of regional institutions? Does it make sense to study institutional features and evolution of these regional forums? Obviously, both APEC and the APT are not institutions in the same sense as the IMF or the EU is. APEC started as an essentially informal consultative forum. Although APEC established a small secretariat, annual budget, several committees, and working groups, the center of APEC activities lies in a series of regular meetings at different levels. APT has not departed much from a series of regular meetings organized at different levels and has not even established a secretariat other than establishing a unit in the ASEAN secretariat.<sup>38</sup>

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<sup>34</sup> Peter A. Hall and Rosemary C. R. Taylor, "Political Science and the Three New Institutionalisms," *Political Studies* 44 (1996): 938.

<sup>35</sup> Simon Reich, "The Four Faces of Institutionalism: Public Policy and a Pluralistic Perspective," *Governance: An International Journal of Policy and Administration* 13, no. 4 (2000): 507.

<sup>36</sup> Keohane, "Multilateralism: An Agenda for Research," 732. For similar definitions in more recent literature, see, for example, Judith Goldstein et al., "Introduction: Legalization and World Politics," *International Organization* 54, no. 3 (2000): 387.

Barbara Koremenos, Charles Lipson, and Duncan Snidal, "The Rational Design of International Institutions," *International Organization* 55, no. 4 (2001): 762.

<sup>37</sup> Koremenos, Lipson, and Snidal, "The Rational Design of International Institutions," 762.

<sup>38</sup> Following Young’s definition, then, APEC can be considered both a regional institution and a regional organization. However, it seems difficult to view the APT as a regional organization; instead, it is considered a regional institution.

However, I suggest that each of the regional arrangements does have certain *institutional* characteristics and can be thought of as a regional institution, if institutions are defined in a broad sense. I highlight four dimensions of such institutional features: *membership, internal structure, external orientation, and issue scope*.<sup>39</sup> First, regional institutions can be identified by their membership. Each institution is a *regional* institution in the sense that its membership is defined at least partly by some reference to a geographical location. Second, regional institutions can be recognized by some sort of persistent structure. They can range from informal consultative forums or regular meetings without permanent supporting organizations to highly structured and centralized arrangements characterized by a high degree of bureaucratization and a large number of staff.<sup>40</sup> Nonetheless, multilateral institutions should not be confused with “ad hoc meetings and short-term arrangements to solve particular problems.”<sup>41</sup> Third, a regional institution should be distinguished from other institutional arrangements—at both the regional and global levels. In this respect, external orientation is an important feature of a regional institution. Fourth, regional institutions can be identified by the scope of issue coverage. Their members are bound together to address certain issues, whether narrowly or broadly defined. Because of these features, it is possible to consider both APEC and the APT as instances of regional institutions and to analyze the formation and evolution of the two institutions in these four dimensions.

#### 1.4 SIGNIFICANCE OF THE STUDY

The significance of this study is primarily two-fold. First, it contributes to a theoretical understanding of the creation and evolution of regionalism in Asia and the Pacific. With the exception of some recent works,<sup>42</sup> most studies of Asian regionalism have been largely

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<sup>39</sup> These dimensions are partly based on the following literature. See Joseph A. Camilleri, *Regionalism in the New Asia-Pacific Order* (Cheltenham: Edward Elgar, 2003), 12-15; Michael Wesley, "Introduction," in Michael Wesley, ed., *The Regional Organizations of the Asia Pacific: Exploring Institutional Change* (London: Palgrave Macmillan, 2003), 4-5.

<sup>40</sup> Camilleri, *Regionalism in the New Asia-Pacific Order*, 13.

<sup>41</sup> Keohane, "Multilateralism: An Agenda for Research," 733.

<sup>42</sup> Some recent examples of theoretically-oriented work include: John Ravenhill, *APEC and the Construction of Pacific Rim Regionalism* (Cambridge: Cambridge University Press, 2001); Helen E. S. Nesadurai, *Globalisation*,

atheoretical, in sharp contrast with the theoretical sophistication of the literature on European regionalism.<sup>43</sup> Furthermore, comparative studies on the creation and evolution of regional institutions within the Asia-Pacific region are almost non-existent.<sup>44</sup>

Second, the comparative analysis of the factors that triggered the creation of APEC and the APT has significant policy implications, because these two regional groupings represent different conceptions of economic regionalism in the region. Many suggest that the Asian financial crisis became a watershed which separated between old Asia-Pacific regionalism and “new East Asian regionalism.”<sup>45</sup> Paul Bowles argues that while regionalization in the Asia-Pacific was driven by the private sector,<sup>46</sup> the “post-crisis regionalism” in Asia was state-driven, departing significantly from its pre-crisis path.<sup>47</sup> However, given the emergence of transnational policy networks in East Asia, this claim requires a more detailed empirical scrutiny.

More radically, Heribert Dieter and Higgott suggest the possibility that the current APT process represents the emergence of a new type of regionalism focusing on monetary and financial cooperation (what they call “monetary regionalism”), which may depart significantly from the old type of regionalism based on trade and investment.<sup>48</sup> The question of whether the emergence of East Asian regionalism offers a new type of regionalism, other than differences in membership, is an intriguing issue for both academics and policymakers.

This dissertation, then, contributes to the literature on East Asian political economy and comparative regional institutions in three ways. First, the study’s focus on the origins, formation, and distinctive form of institutions in the Asia-Pacific provides insights for a growing literature on comparative regionalisms. The cross-national study of the shifting state preferences

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*Domestic Politics and Regionalism: The ASEAN Free Trade Area* (London: Routledge, 2003); Amitav Acharya, *Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order* (London: Routledge, 2001).

<sup>43</sup> For an overview of different theoretical approaches toward European integration, see, for example, Antje Wiener and Thomas Diez, eds., *European Integration Theory* (Oxford: Oxford University Press, 2004).

<sup>44</sup> For recent exceptions, see Mark Beeson, ed., *Reconfiguring East Asia: Regional Institutions and Organizations after the Crisis* (London: RoutledgeCurzon, 2002); Michael Wesley, ed., *The Regional Organizations of the Asia Pacific: Exploring Institutional Change* (London: Palgrave Macmillan, 2003); Miles Kahler, “Legalization as Strategy: The Asia-Pacific Case,” *International Organization* 54, no. 3 (2000): 549-571.

<sup>45</sup> Hyun-Seok Yu, “Explaining the Emergence of New East Asian Regionalism: Beyond Power and Interest-Based Approaches,” *Asian Perspective* 27, no. 1 (2003): 263-288.

<sup>46</sup> Richard Stubbs, “Asia-Pacific Regionalization and the Global Economy: A Third Form of Capitalism?,” *Asian Survey* 35, no. 9 (1995): 786.

<sup>47</sup> Paul Bowles, “Asia’s Post-Crisis Regionalism: Bringing the State Back In, Keeping the (United) States Out,” *Review of International Political Economy* 9, no. 2 (2002): 244-270.

<sup>48</sup> Heribert Dieter and Richard A. Higgott, “Exploring Alternative Theories of Economic Regionalism: From Trade to Finance in Asian Co-operation?,” *Review of International Political Economy* 10, no. 3 (2003): 430-454.

over time provides an empirically-rich examination of the intersection between international forces and domestic responses. Second, the theoretical framework employed in this dissertation is novel, though a similar approach has been adopted in the European integration literature. It is an attempt to promote theorizing of relatively under-theorized and mostly descriptive literature on Asia. Third, the case study of ASEAN+3 adds to a still-developing literature on the relatively new ASEAN+3 process.

## **1.5 STRUCTURE OF THE DISSERTATION**

The dissertation is organized into eight chapters. Chapter 2 critically reviews the existing literature of regional institution-building. It first evaluates the strengths and weaknesses of the three major international relations theories. Then the following section provides an overview of the literature on European regionalism and Asian regionalism. Chapter 3 presents the theoretical framework employed in the dissertation. The rest of the dissertation consists of four empirical chapters and a concluding chapter. Chapters 4 and 5 deal with the institutional formation and evolution of Asia-Pacific regionalism, while Chapters 6 and 7 are concerned with the construction of East Asian regionalism. Chapters 4 and 6 address the first research question with regard to why and how regional institutions are created, whereas Chapters 5 and 7 take up the second research question concerning why and how regional institutions evolve in the way they do. Chapter 8 provides a summary of the findings of the preceding four empirical chapters, an assessment of theoretical claims, and an agenda for future research.

## **2.0 EXISTING APPROACHES**

This chapter is divided into two main sections offering a critical overview of two bodies of literature that provide some insight into the creation of regional institutions. The first body of literature is concerned with explaining the creation and evolution of international institutions. In this section, major international relations theories will be outlined. The second body of literature focuses on regionalism. Given the long history of European integration, the literature on European integration arguably provides the most theoretical treatment of regional integration and regionalism. Indeed, students of regionalism often take the European case as a reference point to study regionalist projects in other parts of the world. Therefore, this section first briefly discusses the literature of European regionalism and then reviews the existing literature on Asian regionalism.

### **2.1 THEORIES OF INSTITUTION-BUILDING**

In the existing literature in international relations theory, there are at least three perspectives from which we can analyze the creation of international institutions: Neorealism, liberalism, and constructivism. This section critically evaluates each of these perspectives by focusing on their respective accounts of the timing, motivation for, and process of regional institution creation as well as institutional design. The following overview, however, shows that none of these perspectives is sufficient in and of itself to account for the creation of regional institutions.

### 2.1.1 Neorealism

Neorealists generally find the formation of institutions to be of little interest. For them, the state is the principal actor in an anarchic world, where relative power relations are the predominant concerns for each state. Scholars in this tradition believe that multilateral institutions “have minimal influence on state behavior.”<sup>1</sup> Nonetheless, there are at least two strands of neorealist thinking that take into account the impact of institutions on state behavior. First, hegemonic stability theory suggests that a hegemonic power has an incentive to create international institutions to promote its own interests. Institutions, in this view, are seen as devices by which the hegemon either imposes or legitimates its own preferred rules and norms. According to hegemonic stability theory, the existence of a hegemonic power is a necessary condition for the creation of international institutions.<sup>2</sup> By focusing on the distribution of power resources, hegemonic stability theory implies that the greater the power disparities between the leading state and secondary countries, the higher the level of institutionalization.

Applying this logic to the regional level, some suggest that the creation of a regional institution requires the existence of a single regional hegemon which is both able and willing to play a principal role in creating a regional institution by utilizing preponderant power assets at its disposal.<sup>3</sup> According to hegemonic stability theory, it is hypothesized that there is a correlation between power asymmetry and regional institutionalization.<sup>4</sup> However, if a high degree of power asymmetry is the only explanatory variable in accounting for the creation of regional institutions, it cannot explain the difference in the level of institutionalization between Europe and the Asia-Pacific. The theory would suggest the opposite should happen, because the United States holds a greater power asymmetry between itself and other powers in the Asia-Pacific than

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<sup>1</sup> John J. Mearsheimer, "The False Promise of International Institutions," *International Security* 19, no. 3 (1994): 5.

<sup>2</sup> Stephen D. Krasner, "State Power and the Structure of International Trade," *World Politics* 28, no. 3 (1976): 317-347; Robert Gilpin, *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987), 72-80. For a classic formulation of hegemonic stability theory, which suggests that the existence of a single hegemonic leader is necessary for the stability of international liberal economic order, see Charles P. Kindleberger, *The World in Depression, 1929-1939* (Berkeley: University of California Press, 1973).

<sup>3</sup> For example, Mattli's concept of an "undisputed leader" on the supply-side primarily reflects this line of thinking. See Mattli, *The Logic of Regional Integration: Europe and Beyond*, 50, 56.

<sup>4</sup> Joseph M. Grieco, "Systemic Sources of Variation in Regional Institutionalization in Western Europe, East Asia, and the Americans," in Edward D. Mansfield and Helen V. Milner, eds., *The Political Economy of Regionalism* (New York: Columbia University Press, 1997), 173-174.

in Europe.<sup>5</sup> Hegemonic stability theory simply cannot explain why the United States, despite its preponderant power assets, has failed to establish a regional multilateral institution in the Asia-Pacific, while taking the lead in the creation of global multilateral institutions such as the post-war Bretton Woods institutions, and regional multilateral institutions such as the North Atlantic Treaty Organization (NATO). By the same token, it fails to account for the absence of Japanese leadership in the process of building a regional institution in East Asia, despite its dominant economic power in East Asia. These cases of “hegemonic defection”<sup>6</sup> contradict the prescription of hegemonic stability theory.

Moreover, contrary to the expectations of hegemonic stability theory, regional institutions in the Asia-Pacific were created through initiative by weaker powers. As will be detailed in Chapter 4, the creation of APEC was initiated by Australia, against the background of a rather passive attitude of the United States. Similarly, as shown in Chapter 6, APT was created through ASEAN’s initiative, despite the initial reluctance of the Japanese and Chinese governments. In fact, there is little evidence to support the hegemonic leadership approach, which leads Joseph Grieco to conclude that “the presence of an overall regional hegemon appears to be neither a necessary nor a sufficient condition for the emergence of regional economic institutions.”<sup>7</sup> Therefore, a hegemonic construction of an international institution is best viewed as providing only one possible pathway toward institution-building, while leaving other pathways unexplained.

With regard to the institutional form, neorealism postulates that it generally reflects the preference of the hegemonic power. From the neorealist perspective, especially in the Waltzian formulation, weaker powers are not expected to be influential in making international rules and norms.<sup>8</sup> However, as shown in the analysis of institutional forms of APEC and APT in Chapters 5 and 7 respectively, weaker powers like ASEAN members had a more significant influence on the institutional shape of both APEC and APT than the stronger members of these two groups.

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<sup>5</sup> Charles A. Kupchan, "After Pax Americana: Benign Power, Regional Integration, and the Sources of a Stable Multipolarity," *International Security* 23, no. 2 (1998): 48.

<sup>6</sup> See Andrew Mack and John Ravenhill, "Economic and Security Regimes in the Asia-Pacific Region," in Andrew Mack and John Ravenhill, eds., *Pacific Cooperation: Building Economic and Security Regimes in the Asia-Pacific Region* (Boulder: Westview Press, 1995), 8. For the original conception of “hegemonic defection,” see John Gerard Ruggie, "Multilateralism: Anatomy of an Institution," *International Organization* 46, no. 2 (1992): 593.

<sup>7</sup> Grieco, "Systemic Sources of Variation in Regional Institutionalization in Western Europe, East Asia, and the Americas," 174.

<sup>8</sup> Kenneth Waltz, *Theory of International Politics* (Reading, Mass.: Addison-Wesley Pub. Co., 1979).

Furthermore, since the realist tradition treats the state as the dominant and unitary actors in international relations, it neglects the role of non-state actors in shaping the institutional form and evolution.

In contrast to the first perspective's focus on the central role of the hegemon in creating international institutions, the second perspective suggests that the weak often engage in institution-building to constrain the behavior of the strong. According to this view, multilateral institutional arrangements are seen as a tool for middle or small powers to "hedge against the hegemon turning nasty."<sup>9</sup> In the eyes of many observers, European integration was to some extent aimed at "taming" Germany in institutional frameworks through "regionalist entrapment."<sup>10</sup> From this perspective, the creation of APEC can be seen as an attempt to reduce the autonomy of the U.S. hegemon. The formation of APT may have been partly an attempt to check and constrain the actions of an increasingly powerful China.

In short, both perspectives view multilateral institutions as instruments that states can use to advance their own interests. While hegemonic stability theory cannot explain the process by which the two regional arrangements were created in the Asia-Pacific and East Asia, the second line of neorealist logic provides plausible insights into why weaker powers initiated regional institution-building in these areas. There remains, however, a question of whether institutional arrangements created by weaker powers can be *effective* mechanisms for placing any constraints on the behavior of great powers.<sup>11</sup> In fact, many scholars in the neorealist tradition are skeptical about the impact of regionalist projects initiated by weaker powers. Nonetheless, as stated clearly at the outset, this dissertation is concerned with the issue of institutional creation, but not with institutional *effects*. This dissertation investigates the conditions under which regionalist endeavors by weaker powers lead to the actual formation of regional institutions.

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<sup>9</sup> Davis B. Bobrow, "Hegemony Management: The US in the Asia-Pacific," *The Pacific Review* 12, no. 2 (1999): 177. See also Yuen Foong Khong, "ASEAN's Post-Ministerial Conference and Regional Forum: A Convergence of Post-Cold War Security Strategies," in Peter Gourevitch, Takashi Inoguchi, and Courtney Purrington, eds., *United States-Japan Relations and International Institutions after the Cold War* (La Jolla, CA: Graduate School of International Relations and Pacific Studies, University of California, San Diego, 1995), 45.

<sup>10</sup> Hurrell, "Regionalism in Theoretical Perspective," 50. For discussions on Germany in European integration, see Peter J. Katzenstein, ed., *Tamed Power: Germany in Europe* (Ithaca and London: Cornell University Press, 1997).

<sup>11</sup> For example, many observers with neorealist insights criticize regional forums like the Asian Regional Forum for being "talk shop[s]."

### 2.1.2 Liberalism

Liberals and neoliberal institutionalists generally argue that an increasing level of interstate interactions within a particular region creates a functional need for governments to work closely by increasing the costs generated by lack of coordination among them. While neoliberal institutionalists take the state as a unit of analysis, a variety of liberals examine the role of non-state actors such as specialized international agencies and their technical experts (functionalists);<sup>12</sup> interest groups, political parties, and supranational bureaucracies (neofunctionalists);<sup>13</sup> and multilateral corporations and transnational coalitions (interdependence theorists).<sup>14</sup> Neoliberal institutionalists suggest that states form institutions because of the expected mutual benefits from policy coordination through international institutions. In their view, institutions can facilitate international cooperation by providing information, reducing transnational costs, and reducing the likelihood of cheating.<sup>15</sup> While there are differences among these approaches, they generally postulate that as the level of regional economic interdependence rises, the demand for institutionalization grows. In other words, these theories suggest that *regionalization* leads to *regionalism* if these terms are carefully defined in the distinct way introduced in the previous chapter.<sup>16</sup>

In fact, many advocates for Asia-Pacific and East Asian regionalist projects identified increasing economic interdependence as the key motivation for the emergence of regionalist projects. However, the perspectives that focus on the level of regional economic interdependence as the main variable for explaining the formation of regionalism have at least three shortcomings. The first weakness relates to the issues of how to measure interdependence and whether the measure of interdependence can be a good indicator for explaining the emergence of regionalist projects. The following section begins with discussions of how to

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<sup>12</sup> David Mitrany, *A Working Peace System* (Chicago,: Quadrangle Books, 1966).

<sup>13</sup> Ernst B. Haas, *The Uniting of Europe: Political, Social, and Economic Forces, 1950-1957* (Stanford, Calif.,: Stanford University Press, 1958).

<sup>14</sup> Richard N. Cooper, "Economic Interdependence and Foreign Policies in the 1970s," *World Politics* 24, no. 1 (1972): 158-181; Robert O. Keohane and Joseph S. Nye, *Power and Interdependence: World Politics in Transition* (Boston: Little, Brown, 1977).

<sup>15</sup> Robert O. Keohane and Lisa L. Martin, "The Promise of Institutional Theory," *International Security* 20, no. 1 (1995): 39-51.

<sup>16</sup> John Ravenhill, "The Growth of Intergovernmental Collaboration in the Asia Pacific Region," in Anthony G. McGrew and Christopher Brook, eds., *Asia-Pacific in the New World Order* (London: Routledge, 1998), 251.

measure regional economic interdependence. Using the work of Peter Petri as a model, the following three measures will be reviewed here:<sup>17</sup>

Absolute measure (A):  $A = X_{ij} / X_{**}$

Relative measure (B):  $B = A / (X_{i*} / X_{**}) = X_{ij} / X_{i*}$  or  $B' = X_{ij} / X_{*j}$

Double-relative measure (C):  $C = A / (B B') = X_{ij}X_{**} / X_{i*}X_{*j}$

$X_{ij}$  refers to exports from country  $i$  to country  $j$ , and the subscript  $*$  indicates the summation across all  $i$  or  $j$ . Thus,  $X_{i*}$  refers to the total exports for country  $i$ ,  $X_{*j}$  represents total imports of country  $j$ , and  $X_{**}$  represents total world trade.

The absolute measure (A) compares the scale of a particular bilateral (or intraregional) trade volume to total world trade, while the relative measure (B) represents A's ratio to the share of the exporting country in world exports, or the share of the importing country in world imports. The relative measures (B, B') are useful for judging the importance of partners to one another. The double-relative measure (C), sometimes called the gravity measure or the trade intensity index, represents A's ratio to the overall trade flows of both partners. The trade intensity index is the best measure for assessing "the extent of trade bias toward particular partners, that is, the ratio of trade relative to the trade that would be observed under a neutral assignment of trade flows across partners."<sup>18</sup> The advantage of using the double-relative measure is that it takes into account the overall trade levels of the partner economies.<sup>19</sup>

Table 2-1 provides changes in these three measures for the four regions of the world from 1938 to 2004. Interestingly, the table demonstrates that intraregional trade measured by all three measures shows that the East Asian region was highly interdependent before World War II. In the immediate aftermath of World War II, East Asia's intraregional trade both as a share of world trade and as a share of regional trade fell sharply. However, the absolute measure of East Asian interdependence recovered rapidly as the region's overall trade volume grew.. Yet the East Asian region's extraregional trade initially grew faster than intraregional trade (hence the initial decline of the relative measure). The relative measure showed a steady increase as trade

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<sup>17</sup> Peter A. Petri, "Is East Asia Becoming More Interdependent?," *Journal of Asian Economics* 17, no. 3 (2006): 381-394. See also Peter A. Petri, "The East Asian Trading Bloc: An Analytical History," in Jeffrey A. Frankel and Miles Kahler, eds., *Regionalism and Rivalry: Japan and the United States in Pacific Asia* (Chicago: University of Chicago Press, 1993), 21-52.

<sup>18</sup> Petri, "Is East Asia Becoming More Interdependent?," 385.

<sup>19</sup> However, a small regional group tends to have a high trade intensity index.

within East Asia increased as a share of the region's overall trade after the 1970s, which confirms the conventional wisdom about the growth of East Asian interdependence. However, if we use the double-relative measure to assess the intensity or bias of East Asian regional trade, the index shows "a steady and sharp decline during most of the post-war period, lasting into the mid-1980s, indicating a decline in intraregional bias."<sup>20</sup> It was only very recently that the index showed a sign of increase. The relative measure of the Pacific Rim showed an increase from 1979 to 1995. However, the level of the intraregional trade bias of Pacific Rim (the double-relative measure) was higher in 1969 and 1979 than it would be in 1985 and 1990.

**Table 2-1: Measures of Regional Interdependence (exports plus imports)**

	1938	1955	1969	1979	1985	1990	1995	2000	2004
Absolute measure: intratrade as a share of world trade									
North America	0.030	0.067	0.069	0.042	0.064	0.053	0.522	0.062	0.052
Western Europe	0.182	0.196	0.287	0.293	0.271	0.338			
East Asia	0.100	0.022	0.029	0.042	0.064	0.079	0.126	0.124	0.139
Pacific Rim	0.180	0.135	0.169	0.156	0.248	0.246	0.305	0.310	0.284
Relative measure: intratrade as a share of regional trade									
North America	0.227	0.334	0.379	0.287	0.330	0.313	0.303	0.312	0.301
Western Europe	0.461	0.491	0.647	0.664	0.654	0.712			
East Asia	0.671	0.313	0.293	0.332	0.363	0.407	0.513	0.510	0.607
Pacific Rim	0.583	0.450	0.566	0.545	0.643	0.649	0.698	0.677	0.702
Double-relative measure: gravity coefficients									
North America	1.73	1.65	2.09	1.95	1.71	1.84	1.74	1.57	1.74
Western Europe	1.16	1.23	1.46	1.51	1.58	1.50			
East Asia	4.48	4.45	2.97	2.64	2.05	2.09	2.06	2.09	2.64
Pacific Rim	1.89	1.49	1.90	1.91	1.67	1.71	1.60	1.48	1.74

*Source:* Adapted from Peter A. Petri, "Is East Asia Becoming More Interdependent?," *Journal of Asian Economics* 17(3) (2006), pp. 381-394; and Peter A. Petri, "The East Asian Trading Bloc: An Analytical History," in Jeffrey A. Frankel and Miles Kahler, eds., *Regionalism and Rivalry: Japan and the United States in Pacific Asia* (Chicago: The University of Chicago Press, 1993), pp. 21-52.

*Notes:* Calculations described in text. The regions referred to here is North America (the United States and Canada), East Asia (China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Philippines, Taiwan, Thailand, and Singapore), and Pacific Rim (North America, East Asia, Australia, and New Zealand).

No matter which measure is used to assess the level of regional economic interdependence, it is questionable whether regional economic interdependence can help to identify the timing of regional institution-building. The fundamental problem is that the

<sup>20</sup> Petri, "Is East Asia Becoming More Interdependent?," 387.

approach that focuses on the level of interdependence does not specify a threshold; it does not tell us what level of economic interdependence is enough to foster demand for the creation of intergovernmental institutions.<sup>21</sup> Moreover, a “low” level of interdependence may not necessarily prevent regional states from creating a regional institution. For example, ASEAN was created despite the relatively low level of economic interdependence among the member states.

The second shortcoming in these approaches is that, although liberal theories generally suggest that there is a positive correlation between regionalization and regionalism, a causal link between the two is not easily established. Many scholars have suggested that East Asian regionalization has proceeded without formal institutional mechanisms.<sup>22</sup> Instead, the regionalization process has primarily been driven by private corporations without the strong involvement of government. In this respect, it is disputable as to whether the activities of the private sector have created the bottom-up forces that prompted governments to create an intergovernmental process. It is not entirely clear why private firms, which have operated very successfully to promote their business activities, especially through the establishment of production networks, “seek government intervention to assist in the promotion of economic collaboration.”<sup>23</sup> Indeed, the “virtual integration” created by the private sector may “have lowered incentives for intergovernmental integration.”<sup>24</sup> As Stephan Haggard points out, “[t]here is little evidence for the theory that higher levels of interdependence generate the demand for deeper integration.”<sup>25</sup>

The third weakness in these approaches is that these approaches focus primarily on the demand-side of institution-building by highlighting the expected benefits of creating institutions. There is an implicit assumption that a demand for the creation of institutions will be translated

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<sup>21</sup> Ravenhill, "The Growth of Intergovernmental Collaboration in the Asia Pacific Region," 259.

<sup>22</sup> Stubbs, "Asia-Pacific Regionalization and the Global Economy: A Third Form of Capitalism?," 786; John Ravenhill, "Competing Logics of Regionalism in the Asia-Pacific," *Journal of European Integration* 18, no. 1 (1994): 179; Peter J. Katzenstein, "Regionalism in Comparative Perspective," *Cooperation and Conflict* 31, no. 2 (1996): 123-159; Richard Stubbs, "ASEAN Plus Three: Emerging East Asian Regionalism?," *Asian Survey* 42, no. 3 (2002): 446.

<sup>23</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 25. See also Miles Kahler, "Organizing the Pacific," in Robert A. Scalapino, et al., eds., *Pacific-Asian Economic Policies and Regional Interdependence* (Berkeley: Institute of East Asian Studies University of California, 1988), 337.

<sup>24</sup> Keiichi Tsunekawa, "Why So Many Maps There? Japan and Regional Cooperation," in T. J. Pempel, ed., *Remapping East Asia: The Construction of a Region* (Ithaca, NY: Cornell University Press, 2005), 13.

<sup>25</sup> Stephan Haggard, "The Political Economy of Regionalism in Asia and the Americas," in Edward D. Mansfield and Helen V. Milner, eds., *The Political Economy of Regionalism* (New York: Columbia University Press, 1997), 45.

into a supply of institutions.<sup>26</sup> Thus, these demand-side theories tend to overlook the existence of political sensitivity and obstacles to the formation of regional institutions. There may be strong resistance against the creation of such institutions because of actors' concerns for unequal distributive consequences of institutions, their fear of being dominated by larger states, or the existence of norms against regional cooperation. In short, whereas demand-side theories of institution-building are better at explaining *why* institutions are created, they do not provide an explanation for "how and when they will be supplied."<sup>27</sup> These theories need to be complemented by supply-side theories, which address the actual political processes of interstate negotiations.

### 2.1.3 Constructivism

Constructivists depart from the rationalist view of international institutions simply as a product of states' calculating the costs and benefits according to largely materialistic concepts of instrumental rationality. Rather than treating interests and identity as exogenously given *a priori*, constructivists argue that both interests and identities are endogenously constructed through interactions with other actors.<sup>28</sup> In this view, through interactions and socialization, states redefine their interests and "can alter the views actors hold of what each can do separately and what both can accomplish jointly."<sup>29</sup> Constructivists take an essentially sociological approach to the formation of actors' interests and identity by emphasizing the impact of collective ideas and norms.

From a constructivist perspective, institutions emerge and operate within broader social structures produced by the interactions of agents. Instead of viewing the formation of institutions as driven by "a logic of expected consequences" as in the rationalist view, constructivists emphasize "a logic of appropriateness,"<sup>30</sup> where human actions are guided by

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<sup>26</sup> Mattli, *The Logic of Regional Integration: Europe and Beyond*, 13.

<sup>27</sup> Stephan Haggard and Beth Simmons, "Theories of International Regimes," *International Organization* 41, no. 3 (1987): 506.

<sup>28</sup> Alexander Wendt, *Social Theory of International Politics* (Cambridge, UK: Cambridge University Press, 1999).

<sup>29</sup> Peter J. Katzenstein, "Introduction: Asian Regionalism in Comparative Perspective," in Peter J. Katzenstein and Takashi Shiraishi, eds., *Network Power: Japan and Asia* (Ithaca: Cornell University Press, 1997), 5.

<sup>30</sup> James G. March and Johan P. Olsen, "The Institutional Dynamics of International Political Orders," *International Organization* 52, no. 4 (1998): 949-952.

social norms and actors' identity rather than by a utilitarian view of instrumental rationality. Accordingly, institutions, in this view, reflect prevailing norms and widely-accepted procedures. The emergence of institutions is deeply affected by the degree of convergence of norms and identity.

Constructivist-inspired scholars of regionalism put "the idea of region" at the center of analysis.<sup>31</sup> From a constructivist perspective, the concept of a region is not simply determined by its physical existence or geographical proximity. Instead, it is socially constructed through interactions among various actors, is politically contested, and historically evolves over time. Hence, what constitutes a region is at the heart of the constructivist approach to regionalism. For example, as will be illustrated in Chapter 4, the concept of the Asia-Pacific region is a relatively recent construction which evolved in the post-war era.<sup>32</sup> Constructivists also explore the formation of regional identity, which emerges through the demarcation of "us" from "others" and historically evolves through interactions with others.

To explain the construction of regional institutions, constructivist-inspired scholars trace the origins and evolution of the idea of the region itself and examine the emergence of regionalist projects. For example, to explain the formation of APEC, they look into the origins and evolution of Asia-Pacific regionalist ideas over significant periods of time. However, constructivism does not provide a sufficient explanation for the timing of regional institution-building unless it is combined with approaches that examine shifts in the structural environment. Constructivists are generally more interested in exploring institutional origins, form, evolution, and effects than in identifying the timing of institutional creation.

In line with a constructivist approach, some commentators may suggest that the formation of APEC and the APT can be seen as the manifestation of the emergence of (or the search for) Asia-Pacific and East Asian regional identities, respectively. However, there is no evidence that such regional identity emerged. On the contrary, there is ample evidence that the Chinese and Koreans have a negative image of Japan, given Japan's war atrocities and its unwillingness to resolve the problem. As shown in Table 2-2, 42.2 percent of South Korean respondents and 43.2

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<sup>31</sup> Shaun Breslin and Richard A. Higgott, "Studying Regions: Learning from the Old, Constructing the New," *New Political Economy* 5, no. 3 (2000): 335. See also Amitav Acharya, *The Quest for Identity: International Relations of Southeast Asia* (Singapore: Oxford University Press, 2000).

<sup>32</sup> Arif Dirlik, "The Asia-Pacific Idea: Reality and Representation in the Invention of a Regional Structure," in Arif Dirlik, ed., *What is in a Rim? Critical Perspectives on the Pacific Regional Idea* (Lanham, MD: Rowman&Littlefield, 1998), 15-36.

percent of Chinese respondents provided negative (“dislike”) perceptions of Japan, while the positive (“like”) perceptions were only 17.1 percent and 18.8 percent, respectively. On the other hand, the percentage of Japanese respondents who presented a negative perception of China was higher than those who presented a positive one. As for South Korea, more Japanese respondents perceived the country positively than negatively in 2000. However, a larger proportion of Japanese respondents presented a positive perception of the United States.

**Table 2-2: Perceptions of other Countries, ROK, Japan, and China, Late 2000 (%)**

		ROK	Japan	China
Q1: (ROK, Japan, China) Do you like or dislike, or neither like nor dislike, the <b>United States</b> ?	1. Like	30.7	29.4	33.0
	2. Dislike	18.7	7.6	31.0
	3. Neither like nor dislike	50.6	60.9	33.4
	4. Do not know/No response		2.1	2.6
Q2: (ROK, Japan) Do you like or dislike, or neither like nor dislike, <b>China</b> ?	1. Like	22.6	17.1	
	2. Dislike	20.6	20.1	
	3. Neither like nor dislike	56.8	59.4	
	4. Do not know/No response		3.4	
Q3: (ROK, China) Then you like or dislike, or neither like nor dislike, <b>Japan</b> ?	1. Like	17.1		18.8
	2. Dislike	42.2		43.2
	3. Neither like nor dislike	40.7		33.6
	4. Do not know/No response			4.4
Q4: (Japan, China) Then, do you like or dislike, or neither like nor dislike, <b>South Korea</b> ?	1. Like		20.4	34.5
	2. Dislike		16.8	15.8
	3. Neither like nor dislike		60.0	44.8
	4. Do not know/No response		2.8	4.9

*Source:* Adapted from Samuel S. Kim, “Northeast Asia in the Local-Regional-Global Nexus: Multiple Challenges and Contending Explanations,” in Samuel S. Kim, ed., *The International Relations of Northeast Asia* (Lanham, ML: Rowman & Littlefield, 2004), p. 46, Table 1.12.

*Note:* South Korea: N=2,000, survey conducted October 25-November 18, 2000. Japan: N=3,000, survey conducted November 1-19, 2000. China: N=1,000, survey conducted November 1-10, 2000.

In fact, the Japanese public had a far closer affinity with the United States than any other Asian countries, including China, South Korea, and ASEAN during the period 1990–2000. Japan’s affinities with ASEAN and South Korea were both strongly negative throughout the 1990s until they both improved in 2000.<sup>33</sup> Meanwhile, Japan’s affinity with China worsened during the latter half of the 1990s. From a constructivist perspective, the absence of regional identity is the most serious obstacle to the formation of Asian regionalism.

<sup>33</sup> Davis B. Bobrow and Mark A. Boyer, *Defensive Internationalism: Providing Public Goods in an Uncertain World* (Ann Arbor: University of Michigan Press, 2005), 122-124. For data, see Table 3.15.

## 2.2 REGIONALISM

Although constructivism sheds light on the concept of region, both neorealism and liberalism are most concerned with the question of how and why international institutions are created. The following section outlines the literature which places regionalism at the center of analysis. It starts with a brief overview of the literature on European regional integration. Undoubtedly Europe provides the most institutionalized form of regional integration in the world. Although I reject a Euro-centric perspective that implicitly or explicitly assumes that regionalist projects in other parts of the world will more or less follow a linear projection toward the European path, the European case does provide some theoretical and empirical insights about the study of regionalism in general. After a brief review of the theories of European regionalism, I turn to the existing literature on Asian regionalism.

### 2.2.1 European Regionalism

From the 1950s through the 1990s, the central theoretical debate in the study of European integration was one between neofunctionalism and intergovernmentalism.<sup>34</sup> Initially proposed by Ernst Haas, neofunctionalism sees European integration as an incremental and gradual development that is essentially driven by self-sustaining processes of functional and political spillovers.<sup>35</sup> The central tenet of neofunctionalism is its suggestion that integration in one functional area will spread to other sectors. In particular, it predicted that socio-economic integration would “spill over” into political integration. Neofunctionalist scholars also highlight the role of technocratic experts and supranational actors as the catalyst of European integration.

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<sup>34</sup> For a brief overview of the literature of European integration, see, for example, Mark A. Pollack, "Theorizing the European Union: International Organization, Domestic Polity, or Experiment in the New Governance?," *Annual Review of Political Science* 8 (2005): 357-398. As Pollack points out, since constructivism entered the study of European integration during the 1990s, the central theoretical divide in the literature of European integration has been gradually replaced by the new debate between rationalist and constructivist approaches. However, I do not deal with this new theoretical debate, as I have already discussed constructivism in an earlier section.

<sup>35</sup> Haas, *The Uniting of Europe: Political, Social, and Economic Forces, 1950-1957*.

In contrast, intergovernmentalism emphasizes the role of member governments as gatekeepers of the European integration.<sup>36</sup> Unlike the neofunctionalist view (which sees European integration essentially as the technocratic imperative), intergovernmentalists explain the European integration process as the result of a series of inter-state negotiations. For intergovernmentalists, member governments are fundamentally the central architects of the European Community (EC) and its successor, the European Union (EU), whereas supranational organizations such as the European Commission have little or no influence over the outcomes of interstate negotiations. In this view, member governments retain control over the direction and pace of the European integration process. Therefore, the major difference between neofunctionalism and intergovernmentalism lies in the difference in their emphasis on the role of different actors in the process of European integration: While many scholars in the neofunctionalist tradition highlight the roles of supranational actors and transnational policy networks, intergovernmentalists stress the primacy of national governments.

Building on the intergovernmentalist tradition, Andrew Moravcsik proposes an influential liberal intergovernmentalist approach for analyzing a series of major historical decisions that promoted European integration.<sup>37</sup> His theoretical framework consists of three stages: The first stage of analysis is based on a liberal theory to explain the formation of national preferences by investigating the configuration of preferences among domestic actors; the second stage emphasizes intergovernmental bargaining in contrast to supranational entrepreneurship; and the third stage provides a model of institutional choice aimed at ensuring credible commitments. In his view, European integration is not driven by supranational entrepreneurs, unintended consequences of spill-over effects from earlier integration, or transnational coalitions of interest groups. Instead, it is primarily led by the convergence of preference among the most powerful member states and interstate bargaining among them.<sup>38</sup>

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<sup>36</sup> Stanley Hoffmann, "Obstinate or Obsolete? The Fate of the Nation-State and the Case of Western Europe," *Daedalus* 95, no. 3 (1966): 862-915; Geoffrey Garrett, "International Cooperation and Institutional Choice: The European Community's Internal Market," *International Organization* 46, no. 2 (1992): 533-560; Andrew Moravcsik, "Preferences and Power in the European Community: A Liberal Intergovernmentalist Approach," *Journal of Common Market Studies* 31, no. 4 (1993): 473-524.

<sup>37</sup> Andrew Moravcsik, *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht* (London: UCL Press, 1998).

<sup>38</sup> Pollack, "Theorizing the European Union: International Organization, Domestic Polity, or Experiment in the New Governance?," 361.

From this perspective, Moravcsik advances the view that European integration actually enhances national executives vis-à-vis its domestic constituencies as well as global market actors.<sup>39</sup> Moving out of Europe, as Richard A. Higgott points out, given the absence of supranational actors in the Asia-Pacific, the idea that regionalism may strengthen the national government may be even more relevant for the analysis of Asian regionalism than in the study of European integration.<sup>40</sup> However, the fact that supranational actors do not exist in Asia does not completely rule out the role of non-governmental actors in providing innovative ideas and information for crafting a regional intergovernmental institution in the region. In contrast with the European context, the distinction between state actors and non-state actors is far more blurred in Asia.<sup>41</sup> Indeed, as Charles E. Morrison argues, in Asia, the relationship between governments and non-governmental policy networks can be characterized as a symbiotic one.<sup>42</sup> Hence, in the Asian context, the theoretical divide between intergovernmentalism (which insists on the central role of states) and neofunctionalism (which stresses supranational entrepreneurship) itself does not make much sense. Then, in this case, instead of seeing these two approaches as alternative explanations, it is more useful to view them as complementary, recognizing that *both* the non-governmental policy networks and governments have roles to play in the process of regional institution-building.<sup>43</sup> The issue, rather, is exactly what roles they play respectively.

In the literature of regionalism, comparison between the Asian experience and the European experience has been ubiquitous.<sup>44</sup> A cursory comparison between European and Asian regionalism often results in the simple observation that European regionalism is far more advanced than regionalism in Asia. Some studies implicitly assume that there is a linear pattern of development in regional institution-building. However, rather than comparing the “underdevelopment” of Asian regionalism with the present form of European regionalism, a

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<sup>39</sup> Mark A. Pollack, "International Relations Theory and European Integration," *Journal of Common Market Studies* 39, no. 2 (2001): 226.

<sup>40</sup> Richard A. Higgott, "Economic Co-operation in the Asia-Pacific: A Theoretical Comparison with the European Union," *Journal of European Public Policy* 2, no. 3 (1995): 374-375.

<sup>41</sup> Richard A. Higgott, "Ideas and Identity in the International Political Economy of Regionalism: The Asia-Pacific and Europe Compared," *Kokusai Seiji* 114 (1997): 30.

<sup>42</sup> Charles E. Morrison, "Track 1/Track 2 Symbiosis in Asia-Pacific Regionalism," *The Pacific Review* 17, no. 4 (2004): 547-565.

<sup>43</sup> For a similar suggestion in the context of the European literature, see David R. Cameron, "The 1992 Initiative: Causes and Consequences," in Alberta M. Sbragia, ed., *Euro-Politics: Institutions and Policymaking in the New European Community* (Washington, D.C.: Brookings Institution, 1991), 30.

<sup>44</sup> See, for example, Christopher M. Dent and David W. F. Huang, eds., *Northeast Asian Regionalism: Learning from the European Experience* (New York: RoutledgeCurzon, 2002).

more appropriate comparison would be to compare European and Asian regionalism “at similar stages of development.”<sup>45</sup> As Higgott warns, though, this does not mean that we can assume that Europe’s present is Asia’s future.<sup>46</sup> The key question for the study of comparative regionalism, then, is why different regions pursue different approaches toward regional cooperation.

It has become conventional wisdom that regional integration in the Asia-Pacific region was driven by market forces rather than state-led regionalist efforts.<sup>47</sup> Urata Shujiro, in comparing the regional processes of Europe and Asia, characterizes the regional integration process in Western Europe as “institution-driven,” while he observes that regionalization in East Asia was primarily “market-driven” and that the shift from “market-driven” to “institution-driven” regionalization has just begun with the recent surge of proposals for free trade agreements.<sup>48</sup> Similarly, other scholars distinguish between a “top-down” approach in Europe and a “bottom-up” process in Asia.<sup>49</sup>

Arguably the initial impetus for the formation of European regionalism was geopolitical/security motivations among member states to prevent a repeat of the devastation experienced in the two World Wars. The major motive behind the establishment of the European Coal and Steel Community (ECSC) in 1952, which marked the first step toward the creation of a European community, was to prevent a future war between Germany and France.<sup>50</sup> The emergence of the Cold War provided a context conducive to the development of European integration in that many Western European countries were bound together to counter the common threat of the Soviet Union. In the Asia-Pacific region, perceptions of external threats varied. Moreover, many Asian states were hostile toward one another within the region. Furthermore, there existed communist threats in the form of internal communist insurgencies. In

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<sup>45</sup> Breslin, Higgott, and Rosamond, "Regions in Comparative Perspective," 10.

<sup>46</sup> Higgott, "Ideas and Identity in the International Political Economy of Regionalism: The Asia-Pacific and Europe Compared," 14. Similarly, Peter J. Katzenstein warns against a Eurocentric tendency towards assuming that the European experience sets the standards by which regionalism in other parts of the world should be measured. See Katzenstein, "Regionalism in Comparative Perspective," 125.

<sup>47</sup> Peter J. Katzenstein and Takashi Shiraishi, eds., *Network Power: Japan and Asia* (Ithaca: Cornell University Press, 1997).

<sup>48</sup> Shujiro Urata, "The Emergence and Proliferation of Free Trade Agreements in East Asia," *The Japanese Economy* 32, no. 2 (2005): 6.

<sup>49</sup> Jean-Christophe Defraigne et al., *Report on East Asian Integration: Opportunities and Obstacles for Enhanced Economic Cooperation, Notre Europe Studies and Research No. 47*(2006), 101.

<sup>50</sup> For more details on the creation of the ECSC, see Berthold Rittberger, "Which Institutions for Post-War Europe? Explaining the Institutional Design of Europe's First Community," *Journal of European Public Policy* 8, no. 5 (2001): 673-708.

the context of the Cold War, the U.S. support for multilateralism in Europe was an important drive behind the early phase of European regional integration. As some scholars suggest, in Europe, the Cold War and the U.S. foreign policy were both a “centripetal” factor, contributing to the early development of the integration process. In contrast, as discussed below, in Asia, the Cold War and the U.S. choice for bilateralism were both “centrifugal.”<sup>51</sup>

### 2.2.2 Asian Regionalism

Why were there no region-wide institutions in the Asia-Pacific and East Asian regions until the late 1980s? What accounts for the recent emergence of regionalism in these regions? The existing literature on Asian regionalism provides at least five explanations for these questions. However, since much of the literature on Asian regionalism is atheoretical, a large part of the differences have not necessarily been explained using alternative theoretical orientations; instead, their explanations tend to differ depending on the regional expertise of scholars. Accordingly, the first three perspectives reviewed below are named U.S. hegemony explanations, Japan-centered explanations, and ASEAN-centered explanations, depending on the focus of their analysis.<sup>52</sup> While some works examined in these three groups do adopt insights from the theories of international relations, there has not been much clear theoretical “great debate” as in the case of the literature on European integration (e.g. neofunctionalism vs. intergovernmentalism, rationalism vs. constructivism, etc).<sup>53</sup> The other two explanations examined below are diversity explanations and policy-network explanations.

#### *U.S. Hegemony Explanations*

The first set of approaches focus on the impact of U.S. foreign policy on shaping the regional order in Asia. A first explanation, suggested by Donald Crone, offers a modified realist

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<sup>51</sup> Defraigne et al., *Report on East Asian Integration: Opportunities and Obstacles for Enhanced Economic Cooperation*, 23.

<sup>52</sup> This classification was inspired by the way Richard Stubbs grouped competing explanations for the success of the Asian economic development. See Richard Stubbs, *Rethinking Asia's Economic Miracle: The Political Economy of War, Prosperity, and Crisis* (New York: Palgrave Macmillan, 2005), 3-15.

<sup>53</sup> This, however, does not mean that any theoretical divides are completely non-existent. In the recent literature on ASEAN, a theoretical debate, especially between neorealist and constructivist approaches, started to be formed. For example, see the following and other articles in the special issue of the journal. Amitav Acharya and Richard Stubbs, "Theorizing Southeast Asian Relations: An Introduction," *The Pacific Review* 19, no. 2 (2006): 125-134.

account of the absence of Asia-Pacific regional institutions until the late 1980s and the subsequent non-hegemonic (or post-)hegemonic form of institution-building that unfolded in the Asia-Pacific region.<sup>54</sup> Adopting a neorealist perspective, Crone primarily focuses on the distribution of capabilities, especially power differentials between the leading state and other countries.<sup>55</sup> However, he reverses the proposition of hegemonic stability theory by suggesting that U.S. predominance was the major factor which prevented, rather than contributed to, the emergence of regional institutions in the Pacific. Given the huge power differentials between the United States and its Asian allies (which he calls “extreme hegemony”) in the post-war period, U.S. policymakers had few incentives to pursue a multilateral approach that would “only increase American commitment with little measurable enhancement of joint capabilities.”<sup>56</sup> At the same time, the U.S. extreme hegemony “inhibited early attempts to organize the Pacific, by creating disincentives for the parties to institutionalize and multilateralize relationships.”<sup>57</sup>

From this perspective, the U.S. choice of bilateralism is largely based on the neorealist logic that bilateralism would provide the hegemonic power with a larger bargaining leverage over weaker states than multilateralism (which would constrain the freedom of action of the hegemonic power).<sup>58</sup> Therefore, the hegemonic position of the United States in the post-war period led U.S. policymakers to create a series of bilateral alliances with countries in the Asia-Pacific, including Japan, South Korea, Taiwan, Thailand, the Philippines, Australia, and New Zealand. In this view, the preponderance of the U.S. power and its creation of the so-called “hub-and-spokes” system with the United States as a hub kept the subordinate states in the system from pursuing the creation of regional coalitions to challenge the American hegemony.

For Crone, then, it was the erosion of U.S. hegemony that opened opportunities for regional middle powers like Australia to pursue a regionalist approach and propose the APEC initiative to constrain the hegemon’s unilateral actions. On the one hand, the declining hegemon is likely to make some concessions to eliminate potential challenges, while using its dominant

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<sup>54</sup> Donald Crone, "Does Hegemony Matter? The Reorganization of the Pacific Political Economy," *World Politics* 45 (1993): 501-525.

<sup>55</sup> While Crone also points to the importance of cognitive factors, such as value differentials, the primary focus of his analysis is on the shift in the distribution of power.

<sup>56</sup> Crone, "Does Hegemony Matter? The Reorganization of the Pacific Political Economy," 504; Miles Kahler, "Institution-Building in the Pacific," in Andrew Mack and John Ravenhill, eds., *Pacific Cooperation: Building Economic and Security Regimes in the Asia-Pacific Region* (Boulder: Westview, 1995), 20.

<sup>57</sup> Crone, "Does Hegemony Matter? The Reorganization of the Pacific Political Economy," 502.

<sup>58</sup> Steve Weber, "Shaping the Postwar Balance of Power: Multilateralism in NATO," *International Organization* 46, no. 3 (1992): 633-680.

position to “preserve bargaining power that is perceived to be eroding.”<sup>59</sup> From this perspective, it is the *decline* of U.S. hegemony rather than its ascendance that explains institution-building in the Asia-Pacific. Crone explains the emergence of APEC as a response to the “leveling” of the difference in economic and political power between the United States and the other countries in the Pacific.<sup>60</sup>

At first sight, the late emergence of regional institutions in the Asia-Pacific seems to be explained by Crone’s thesis. However, the significance given to the decline of U.S. hegemony contains some problems. First, if the decline of U.S. power provided an opportunity for the emergence of Asian regional institutions, it does not explain why institution-building did not take off in the 1970s or early 1980s, by which time the decline of U.S. hegemony had been observed by many commentators.<sup>61</sup> Second, if great powers tend to avoid multilateralism because of their concern of being constrained, the thesis does not explain why the United States endorsed multilateralism in Europe, where it should have had a greater concern about losing its unilateral freedom of action than it did in Asia, because the power disparity between the U.S. and European powers was much smaller than that between the U.S. and countries in Asia.<sup>62</sup>

A second explanation, provided by Christopher Hemmer and Peter J. Katzenstein, also attributes the absence of multilateral security organization in post-war Asia to the U.S. preference for bilateralism. However, they explain the U.S. choice for bilateralism in terms of the Americans conception of their identity, rather than focusing only on concerns about the distribution of power.<sup>63</sup> According to them, multilateralism “requires a strong sense of collective identity in addition to shared interests.”<sup>64</sup> They argue that, while the American close

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<sup>59</sup> Crone, "Does Hegemony Matter? The Reorganization of the Pacific Political Economy," 505; Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981), 191-194.

<sup>60</sup> Crone, "Does Hegemony Matter? The Reorganization of the Pacific Political Economy," 502.

<sup>61</sup> David Capie, "Power, Identity and Multilateralism: The United States and Regional Institutionalization in the Asia-Pacific" (Ph.D. Dissertation, York University, 2002), 39. See Paul M. Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000* (New York, NY: Random House, 1987). This might be explained by an “institutional lag” between a change in threat perceptions and policy change. See Krasner, "State Power and the Structure of International Trade," 317-347.

<sup>62</sup> Amitav Acharya, "Regional Institutions and Asian Security Order: Norms, Power, and Prospects for Peaceful Change," in Muthiah Alagappa, ed., *Asian Security Order: Instrumental and Normative Features* (Stanford, Calif.: Stanford University Press, 2003), 213. For a discussion of the hegemon’s choice from a variety of institutional forms, see Weber, "Shaping the Postwar Balance of Power: Multilateralism in NATO," 633-680.

<sup>63</sup> Hemmer and Katzenstein, "Why is There No NATO in Asia? Collective Identity, Regionalism, and the Origins of Multilateralism," 575-607. See also Katzenstein, *A World of Regions: Asia and Europe in the American Imperium*.

<sup>64</sup> Hemmer and Katzenstein, "Why is There No NATO in Asia? Collective Identity, Regionalism, and the Origins of Multilateralism," 575-576.

identification with the European countries led U.S. policymakers to opt for multilateralism in Europe, in Asia they did not share identity with the Asian countries, believing instead that the Asian countries “belonged to a different and inferior political community.”<sup>65</sup> From this perspective, it was this American lack of shared identity with the Asian countries rather than its extreme hegemony that led U.S. policymakers to pursue bilateralism in dealing with the Asian countries.

Despite the differences in the two above explanations, U.S.-centered approaches explain the absence of multilateral regional institutions in the Asia-Pacific by pointing to the central role of the United States in shaping the regional order in Asia. Certainly the U.S.-dominated hub-and-spoke order had significant regional consequences in setting the basic pattern of political and economic interactions among the countries in the Asia-Pacific during the Cold War period, and maybe beyond.<sup>66</sup> As T. J. Pempel explains, the U.S. “opened its own markets asymmetrically to its Asian allies, fostering pan-Pacific economic linkages that tied a number of Asian countries economically and strategically.”<sup>67</sup> As a result, “many of America’s Asian allies had far stronger ties across the Pacific than they had among themselves.”<sup>68</sup>

However, the absence of multilateralism in Asia cannot be solely attributed to U.S. policies. These U.S.-centered approaches largely ignore local factors – material and ideational alike – that influenced the intraregional dynamics. As Amitav Acharya points out, although Hemmer and Katzenstein examine the impact of collective identity on shaping the Asian regional order, they primarily focus on *American* self-conception of collective identity without paying attention to “the norms and collective identities of the Asians themselves and intraregional interactions.”<sup>69</sup> Moreover, since the driving force behind the shift to multilateralism in the Asia-Pacific came not from the United States, but from other regional powers, it is necessary to examine how smaller powers convinced U.S. policymakers to accept the value of regional

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<sup>65</sup> Ibid.: 598.

<sup>66</sup> Kent E. Calder argues that “the basic pattern of political-economic relations in the Pacific remains remarkably close to what it was at the birth of the San Francisco System in the early 1950s.” Kent E. Calder, “Securing Security Through Prosperity: The San Francisco System in Comparative Perspective,” *The Pacific Review* 17, no. 1 (2004): 152.

<sup>67</sup> Pempel, “Introduction: Emerging Webs of Regional Connectedness,” 8.

<sup>68</sup> Ibid., 9.

<sup>69</sup> Amitav Acharya, “Why Is There No NATO in Asia? The Normative Origins of Asian Multilateralism,” *Working Paper No. 05-05, Weatherhead Center for International Affairs, Harvard University* (2005): 7.

multilateralism in this region.<sup>70</sup> In short, it is imperative to explore the interactions between the local and extraregional factors.

### *Japan-Centered Explanations*

The next set of approaches emphasizes the role of Japan in promoting the regionalization process in East Asia. In general, this view suggests that Japan has primarily contributed to the regional integration of the East Asian economies, either through the activities of Japanese private firms or through the regional policies of the Japanese government. There are two distinctive threads in these approaches. The first thread focuses on the business practices of Japanese firms and related governmental economic policies. In their seminal work *Asia in Japan's Embrace*, Walter Hatch and Kozo Yamamura argue that Japan has created regional production networks in Asia by establishing a hierarchical system of production links which vertically connects Japanese affiliates operating overseas with the parent company in Japan.<sup>71</sup> In this view, Japanese multilateral corporations became the central driving force in forging an integrated regional economy in Asia. The Japanese firms "have sought to construct a hierarchical division of labor based on the different but complementary factor endowments and industrial structures, and thus the different but complementary comparative advantages, of Asian economies."<sup>72</sup> The activities of the Japanese firms have been strongly supported by the Japanese government, which has played a "coordinating role" by sponsoring business forums and organizing trade associations.<sup>73</sup> Moreover, the Japanese government sought to exert its influence on business and government overseas by exporting its system of administrative guidance.<sup>74</sup> The establishment of regional "production alliances" promoted by the Japanese government and business leaders resembles their domestic practice of creating vertical networks of affiliates and subsidiaries called *keiretsu*.

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<sup>70</sup> For such an attempt, see Capie, "Power, Identity and Multilateralism: The United States and Regional Institutionalization in the Asia-Pacific".

<sup>71</sup> Walter Hatch and Kozo Yamamura, *Asia in Japan's Embrace: Building a Regional Production Alliance* (Cambridge: Cambridge University Press, 1996).

<sup>72</sup> Walter Hatch, "Japanese Production Networks in Asia: Extending the Status Quo," in William W. Keller and Richard J. Samuels, eds., *Crisis and Innovation in Asian Technology* (Cambridge, UK: Cambridge University Press, 2003), 29-30.

<sup>73</sup> Walter Hatch, "When Strong Ties Fail: U.S.-Japanese Manufacturing Rivalry in Asia," in Ellis S. Krauss and T. J. Pempel, eds., *Beyond Bilateralism: U.S.-Japan Relations in the New Asia-Pacific* (Stanford, Cal.: Stanford University Press, 2004), 162.

<sup>74</sup> Katzenstein, *A World of Regions: Asia and Europe in the American Imperium*, 63; Walter Hatch, "Regionalization Trumps Globalization: Japanese Production Networks in Asia," *Political Economy and the Changing Global Order* (Ontario: Oxford University Press, 2000), 382-391.

Put succinctly, Asian regionalization, in this view, can be viewed as a regional extension of Japan's domestic approach to economic development.<sup>75</sup>

In their edited book, *Network Power: Japan and Asia*, Katzenstein and Shiraishi Takashi propose the concept of "network power" to describe a distinctive informal form of regional integration primarily driven by the network extensions of Japanese state and business practices.<sup>76</sup> To explain "the relative lack of the formal political institutions of Asian regionalism," he focuses on "the character of domestic state structures" as well as "power and norms in the international system."<sup>77</sup> In particular, he argues that "the network organization that characterizes the Japanese state" is the major factor in shaping "the informal network structures that define Asian regional integration."<sup>78</sup> In this view, the growing Japanese penetration of Asian economies was driven by the "network power" of the Japanese corporate strategies and the state.<sup>79</sup>

T. J. Pempel<sup>80</sup> and Glenn Hook<sup>81</sup> each examine the central role that Japan played at different stages in the growth of economic integration in Asia. They both identify two stages in the development of Asian economic integration process: the first stage was driven primarily by Japan's trade and aid, the second by the growth of foreign direct investment (FDI) by Japanese firms. The first stage started with Japan's efforts to "re-enter" Asia through the reparation payments to the countries victimized by the military aggression of the Japanese empire.<sup>82</sup> During this period, trade and aid became the principal means for Japan to develop its relations with its Asian neighbors.<sup>83</sup> As Pempel points out, "it was the government, rather than the private sector, that took the lead, even if at times this role was as a wedge for private Japanese-owned

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<sup>75</sup> Katzenstein, *A World of Regions: Asia and Europe in the American Imperium*, 63, 112; Hatch, "Regionalization Trumps Globalization: Japanese Production Networks in Asia," 387.

<sup>76</sup> Katzenstein and Shiraishi, eds., *Network Power: Japan and Asia*.

<sup>77</sup> Katzenstein, "Introduction: Asian Regionalism in Comparative Perspective," 23.

<sup>78</sup> *Ibid.*, 31-32, 35.

<sup>79</sup> Katzenstein also examines the formation of Chinese business networks by overseas Chinese living outside Mainland China, especially throughout Southeast Asia. However, because his primary focus is on Japan, I do not consider it here. See Peter J. Katzenstein, ed., *Asian Regionalism* (Ithaca, N.Y.: East Asia Program Cornell University, 2000).

<sup>80</sup> T. J. Pempel, "Transpacific Torii: Japan and the Emerging Asian Regionalism," in Peter J. Katzenstein and Takashi Shiraishi, eds., *Network Power: Japan and Asia* (Ithaca: Cornell University Press, 1997), 47-82. See also T. J. Pempel, "International Finance and Asian Regionalism," *The Pacific Review* 13, no. 1 (2000): 57-72.

<sup>81</sup> Glenn D. Hook, "Japan and the Construction of Asia-Pacific," in Andrew Gamble and Anthony Payne, eds., *Regionalism and World Order* (New York: St. Martin's Press, 1996), 169-206.

<sup>82</sup> *Ibid.*, 174-175.

<sup>83</sup> Pempel, "Transpacific Torii: Japan and the Emerging Asian Regionalism," 56.

companies.”<sup>84</sup> In particular, Southeast Asia became a key target of Japan’s economic diplomacy to pursue its twin goals of trade promotion and resource procurements.<sup>85</sup>

The second phase was brought about by a major change in the international economic system as a result of the breakdown of the Bretton Woods monetary system in 1971. The ensuing rise in the Japanese yen led to the gradual growth of Japanese outward FDI. The biggest surge of Japanese FDI was catalyzed by the Plaza Accord of 1985 and the resultant sharp appreciation of the yen. Subsequently, Japanese companies moved their manufacturing production facilities first to Taiwan and South Korea, but then to many Southeast Asian countries. Pempel emphasizes the role of investment capital, especially from Japan, rather than simple trade, as an increasingly important factor in promoting the integration of Asian economies.<sup>86</sup> In short, these scholars explain the growth of Asian regionalization by exploring Tokyo’s economic policy and the business strategies of Japanese firms and the creation of regional production networks.

The second thread of explanation focuses on the role of the Japanese government as well as Japanese academic and business elites in proposing and promoting regional schemes in the Asia-Pacific region. The central argument of this perspective is that Japan has been the primary architect of Asia-Pacific regional institutions. Using information from numerous interviews with key policymakers who got involved in the creation of APEC, Yoichi Funabashi provides an empirically-rich description of the process of establishing APEC. In his work, he emphasizes the role that Japan’s Ministry of International Trade and Industry played in proposing an Asia-Pacific ministerial forum and convincing the reluctant ASEAN governments to participate in the forum.

Takashi Terada also conducted extensive interviews with important government officials as well as academic and business leaders. His work provides a detailed analysis of the longer historical processes that led to the creation of APEC. In several articles, he argues that Japan, along with Australia, has played a significant role in the institutional development of the Asia-

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<sup>84</sup> Pempel, "International Finance and Asian Regionalism," 61.

<sup>85</sup> Takashi Shiraishi, "Japan and Southeast Asia," in Peter J. Katzenstein and Takashi Shiraishi, eds., *Network Power: Japan and Asia* (Ithaca: Cornell University Press, 1997), 175.

<sup>86</sup> Pempel, "Transpacific Torii: Japan and the Emerging Asian Regionalism," 58; Pempel, "International Finance and Asian Regionalism," 62-63. See also T. J. Pempel, "From Exporter to Investor: Japanese Foreign Economic Policy," in Gerald L. Curtis and Michael Blaker, eds., *Japan's Foreign Policy: After the Cold War: Coping with Change* (Armonk, N.Y.: M.E. Sharpe, 1993).

Pacific region, starting with the creation of non-governmental economic institutions such as the Pacific Trade and Development Conference (PAFTAD), the Pacific Basin Economic Council (PBEC), and the Pacific Economic Cooperation Council (PECC) and followed by the establishment of the first-ever intergovernmental forum in the form of APEC.<sup>87</sup> In particular, he emphasizes that the Japanese government's special attention to incorporating ASEAN's interests was conducive to the creation of APEC. To portray Japan's leadership role in the creation of APEC, he uses the concept of "directional leadership" by which he means "leaders' efforts to adjust different interests of potential participants and persuading them to join new regional institutions by setting up common goals, which can be legitimated by followers who perceive the benefits of complying with those goals."<sup>88</sup> Employing this concept, he suggests that Japan played a directional leadership role, especially by providing the so-called "institutional blueprint" for a new Asia-Pacific regional forum that would be acceptable to the skeptical governments in ASEAN.<sup>89</sup>

In terms of strategy, Terada suggests that with full awareness of ASEAN's cautious attitude, the Japanese government had chosen Australia as its partner to promote Asia-Pacific regional schemes. Emphasizing the complementary roles between Australia and Japan, he concludes that both Japan and Australia played "pivotal roles" in the creation of APEC, just as they earlier did in creating the three non-governmental organizations of the PBEC, the PAFTAD, and the PECC.<sup>90</sup>

The strength of both Funabashi's and Terada's research lies in the empirical richness of their studies. However, their weakness stems from lack of theoretically-induced research hypotheses. Terada's use of the concept of "directional leadership" seems plausible, but it does

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<sup>87</sup> Takashi Terada, "The Origins of Japan's APEC Policy: Foreign Minister Takeo Miki's Asia-Pacific Policy and Current Implications," *The Pacific Review* 11, no. 3 (1998): 337-363; Takashi Terada, "Directional Leadership in Institution-Building: Japan's Approaches to ASEAN in the Establishment of PECC and APEC," *The Pacific Review* 14, no. 2 (2001): 195-220.

<sup>88</sup> Terada, "Directional Leadership in Institution-Building: Japan's Approaches to ASEAN in the Establishment of PECC and APEC," 199. The original concept of directional leadership was proposed by Raino Malnes. See Raino Malnes, "'Leader' and 'Entrepreneur' in International Negotiations: A Conceptual Analysis," *European Journal of International Relations* 1, no. 1 (1995): 87-112.

<sup>89</sup> Terada, "Directional Leadership in Institution-Building: Japan's Approaches to ASEAN in the Establishment of PECC and APEC," 198.

<sup>90</sup> The following works focus on the roles that both Japan and Australia played in the formation of APEC. Therefore, his work is not strictly Japan-centered. However, since the works cited above place Japan at the center of analysis, I group his works in this category. See Terada, "The Genesis of APEC: Australia-Japan Political Initiatives."; Takashi Terada, "The Australia-Japan Partnership in the Asia-Pacific: From Economic Diplomacy to Security Co-operation," *Contemporary Southeast Asia* 22, no. 1 (2000): 175-198.

not help us to understand, for example, why the Japanese government did not exert such a leadership role to create an intergovernmental mechanism in the Asia-Pacific earlier than it did to create an Asia-Pacific regional forum like APEC. Moreover, ASEAN members' change of mind cannot be solely attributed to Japanese (or Australian) diplomacy into persuading ASEAN officials to participate in the proposed Asia-Pacific forum. Arguably, ASEAN members' change in attitudes toward Asia-Pacific regionalism seems to have been more a function of the changes in its external environment and the resultant domestic shifts in their economic policies rather than the sole result of persuasion.

To sum up, the literature outlined above examines the growth of economic integration and the subsequent establishment of regional economic institutions from the vantage point of Japan. Focusing on the growth of Japan's economic linkages with the rest of Asia, primarily driven by the Japanese business strategies (supported by the government), the first category of work argues that Japan's growing economic engagement with other Asian economies helped to create an integrated regional economy connecting Northeast and Southeast Asia,<sup>91</sup> that Japanese capital and technology were the key factor in weaving together the economies of Asia.<sup>92</sup> The second group of literature focuses on the role that the Japanese government played in the institutional development of the Asia-Pacific.

However, Japan-centered approaches became largely obsolete due to the new dynamics of the East Asian regional economy after the bursting of the Japanese "bubble economy" at the beginning of the 1990s and the subsequent economic stagnation which lasted over a decade.<sup>93</sup> Although Japan-centered approaches largely explain the Asia-Pacific regionalization process and highlight the contributions that Japan made in the process of establishing APEC, they cannot account for the formation of the APT framework, in which Japan was extremely reluctant to get involved. It is necessary to examine the emergence of East Asian regionalism in the context of the changing dynamics of the patterns of interactions in East Asia, especially the shift in the center of gravity away from a Japan-centered regional process to a more complex regional

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<sup>91</sup> Katzenstein, *A World of Regions: Asia and Europe in the American Imperium*, 63.

<sup>92</sup> Hatch, "Japanese Production Networks in Asia: Extending the Status Quo," 29.

<sup>93</sup> For a concise discussion of the major transformation of the East Asian regional economy focusing on the collapse of a Japan-led image of the East Asian regional economy, see Andrew MacIntyre and Barry Naughton, "The Decline of a Japan-Led Model of the East Asian Economy," in T. J. Pempel, ed., *Remapping East Asia: The Construction of a Region* (Ithaca: Cornell University Press, 2004), 77-100.

process in which China exercises a growing influence but no single country dominates.<sup>94</sup> As discussed in Chapters 6 and 7, China's increasing role in East Asian regionalism should be fully explored in the analysis of East Asian regionalism.

### *ASEAN-Centered Explanations*

To explain the lack of Asia-Pacific regional institutions until the late 1980s, ASEAN-centered approaches suggest that it was ASEAN's resistance that prevented the creation of such institutions. All the Southeast Asian countries except Thailand had experienced Western colonization. When they gained independence in the aftermath of World War II, they emphasized the norms of sovereignty and noninterference.<sup>95</sup> Moreover, the legacy of colonialism had made them very skeptical about the benefits of external forces. Therefore, they shared a preference for maintaining regional autonomy. However, in the wake of the Cold War, the Southeast Asian countries were afraid of being drawn into the Cold War great power rivalry. Therefore, when ASEAN was formed in 1967, the principle of regional autonomy emerged as an important ASEAN norm.<sup>96</sup> Central to this norm is the principle of "regional resilience," which is closely associated with Suharto's concept of "national resilience."<sup>97</sup> The ASEAN members initially desired to promote regional autonomy free from great power intrusion. Therefore, the ASEAN members' search for regional autonomy and their fear of domination by external great powers prevented the ASEAN governments from joining any wider regional groupings that would involve major external powers. In this view, ASEAN's resistance was a major obstacle for the creation of an Asia-Pacific intergovernmental mechanism.

To explain the low level of institutionalization in regional institutions in Asia, ASEAN experts with constructivist insights, such as Amitav Acharya, focus on the existence of regional norms among the Southeast Asian countries. They are collectively known as the "ASEAN Way"

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<sup>94</sup> In their newer work, Peter J. Katzenstein and Takashi Shiraishi suggest that the East Asian regionalization process can no longer be understood as a mere extension of any single national model. Peter J. Katzenstein and Takashi Shiraishi, eds., *Beyond Japan: The Dynamics of East Asian Regionalism* (Ithaca, N.Y.: Cornell University Press, 2006).

<sup>95</sup> For details on how the norms of sovereignty and non-interference came to be at the forefront for the Southeast Asian leaders and how these normative forces prevented the formation of collective defense organizations in the region, see Acharya, "Why Is There No NATO in Asia? The Normative Origins of Asian Multilateralism," 1-50.

<sup>96</sup> Acharya, *Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order*, 51.

<sup>97</sup> The concept of national resilience aimed at the construction of an internally strong state by mobilizing political, economic, social, cultural, and psychological forces. See Donald E. Weatherbee, ed., *International Relations in Southeast Asia* (Lanham, MD: Rowman & Littlefield, 2005), 73.

and consisted of a set of procedural norms and principles which include a preference for informal dialogue and nonbinding commitments over formalistic and legalistic approaches, consensual decision-making based on consultation, and the principles of sovereign equality and non-interference.<sup>98</sup> ASEAN members' endorsement of this particular code of conduct for inter-state relations led them to eschew formal regional institutionalization.

Once ASEAN members agreed to join an Asia-Pacific regional framework, the ASEAN governments attempted to infuse their preferred procedural norms and principles into any wider regionalist projects in the Asia-Pacific and East Asia. In other words, ASEAN sought to transplant the "ASEAN Way" into a wider regional grouping like APEC and the ARF by transforming it into an "Asia-Pacific Way."<sup>99</sup> Contrary to neorealist expectations,<sup>100</sup> constructivist-inspired scholars of Southeast Asia suggest that, despite ASEAN's extremely limited material power assets, ASEAN members effectively exercised disproportionate influence on determining the institutional forms of regionalist projects that emerged in the Asia-Pacific and East Asian region, including APEC, the ARF, and ASEAN+3.<sup>101</sup>

From this perspective, ASEAN has been at the center of regional institution-building efforts in the Asia-Pacific and East Asia. Proponents of this view suggest that ASEAN played what might be called a "normative leadership" role in generating norms and spreading them into wider Asia-Pacific and East Asian regional processes.<sup>102</sup> They point out that ASEAN provided a distinctive form of regionalism, which marks a sharp contrast with the regionalist path that Europe took. For them, Asia-Pacific and East Asian regional institutions are, to a significant degree, characterized by an extension of the ASEAN practices into these broader regionalist processes.

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<sup>98</sup> Acharya, *Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order*, 63-70. See also Amitav Acharya, "Ideas, Identity, and Institution-Building: From the 'ASEAN Way' to the 'Asia-Pacific Way'," *The Pacific Review* 10, no. 3 (1997): 328-337; Acharya, "Regional Institutions and Asian Security Order: Norms, Power, and Prospects for Peaceful Change," 219-227.

<sup>99</sup> Acharya, "Ideas, Identity, and Institution-Building: From the 'ASEAN Way' to the 'Asia-Pacific Way'," 319-346; Amitav Acharya, "Culture, Security, Multilateralism: The 'ASEAN Way' and Regional Order," in Keith Krause, ed., *Culture and Security: Multilateralism, Arms Control, and Security Building* (London and Portland, OR: Frank Cass, 1999), 65-66.

<sup>100</sup> From the neorealist perspective, weaker powers are generally "norm-takers" and are not "norm-makers."

<sup>101</sup> For an excellent discussion on the difference between neorealist and constructivist approaches with respect to ASEAN, see Sarah Eaton and Richard Stubbs, "Is ASEAN Powerful? Neo-Realist versus Constructivist Approaches to Power in Southeast Asia," *The Pacific Review* 19, no. 2 (2006): 135-155.

<sup>102</sup> Acharya, "Regional Institutions and Asian Security Order: Norms, Power, and Prospects for Peaceful Change," 211.

These approaches offer important insights for analyzing the role that ASEAN played in the process of broader regional institution-building. However, while the ASEAN norms did seem to contribute to shaping the institutional features of broader regionalist projects, at least to some extent, the sole emphasis on relatively static regional norms cannot adequately account for a change in the attitudes of those Southeast Asian countries to join Asia-Pacific and East Asian regionalist projects in the first place, despite their previous reluctance. Specifically, it is necessary to explain a cognitive shift among ASEAN leaders from an inward-looking orientation focusing on the principles of regional autonomy and self-reliance to an outward-looking orientation pushing to actively engage with external powers. This requires the researcher not only to pay closer attention to the existence of competing norms, such as the regional autonomy norms and neoliberal norms (such as the notion of “open regionalism”), but also to explore how and why one norm becomes more prevalent than another.<sup>103</sup> To analyze the normative change, these approaches need to be complemented by investigation of both domestic and global changes as well as of the impact of the emergence of new norms. In this respect, it is important to consider the possibility that political leaders use norms in an “instrumental” and “strategic” manner rather than being persuaded by those norms.<sup>104</sup> For example, ASEAN’s new activism in broader regionalism with its insistence on the ASEAN Way can be analyzed in the context of the end of the bipolar Cold War structure and the resultant loss of ASEAN’s strategic importance.

Another major problem with this approach is that ASEAN experts naturally tend to overstate the role of ASEAN. For example, we need to explain why APEC developed in a direction that many ASEAN members did not desire after 1993, despite ASEAN’s apparent success in convincing other APEC members to adopt many of the procedural norms and principles of ASEAN at APEC’s formative stage. We need a more nuanced perspective, which incorporates the variation in the impact of these ASEAN norms over time, while paying enough attention to the limitations of the ASEAN norms. In general, it is important to carefully examine under what conditions the ASEAN norms have mattered in the wider regional framework.

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<sup>103</sup> Amitav Acharya addresses this issue, but more works are required. Amitav Acharya, "Regionalism: The Meso Public Domain in Latin America and South-East Asia," in Daniel Drache, ed., *The Market or the Public Domain?: Global Governance and the Asymmetry of Power* (New York: Routledge, 2001), 296-318.

<sup>104</sup> Kahler, "Legalization as Strategy: The Asia-Pacific Case," 549-571.

*“Extreme Diversity” Explanations*

To challenge the Crone thesis discussed earlier, some scholars suggest that the absence or weak nature of regional institutions in the Asia-Pacific can be attributed to “extreme diversity” within the region, rather than “extreme hegemony” of the United States, as Crone suggests.<sup>105</sup> From this perspective, the diversity among the Asia-Pacific countries in terms of their stages of economic development, type of political and economic systems, and cultural differences including region, language, and colonial heritage, as well as historical antagonism against each other, is considered to have been a major factor in inhibiting any collective efforts to build multilateral institutions in this region.

As T. J. Pempel observes at the beginning of the twentieth century, “Asia was largely a fragmented collection of disparate Western colonies”:

the British controlled Singapore, Burma, Malaya, and Hong Kong (as well as Australia and New Zealand); the Dutch had Indonesia; the French had Indochina; the Portuguese, Goa and Macao; the Philippines belong first to Spain and then to the United States; Taiwan and Korea were under Japanese control; China, racked by civil war, was occupied, crossed, and redressed by military forces from virtually all of these powers. Japan and Thailand were the only two Asian countries free, or mostly so, of Western colonial rule”<sup>106</sup>

The fragmentation of Asia was further exacerbated in the years immediately following World War II. Even after decolonization in the post-war era, the impact of the colonizers on the colonies in Asia remained.

Examining the region’s diversity in population, economic size, economic affluence, economic openness, and other non-economic dimensions, Edward J. Lincoln argues that “[the East Asian region’s] diversity is wider than that prevailing in either Europe or North America and therefore is an important factor in explaining its relative lack of regional economic integration.”<sup>107</sup> Some commentators suggest that the historical diversity of the region has been disappearing through common historical experiences in the post-WWII period.<sup>108</sup> Contrary to these observations, however, Lincoln concludes that the region’s diversity continues to exist and

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<sup>105</sup> Acharya, "Ideas, Identity, and Institution-Building: From the 'ASEAN Way' to the 'Asia-Pacific Way'," 322.

<sup>106</sup> Pempel, "Transpacific Torii: Japan and the Emerging Asian Regionalism," 48.

<sup>107</sup> Edward J. Lincoln, *East Asian Economic Regionalism* (Washington, D.C.: Brookings Institution Press, 2004), 15-16.

<sup>108</sup> For examples of these arguments, see Yoichi Funabashi, "The Asianization of Asia," *Foreign Affairs* 72, no. 5 (1993): 75-85; Stubbs, "ASEAN Plus Three: Emerging East Asian Regionalism?," 440-455.

inhibit “the kind of economic regionalism that has emerged in Europe and North America over the past several decades.”<sup>109</sup>

Undoubtedly, the diversity clearly remains a major impediment for developing regionalism in the Asian region. However, if we only focus on the difficulty for constructing a regional institution, we cannot explain the emergence of regional institutions, *despite* the region’s remaining diversity.

### *Policy Network Explanations*

In contrast with the above literature, which focuses on the obstacles for regionalism in Asia, the following literature investigates the driving forces “from below,” behind the gradual institutional development in the Asia-Pacific. This group of literature explains the formation of APEC as a result of at least two decade-long regional network activities of non-governmental organizations such as the Pacific Basin Economic Council (PBEC), the Pacific Trade and Development Conference (PAFTAD), and the Pacific Economic Cooperation Council (PECC, formerly Conference).<sup>110</sup> The PBEC was formed by a group of business representatives in 1967. The PAFTAD, established by a group of economists, started a series of academic conferences in 1968. The PECC was established in 1980 as a tripartite organization made up from academics, business leaders, and government officials participating in their private capacity.

Focusing on these groups of professional experts and business leaders and their activities, many scholars suggest that they laid the groundwork for the subsequent establishment of APEC by developing regionalist ideas and diffusing them into the policy elites. Richard A. Higgott suggests that the gradual development of dense networks of personal interactions among these groups of individuals formed nascent regional “policy networks” over time.<sup>111</sup> According to him,

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<sup>109</sup> Lincoln, *East Asian Economic Regionalism*, 16, 41.

<sup>110</sup> Lawrence T. Woods’ work provides the most comprehensive study of the historical evolution of these non-governmental organizations. Lawrence T. Woods, *Asia-Pacific Diplomacy: Nongovernmental Organizations and International Relations* (Vancouver: UBC Press, 1993). See also special issues of *The Pacific Review* 7, no. 4 (1994) and 8, no. 1 (1995). See, especially, Richard A. Higgott, “Ideas, Identity, and Policy Coordination in the Asia-Pacific,” *The Pacific Review* 7, no. 4 (1994): 367-379; Stuart Harris, “Policy Networks and Economic Cooperation: Policy Coordination in the Asia-Pacific Region,” *The Pacific Review* 7, no. 4 (1994): 381-395. For a more recent work, see Morrison, “Track 1/Track 2 Symbiosis in Asia-Pacific Regionalism,” 547-565. For earlier works, see, for example, Sung-joo Han, ed., *Community-Building in the Pacific Region: Issues and Opportunities* (Seoul, Korea: Asiatic Research Center Korea University, 1981); Hadi Soesastro and Sung-joo Han, eds., *Pacific Economic Cooperation: The Next Phase* (Jakarta: Yayasan Proklamasi Centre for Strategic and International Studies, 1983).

<sup>111</sup> According to him, a *policy network* is “constituted by its *membership* (public or private corporate and individual actors having both formal and informal relationship) and *the linkages* (formal and informal channels of

the formation of APEC represents “the culmination of longer processes of gestation in regional economic networking through organizations such as PAFTAD, PBEC, and PECC.”<sup>112</sup> Similarly, Stuart Harris highlights the roles that these individuals played in “advocating and participating in regional cooperation” and argues that the formation of APEC “was possible *only after* a substantial and lengthy process of dialogue on issues of economic cooperation in the region at a non-governmental level.”<sup>113</sup>

In exploring the role of policy networks in the Asia-Pacific, Higgott specifically addresses the impact of the ideas and knowledge that these policy networks developed on government policies. He suggests that most researchers involved in the PAFTAD and PECC (mostly economists) largely believed in the idea of “free-market” economies prescribed by neo-classical economics and, thus, advocated “market-led theories of integration and open regionalism.”<sup>114</sup> However, the impact that these experts have made on their national governments seems to have varied across countries in the Asia-Pacific.<sup>115</sup> The difference is partly attributed to a variation in the level of connections between experts and political elites.<sup>116</sup> Nonetheless, the difference in the receptivity to neoliberal economic policy prescriptions also stems from the different levels of economic development in those countries.

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communication) that structure *interaction* (the exchange of relevant policy resources such as information, expertise, and trust) between them.” In contrast, the concept of a policy community refers to “a more formalized relationship, characterized by the identification of an emerging set of institutionalized relations between non-governmental and governmental members of a policy network to facilitate policymaking and policy implementation.” Higgott, “Ideas, Identity, and Policy Coordination in the Asia-Pacific,” 373. Defined as such, Higgott observed in 1994 that several policy networks were formed in the Asia-Pacific region, but they had not yet reached the stage of policy communities. He also considered the applicability of the concept of “epistemic communities” and concluded that these policy networks could not be strictly qualified as epistemic communities. See Higgott, “APEC - A Sceptical View,” 66-97.

<sup>112</sup> Higgott, “Ideas, Identity, and Policy Coordination in the Asia-Pacific,” 367.

<sup>113</sup> Emphasis added. Harris, “Policy Networks and Economic Cooperation: Policy Coordination in the Asia-Pacific Region,” 392, 381.

<sup>114</sup> Higgott, “Ideas, Identity, and Policy Coordination in the Asia-Pacific,” 370.

<sup>115</sup> This observation requires more in-depth empirical scrutiny, but the cross-national investigation of the roles that policy networks and their ideas have played was the main theme of special issues of *The Pacific Review* 7, no. 4 (1994) and 8, no. 1 (1995). In the case of Australia, for example, Higgott argues that the Australian component of the PECC, the Australian Pacific Economic Cooperation Committee (AUSPECC), had a strong impact on Australia’s economic policy and the formulation of Australian APEC initiative. See Richard A. Higgott, “Pacific Economic Cooperation and Australia: Some Questions about the Role of Knowledge and Learning,” *Australian Journal of International Affairs* 46, no. 2 (1992): 182-197.

<sup>116</sup> Miles Kahler suggests that “in some countries in the region, experts are closely linked to governments, but are therefore less likely to press a novel intellectual agenda (China is an extreme case); in other countries a high premium is placed on originality in policy prescriptions, but expert connections to policy-makers are often tenuous (the United States is the extreme case.” Kahler, “Institution-Building in the Pacific,” 32.

However, not only is there a lack of sufficient empirical research on the variation in the impact of ideas and policy networks on national governments across countries, the major weakness of these approaches that focus on the role of policy networks and their ideas is that they cannot explain the timing of the formation of APEC.<sup>117</sup> The idea that Asia-Pacific countries should develop some sort of institutional arrangement can be traced back to the mid-1960s. However, it was not until the late 1980s when the idea found its way into governmental policy in the form of APEC. As Higgott points out, “the presence of a big idea is not of itself a sufficient motor for progress. Ideas need articulate intellectual-cum-policy elites to carry them forward onto the political agenda.”<sup>118</sup> Therefore, it is imperative to investigate “the manner in which ideas find their way into public policy”<sup>119</sup> as well as *under what conditions* non-governmental policy networks can influence the policies of government. I return to this question in the next chapter.

As illustrated in subsequent chapters, I believe that these policy networks played a significant role in both developing and spreading Asia-Pacific regionalist ideas. However, the question of timing requires investigating other factors, including the extraregional variable as a major source of the governmental demand for such ideas and the existence and capabilities of political leaders who can act on those ideas. In doing so, we need to specify further exactly what roles that the nascent policy networks such as PAFTAD, PBEC, and PECC played in the formation of APEC. Moreover, the absence of similar policy networks to promote East Asian cooperation before the emergence of the APT process shows that the existence of such policy networks is not a prerequisite for the initial launching of regionalist projects. Yet, after the APT process started, there emerged growing embryonic policy networks that supported the activities of the APT framework.<sup>120</sup> I investigate the roles of these non-governmental actors on the subsequent development of the APT process in Chapter 7. In doing so, I address the question of whether the existence of such non-governmental actors is necessary for explaining the evolution of the APT process.

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<sup>117</sup> Ravenhill, "The Growth of Intergovernmental Collaboration in the Asia Pacific Region," 259.

<sup>118</sup> Higgott, "Ideas, Identity, and Policy Coordination in the Asia-Pacific," 370.

<sup>119</sup> *Ibid.*: 369.

<sup>120</sup> Paul M. Evans, "Between Regionalism and Regionalization: Policy Networks and the Nascent East Asian Institutional Identity," in T. J. Pempel, ed., *Remapping East Asia: The Construction of a Region* (Ithaca: Cornell University Press, 2005), 195-215.

The literature reviewed above is by no means meant to be an exhaustive list of all of the important works on this subject. In particular, even though they are not included in the above discussion because they are difficult to be grouped in one category, the following two books deserve special attention. First, John Ravenhill's *APEC and the Construction of Pacific Rim Regionalism* provides the most theoretically sophisticated and comprehensive analysis of APEC.<sup>121</sup> He utilizes the major international relations theories to analyze the formation, evolution, effects, and prospect of APEC. He explicitly adopts an "eclectic approach" to regionalism.<sup>122</sup> While the strength of his work stems from the application of various insights taken from the major international relations theories, its weakness is the lack of an overarching framework. Joseph A. Camilleri's *Regionalism in the New Asia-Pacific Order* provides the most comprehensive historical overview of the evolution of regionalism in the Asia-Pacific region, ranging from ASEAN, APEC, the ARF, and the APT.<sup>123</sup> He calls for an evolutionary or historical perspective that examines the "unique conjuncture of influences – endogenous and exogenous, ideational and material, integrative and disintegrative – which significantly alters the dynamic of challenge and response as experienced by regional formations and their constituent members."<sup>124</sup> In this way, he suggests that the historical approach allows us to identify different historical phases. Unfortunately, neither of these works provides a parsimonious explanation for the construction of regional institutions in the Asia-Pacific.

The preceding overview of the existing literature reveals the complexity of regional institution-building. Scholars have highlighted various factors that prevented the emergence of regional institutions in the Asia-Pacific and East Asia (including the American hegemon's preference for bilateralism, ASEAN norms against broader regionalism, and the countries' extreme diversity) and different drivers for the regionalization and institutional development in the region (Japan's role in the East Asian regionalization process, ASEAN's role in providing its model of institutional design, and the bottom-up forces of transnational policy networks). The review of the existing literature leads to two conclusions. First, there is a need to combine

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<sup>121</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*.

<sup>122</sup> Ibid., 8. The value of an eclectic approach has been increasingly recognized by some scholars. See Peter J. Katzenstein and Rudra Sil, "Rethinking Asian Security: A Case for Analytical Eclecticism," in J. J. Suh, Peter J. Katzenstein, and Allen Carlson, eds., *Rethinking Security in East Asia: Identity, Power, and Efficiency* (Stanford, Calif.: Stanford University Press, 2004), 1-33. Peter J. Katzenstein and Nobuo Okawara, "Japan, Asian-Pacific Security, and the Case for Analytical Eclecticism," *International Security* 26, no. 3 (2001/02): 153-185.

<sup>123</sup> Camilleri, *Regionalism in the New Asia-Pacific Order*.

<sup>124</sup> Ibid., 29.

insights from both theories of institution-building and less theoretically-oriented literature on Asian regionalism. Second, the theory of regionalism requires analysis of the cross-national studies of preferences among relevant governments over time and of the primary movers for regional institution-building. The analytical framework proposed in the next chapter is by no means a parsimonious one; however, it does highlight the two dimensions of regional institution-building.

### 3.0 THEORIZING ASIAN REGIONALISM

To explain institutional origins, creation, and evolution, I propose an institutionalist framework that builds on a historical institutionalist approach to institutions. Historical institutionalism suggests that institutions emerge or experience a radical change only at certain historical “critical junctures.”<sup>1</sup> However, once institutions are created (or go through a major reform), they set “historical trajectories” that are largely “path dependent.”<sup>2</sup> Path-dependent processes are characterized by “incremental and gradual” institutional evolution between punctuated periods of relatively rapid and profound changes.

Many historical institutionalists emphasize the role of crises or external shocks in precipitating the critical junctures, thus inducing institutional change.<sup>3</sup> A crisis can be defined as a situation of instability that requires immediate solutions. Examples include war, economic depression, the collapse of the international economic system, oil shocks, financial crises, and so forth. The notion of “punctuated equilibrium,” taken from evolutionary biology, provides the most extreme version of the model, suggesting that profound institutional change occurs only during periods of crisis, which are followed by long periods of stasis.<sup>4</sup> From this perspective, Stephen D. Krasner argues that “institutional change is episodic and dramatic rather than continuous and incremental.”<sup>5</sup>

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<sup>1</sup> For discussions on the concept of “critical junctures,” see Ruth Berins Collier and David Collier, *Shaping the Political Arena: Critical Junctures, the Labor Movement, and Regime Dynamics in Latin America* (Princeton: Princeton University Press, 1991); Kathleen Thelen, “Historical Institutionalism in Comparative Politics,” *Annual Review of Political Science* 2 (1999): 388-392.

<sup>2</sup> For discussions on the concept of “path dependency,” see James Mahoney, “Path Dependence in Historical Sociology,” *Theory and Society* 29 (2000): 507-548; Thelen, “Historical Institutionalism in Comparative Politics,” 387-388; Paul Pierson, *Politics in Time: History, Institutions, and Social Analysis* (Princeton, N.J.: Princeton University Press, 2004), 17-53. See also Stephen D. Krasner, “Sovereignty: An Institutional Perspective,” *Comparative Political Studies* 21, no. 1 (1988): 80-86.

<sup>3</sup> G. John Ikenberry, “Conclusion: An Institutional Approach to American Foreign Economic Policy,” *International Organization* 42, no. 1 (1988): 233-234.

<sup>4</sup> Stephen D. Krasner, “Approaches to the State: Alternative Conceptions and Historical Dynamics,” *Comparative Politics* 16, no. 2 (1984): 223-246; Krasner, “Sovereignty: An Institutional Perspective,” 66-94; Ikenberry, “Conclusion: An Institutional Approach to American Foreign Economic Policy,” 219-243.

<sup>5</sup> Krasner, “Approaches to the State: Alternative Conceptions and Historical Dynamics,” 234.

However, as Douglas C. North reminds us, “the overwhelming majority of [institutional] change is simply incremental and gradual.”<sup>6</sup> Therefore, Andrew P. Cortell and Susan Peterson suggest that institutional change can involve *both* “episodic” and “incremental” changes.<sup>7</sup> In analyzing the institutional formation and evolution of two regional institutions, I take this relaxed view and explore not only episodic changes like the creation of a new institution at historical critical junctures, but also both incremental developments between the periods of dramatic change.<sup>8</sup> I also concur with Cortell and Peterson in that not only a crisis but also a non-crisis situation (such as changes of governments and relatively gradual shifts in the balance of power) can also induce institutional creation or change “if it discredits existing institutions or raises concerns about the adequacy of current policy-making processes.”<sup>9</sup> In this view, institutional creation or change can be triggered by actors’ perception of problems as a result of either crises or relatively slowly-developing events. The important point is that these challenges prompt the actors to recognize the insufficiency of the existing institutional arrangements to deal with the problems that they have encountered. I refer to these challenges – both crisis and non-crisis events – that are likely to induce institutional creation or change as “triggers” in general.<sup>10</sup>

However, triggers (crises or perceived problems in general) do *not* automatically induce institutional creation or change for the following two reasons.<sup>11</sup> First, although crises, by definition, create the urgent need for solutions to deal with the challenges posed by the crises, there may be strong resistance to the creation of a new institution among some actors. Also, there may be differences among actors in their perceptions of the urgency of the problems. Furthermore, even if governments recognize problems in the existing institutional arrangements, there may be variation in terms of actors’ preferred policy responses. Second, recognition of problems does not induce institutional creation if there is no leadership (or if there is a conflict of leadership) to translate the demand for forming an institution into its supply or if concrete ideas that offer institutional solutions to the problems at hand do not exist. Therefore, I suggest that all

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<sup>6</sup> Douglass C. North, "Five Propositions about Institutional Change," in Jack Knight and Itai Sened, eds., *Explaining Social Institutions* (Ann Arbor: University of Michigan Press, 1995), 19-20.

<sup>7</sup> Andrew P. Cortell and Susan Peterson, "Altered States: Explaining Domestic Institutional Change," *British Journal of Political Science* 29 (1999): 177-203.

<sup>8</sup> Institutional creation can be considered a form of institutional change.

<sup>9</sup> Cortell and Peterson, "Altered States: Explaining Domestic Institutional Change," 185.

<sup>10</sup> *Ibid.*: 177-203.

<sup>11</sup> As John L. Campbell postulates, problems (or crises) are necessary, but not sufficient, conditions for institutional change. See John L. Campbell, *Institutional Change and Globalization* (Princeton, N.J.: Princeton University Press, 2004), 175.

three conditions – *triggers*, *demand* for a regional institution and *supply* of leadership and regionalist ideas – must be present for a regional institution to be created.<sup>12</sup> In this study, I refer to this “period of significant change” (when demand- and supply- conditions converge) as a *critical juncture*.<sup>13</sup>

As empirical studies of the creation of regional institutions in subsequent chapters reveal, there is often a mismatch between demand- and supply- conditions. For example, the demand for institutional creation may exist long before the supply of leadership and ideas that translate the demand into supply. Similarly, the supply of regionalist ideas may fail to generate the governmental demand for such ideas. Accordingly, it is necessary to examine how demand- and supply- conditions interact with one another and how they converge only at certain historical moments. My argument at the abstract level, then, is that it is the confluence of demand and supply factors at the historical critical junctures, precipitated by certain triggers, that makes institution-building get off the ground.

A historical institutionalist approach, which underscores the importance of timing and sequence, highlights *conjunctures* – “interaction effects between distinct causal sequences that become joined at particular points in time.”<sup>14</sup> In order to reveal and specify such conjunctures, it is necessary to examine not only the immediate causes triggering institutional creation, but also long-term historical processes that unfold over extended periods of time.<sup>15</sup> As Paul Pierson reminds us, some causal processes and outcomes occur slowly, because they may be “incremental,” “cumulative,” have “threshold effects,”<sup>16</sup> or involve long-term “causal chains” over extended periods of time.<sup>17</sup>

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<sup>12</sup> My thinking of these three factors was mostly inspired by the following work, in which Andrew P. Cortell and Susan Peterson argue that the presence of triggers, change-oriented preferences, and institutional capacity are all necessary conditions for institutional change in a democratic state. See Cortell and Peterson, "Altered States: Explaining Domestic Institutional Change," 177-203.

<sup>13</sup> Collier and Collier, *Shaping the Political Arena: Critical Junctures, the Labor Movement, and Regime Dynamics in Latin America*, 29.

<sup>14</sup> Paul Pierson and Theda Skocpol, "Historical Institutionalism in Contemporary Political Science," in Ira Katznelson and Helen V. Milner, eds., *Political Science: The State of the Discipline* (New York: Norton, 2002), 702.

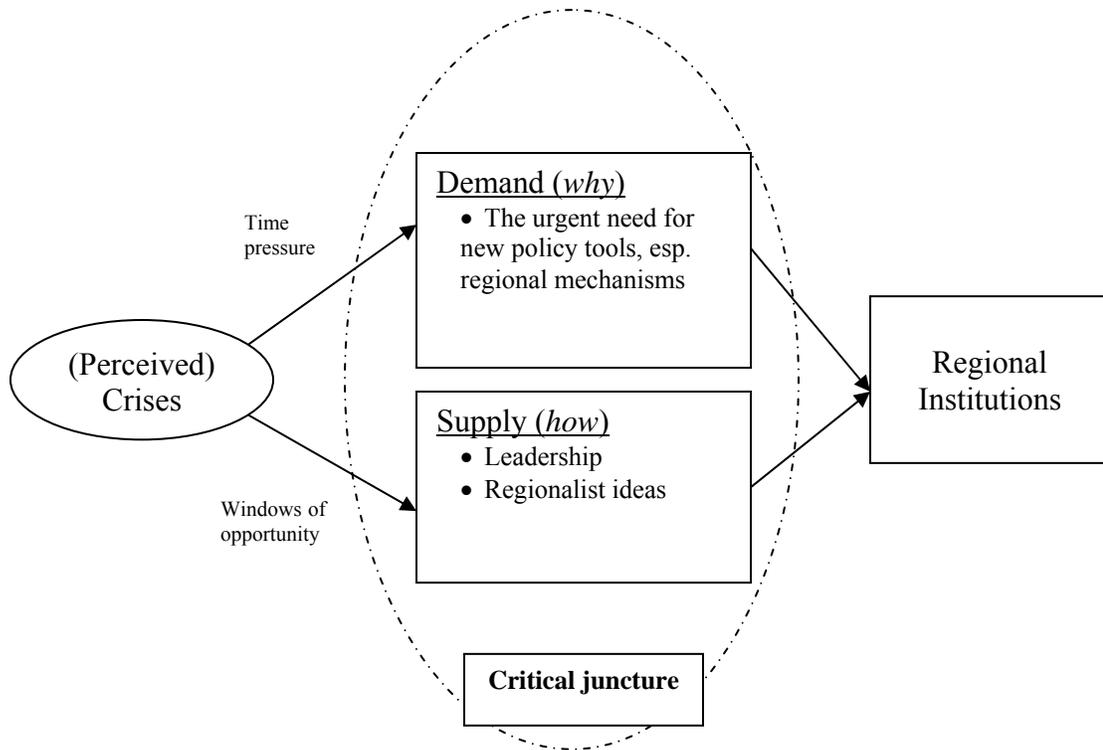
<sup>15</sup> Pierson emphasizes the importance of analyzing slow-moving long-term causal processes, because they are often ignored in the contemporary social sciences due to an obsession with immediate causes. See Pierson, *Politics in Time: History, Institutions, and Social Analysis*, 79-102.

<sup>16</sup> The concept of threshold refers to the fact that “many social processes may have little significance until they attain a critical mass, which may then trigger major change.” Pierson and Skocpol, "Historical Institutionalism in Contemporary Political Science," 703.

<sup>17</sup> Pierson, *Politics in Time: History, Institutions, and Social Analysis*, 79-102.

Thus far, I have presented an institutionalist framework for analyzing institutional creation and development in general. However, to explain the emergence of regionalism in the Asia-Pacific and East Asia, we need a theory of *regional* institution-building. Regionalism, as defined in Chapter 1, essentially refers to the formation of institutions aimed at promoting intergovernmental cooperation in a geographically defined area. Therefore, a theory of regionalism requires addressing the issue of “why an institution is created on a *regional* basis.” Building on the brief discussion of the literature on historical institutionalism above and incorporating some insights from international relations theories discussed in the previous chapter, the ensuing section presents an institutionalist framework for analyzing the creation of regional institutions. The analytical framework consists of three parts: 1) triggers; 2) the configuration of state preferences for or against regionalism (demand-side); and 3) the provision of entrepreneurial leadership and regionalist ideas (supply-side).

The conceptual overview of the argument is summarized in Figure 3-1. As indicated in the figure, crises or perceived problems not only generate an urgent demand for creation of a regional institution, but also provide windows of opportunity for non-major powers, in this case Australia and ASEAN members as a group, to provide entrepreneurial leadership. More specifically, I argue that governmental demand for creating a regional institution was driven by the inadequacy of the existing policy apparatus to deal with extraregional challenges, stemming from problems primarily associated with the global arrangement. On the supply side, I highlight the roles that smaller powers played in initiating a regional forum by bringing the previously reluctant governments on board. It will also be illustrated that transnational policy networks provided important ideational input in shaping institutional design.



**Figure 3-1: Overview of the Argument**

### 3.1 TRIGGERS

As John G. Ikenberry argues, while state officials are constantly engaged in dealing with challenges that the state faces through existing channels and institutions, some challenges “call into question existing rules of the game and the repertoires of state action.”<sup>18</sup> Those challenges, therefore, often induce institutional creation or change by undermining the legitimacy of existing arrangements and highlighting the potential benefits of alternative institutional mechanisms.<sup>19</sup> At the same time, they open potential windows of opportunity for state officials or societal actors

<sup>18</sup> Ikenberry, "Conclusion: An Institutional Approach to American Foreign Economic Policy," 234.

<sup>19</sup> Andrew P. Cortell and Susan Peterson, "Agents, Structures, and Domestic Institutional Change," in Andrew P. Cortell and Susan Peterson, eds., *Altered States: International Relations, Domestic Politics, and Institutional Change* (Lanham: Lexington Books, 2002), 8.

to take on new policy ideas, including the creation of new institutions.<sup>20</sup> Put succinctly, triggers – either crises or perceived problems – not only generate the urgent need for new policy mechanisms to deal with the problems at hand (demand-inducing functions), but also provide political opportunities (supply-inducing functions).

In line with the above discussion, some scholars of European integration emphasize the role of crises or perceived problems in inducing institutional innovation.<sup>21</sup> They suggest that perceived problems or policy failures provide political opportunities for “policy entrepreneurs” or “skilled social actors” to introduce new policy mechanisms. Although the importance of crises as a source of policy changes are also recognized by some scholars of Asian regionalism,<sup>22</sup> the conceptual applications of the impact of crises to institution-building in Asia and the Pacific have been rare. A recent exception is work by Kent Calder and Min Ye, which brought the concept of critical junctures and the roles of crises to the center of analysis for explaining what they call the “organizational gap” in Northeast Asia.<sup>23</sup> According to them, a critical juncture has at least three defining features. First, a *crisis* usually “calls the legitimacy of current arrangements into serious question.” Second, a crisis induces “*stimulus for change*” by generating an urgent “need for collective action to address a *common problem*.” Third, there is intense *time pressure* for action.<sup>24</sup> Specifically, they apply the critical juncture framework to

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<sup>20</sup> Cortell and Peterson, "Altered States: Explaining Domestic Institutional Change," 183; Cortell and Peterson, "Agents, Structures, and Domestic Institutional Change," 8.

<sup>21</sup> See, for example, Alec Stone Sweet, Neil Fligstein, and Wayne Sandholtz, "The Institutionalization of European Space," in Alec Stone Sweet, Wayne Sandholtz, and Neil Fligstein, eds., *The Institutionalization of Europe* (Oxford: Oxford University Press, 2001), 18-19; Wayne Sandholtz and John Zysman, "1992: Recasting the European Bargain," *World Politics* (1989): 95-128; Andrew Moravcsik, "Negotiating the Single European Act: National Interests and Conventional Statecraft in the European Community," *International Organization* 45, no. 1 (1991): 53; Neil Fligstein and Iona Mara-Drita, "How to Make a Market: Reflections on the Attempt to Create a Single Market in the European Union," *American Journal of Sociology* 102, no. 1 (1996): 1-33.

<sup>22</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 65-72. Vinod K. Aggarwal also highlights the importance of “an initial impetus” that “significantly alters the preexisting bargaining context.” See Vinod K. Aggarwal, "Analyzing Institutional Transformation in the Asia-Pacific," in Vinod K. Aggarwal and Charles E. Morrison, eds., *Asia-Pacific Crossroads: Regime Creation and the Future of APEC* (New York: St. Martin's Press, 1998), 34.

<sup>23</sup> Kent E. Calder and Min Ye, "Regionalism and Critical Junctures: Explaining the "Organizational Gap" in Northeast Asia," *Journal of East Asian Studies* 4 (2004): 191-226. In their article, the authors distinguish the “critical juncture framework” from historical institutionalism (which focuses on path dependence). However, I incorporate both approaches under the same label, historical institutionalism, because many historical institutionalists postulate that institutional change involves both episodic changes at the critical junctures and incremental, path-dependent developments between the critical junctures. See, for example, Cortell and Peterson, "Altered States: Explaining Domestic Institutional Change," 177-203.

<sup>24</sup> Calder and Ye, "Regionalism and Critical Junctures: Explaining the "Organizational Gap" in Northeast Asia," 198-199.

explain the formation of the San Francisco System after the Korean War and the establishment of the Chiang Mai Initiative after the Asian financial crisis. Another recent example of the application of a similar concept to regional institution-building in Asia is Julie Shannon's work, which utilizes the John W. Kingdon's concept of "windows of opportunity" to explore "how environmental conditions have operated either alone or in combination to bring about thresholds for change within regional organizations" in the Asia-Pacific.<sup>25</sup>

Building on these works, this part of the analysis underscores two functions of triggers: 1) triggers induce governmental recognition of problems that require new collective mechanisms; and 2) they provide political opportunities for new policies. However, as already indicated, the recognition of shared problems and the opening of political opportunities by themselves are not enough in and of themselves for countries to undertake a collective *regionalist* project. It requires the demand for a *regionalist* response (rather than a bilateral or global response) and the existence of political leaders who can propose and coordinate a regionalist initiative. The next two parts of the analytical framework, therefore, focus on, first, analyzing the variation of policy preferences among key governments and, second, exploring who provides leadership in initiating and mobilizing support for a regionalist approach and where regionalist ideas come from.

### 3.2 WHY ARE REGIONAL INSTITUTIONS CREATED?

The central question to be addressed in this stage of the analysis is why some governments desire to form or join regional institutions. Also, it is equally important to examine why some governments resist the creation of a regional institution. When some governments desire the creation of a regional institution, it is said that there is demand for regional institutions (which is here referred to as "positive demand"). Conversely, when governments are opposed to the establishment of a regional institution, there is "negative demand." In short, this stage of the

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<sup>25</sup> Julie Shannon, "The Conditions of Change," in Michael Wesley, ed., *The Regional Organizations of the Asia-Pacific: Exploring Institutional Change* (London: Palgrave Macmillan, 2003), 148, 148-176. Kingdon employs the concept to refer to the opening of political opportunities for advocates of political change (what he terms "policy entrepreneurs") to promote their particular policy ideas and proposals. See John W. Kingdon, *Agendas, Alternatives, and Public Policies* (Boston: Little Brown, 1984).

analysis examines the variation of state preferences for or against the creation of regional institutions among key potential members over time.

The variation of state policy preferences may stem from a combination of political, economic, and social factors. However, what factors directly trigger governmental demand for a regionalist approach? While states have a range of policy options, including unilateral, bilateral, and multilateral approaches, what causes some states to prefer a regionalist approach? When do governments find an interest in regionalism?

Many scholars of regionalism recognize that motivations behind regionalist moves are multifaceted.<sup>26</sup> While such multiple motives are often intertwined, the three major motivations are highlighted by the three major international relations theories discussed in the previous chapter: neorealism, neoliberalism, and constructivism. The ensuing section reviews each perspective in turn. After the brief discussion, I propose my working hypothesis with regard to the demand-side account of institution-building. As discussed below and demonstrated in subsequent chapters, my central argument is that although many governments in the Asia-Pacific and East Asia were reluctant to commit to or even hostile to the idea of creating a regional institution, the governmental recognition of the inadequacy of the existing policy apparatus to deal with extraregional challenges altered the configuration of state preferences in favor of regionalist projects.

### **3.2.1 Regionalism as a Power-Enhancing Instrument**

Both classical realists and neorealists emphasize the logic of power competition in forming regional arrangements. From the realist perspectives, states create or join regional groupings in an attempt to increase their power vis-à-vis others. In particular, neorealists explain the formation of economic regional arrangements in much the same way that they explain the formation of military alliances.<sup>27</sup> For them, the formation of regional groupings can be generally

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<sup>26</sup> Many authors emphasize multiple motives for advancing regionalism. See, for example, John Ravenhill, "Regionalism," in John Ravenhill, ed., *Global Political Economy* (Oxford: Oxford University Press, 2005), 120-126; Andrew Hurrell, "The Regional Dimension in International Relations Theory," in Mary Farrell, Björn Hettne, and Luk van Langenhove, eds., *Global Politics of Regionalism: Theory and Practice* (London: Pluto Press, 2005), 40-41. See also Cameron, "The 1992 Initiative: Causes and Consequences," 35-65.

<sup>27</sup> Hurrell, "Regionalism in Theoretical Perspective," 47. For the seminal work of structural realism or neorealism, see Waltz, *Theory of International Politics*. In his revised formulation of structural realism, Stephen M. Walt argues

viewed as an attempt to form a regional coalition to respond to external challenges. By highlighting the strategic implications of regionalism, neorealism emphasizes the “balancing” function of regional groupings in the broader configuration of power relations. From this perspective, the formation of APEC, for example, can be viewed as a response by Western Pacific countries to the growth of regionalism in Europe and North America. Some governments may use regionalism as a source of bargaining leverage over an external actor through a coalition of two regional groups against the third. This was exemplified by the American use of APEC as an instrument of extraregional foreign policy to extract European concessions at the Uruguay Round of the GATT negotiations.<sup>28</sup>

As noted in Chapter 2, regionalism can be a particularly appealing option for weaker powers. They may seek regionalist approaches to enhance their collective power over great powers. Weak powers may construct a regional coalition among themselves by excluding great powers. Alternatively, weak states can seek to engage great powers in a multilateral setting whereby they can increase their collective bargaining power vis-à-vis great powers and dilute the influence of the latter. In short, realists view regionalism as a power-enhancing instrument that states employ to enhance their collective capabilities vis-à-vis others.

### **3.2.2 Regionalism as a Response to Economic Regionalization**

In contrast with realists, who emphasize relative power considerations, liberals focus on the expected joint benefits from the creation of regional institutions. They stress the efficiency-enhancing role of institutions in fostering policy coordination and thus promoting regional economic development. From this perspective, states seek regionalism to enhance economic gains through economies of scale by expanding the market for export industries. In doing so, regionalism provides a political vehicle for enhancing market activities and sustaining economic development through elimination of trade barriers and harmonization of standards. Furthermore,

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that states form alliances to balance against threat rather than power. See Stephen M. Walt, *The Origins of Alliances* (Ithaca: Cornell University Press, 1987).

<sup>28</sup> Jürgen Rüländ, "APEC, ASEAN, and EAEC - A Tale of Two Cultures of Cooperation," in Jürgen Rüländ, Eva Manske, and Werner Draguhn, eds., *Asia-Pacific Economic Cooperation (APEC): The First Decade* (London: RoutledgeCurzon, 2002), 43-44; Higgott, "Economic Co-operation in the Asia-Pacific: A Theoretical Comparison with the European Union," 375; Richard A. Higgott, "ASEM and the Evolving Global Order," *Global Economic Review* 29, no. 1 (2000): 30.

governments often find regionalism a more attractive option than global multilateralism because the former can be more flexible in allowing for protection of non-competitive domestic sectors that would not survive in global competition.<sup>29</sup>

Liberals generally argue that a rise of economic interdependence creates a functional need for governments to work closely in order to reduce transaction costs generated by lack of coordination among them. From the liberal perspective, there is a straightforward relationship between *regionalization* and *regionalism* if they are carefully defined in a distinct way as introduced in Chapter 1. Liberal theories of institution-building, (neo)functionalism and neo-liberal institutionalism alike, suggest that regionalization prompts governments to seek regionalism. *De facto* economic cooperation generates demand for the creation of *de jure* political framework for intergovernmental cooperation.

This line of reasoning has often been applied to provide an economic rationale for the formation of APEC. Two prominent economists who have promoted the idea of Pacific cooperation prior to the inception of APEC, Peter Drysdale and Ross Garnaut, saw APEC as a logical response to increasing economic interdependence in the Asia-Pacific region. According to them, economic cooperation in the Asia-Pacific promotes “market integration” rather than the “institutional integration” or “discriminatory integration” that characterizes institutional arrangements in Europe and North America. They argued that Asia-Pacific economies have benefited significantly from trade liberalization, therefore enabling the trade expansion game in the Asia-Pacific to be called “prisoner’s delight” rather than “prisoner’s dilemma.”<sup>30</sup> From this perspective, intergovernmental coordination aims at enhancing the process of market integration by providing public goods that support a favorable environment for the international market and by removing barriers and resistances in trade.<sup>31</sup>

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<sup>29</sup> Ravenhill, "Regionalism," 124.

<sup>30</sup> Peter Drysdale and Ross Garnaut, "The Pacific: An Application of a General Theory of Economic Integration," in C. Fred Bergsten and Marcus Noland, eds., *Pacific Dynamism and the International Economic System* (Washington, DC: Institute for International Economics, 1993), 187-188.

<sup>31</sup> *Ibid.*, 220-221.

### 3.2.3 Cognitive Regionalism

Instead of conceiving a regionalist project as a rational pursuit of material incentives such as political power or economic interests, constructivists view regionalism as a result of regional awareness and regional identity based on “the shared sense of belonging to a particular community.”<sup>32</sup> For some constructivists, the existence of collective identity is an important component of regionalist projects. They suggest that “like-minded” countries, which share similar political norms and values, are likely to develop “collective identity,” and thus are likely to create a regional community.<sup>33</sup>

Others do not view the existence of regional identity based on shared norms and collective identity as necessary for the formation of regionalism. Instead, identification of some outsiders as “the other” often provides enough reasons for states to come together and form a regional grouping.<sup>34</sup> This parallels, to some extent, the political realist logic of regionalism, which emphasizes the balancing function of regional groupings against others. However, it is significantly different from the realist perspective in that constructivists do not conceive the formation of regionalism simply as a means to increase collective bargaining power vis-à-vis others. Instead, they view the formation of regionalism as a quest for regional identity. Amitav Acharya points out that “ASEAN regionalism began without a discernible and pre-existing sense of collective identity among the founding members, notwithstanding some important cultural similarities among them.”<sup>35</sup> Rather, the development of ASEAN itself can be viewed as a continuing process of regional identity-building.

Regional consciousness may emerge as a result of common experiences. In particular, shared experiences with extraregional actors can contribute to the demarcation of the boundaries between “us” and “them.” For example, as will be discussed in the analysis of the formation of ASEAN+3 in Chapter 6, the Asian financial crisis and the crisis-afflicted Asian countries’ shared

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<sup>32</sup> Hurrell, “Regionalism in Theoretical Perspective,” 64.

<sup>33</sup> Some constructivists focus on liberal democratic norms as a factor which encourages a positive identification among those countries which share the norms. See Colin H. Kahl, “Constructing a Separate Peace: Constructivism, Collective Liberal Identity, and Democratic Peace,” *Security Studies* 8, no. 2/3 (1998/99): 94-144.

<sup>34</sup> Iver B. Neumann, for example, examines how the self/other nexus is operative in collective identity formation in world politics by focusing on how the concept of “the East” was conducive for creating a European collective identity. See Iver B. Neumann, *Uses of the Other: “The East” in European Identity Formation* (Minneapolis: University of Minnesota Press, 1999).

<sup>35</sup> Acharya, *Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order*, 28.

harsh experience with external actors during the crisis, including the United States and the West-dominated International Monetary Fund (IMF), contributed to creating an at least limited sense of shared identity among East Asian states vis-à-vis Western powers. In this view, a sense of shared identity among regional states or a collective search for a regional identity vis-à-vis outsiders provide ideational foundations for defining the boundary of a region and forming an institutional framework for that region.

### **3.2.4 Defensive Regionalism**

Motives behind regionalism derive from a complex combination of political, economic, and ideational reasons. However, in line with the problem-induced approach to institutional creation discussed at the outset, I suggest that governmental demand for regionalism is generated by a sense of inadequacy in the existing policy channels to deal with extraregional challenges. More specifically, the urgent government interest in a regional arrangement in the Asia-Pacific and East Asia has been primarily triggered by defensive motives: Governments have employed a regionalist approach in order to defend domestic interests that are threatened by extraregional developments, including the challenge from the unilateral actions of the hegemonic power, the development of discriminatory regionalist projects in other parts of the world, the volatility of the unregulated financial capital, and so forth.<sup>36</sup>

The importance of defensive motives over the expected benefits is highlighted by prospect theory, which suggests that actors tend to value avoiding the loss of their properties more highly than the expected losses.<sup>37</sup> From this perspective, it can be expected that governments' interest in regionalism was driven by their desire to use a regional forum as a mechanism to avoid expected losses rather than by a clear sense of potential benefits. But why choose regionalism? It is argued that states often turn to regionalism when they perceive the insufficiency of global institutional frameworks to protect their domestic interests. Governments

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<sup>36</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 15, 79; Nesadurai, *Globalisation, Domestic Politics and Regionalism: The ASEAN Free Trade Area*, 16; Naoko Munakata, *Transforming East Asia: The Evolution of Regional Economic Integration* (Washington, D.C.: Brookings Institution Press, 2006), 27-29.

<sup>37</sup> For an example of the application of prospect theory for international relations, see Jack S. Levy, "Loss Aversion, Framing, and Bargaining: The Implications of Prospect Theory for International Conflict," *International Political Science Review* 17 (1996): 179-196.

view a regional mechanism as a way to either supplement the global mechanism or to guard against the possible negative impacts of global processes.<sup>38</sup> Put differently, regionalism can be viewed as a regional collective response to a predicament in the global mechanisms.

Specifically, as demonstrated in Chapter 4, the formation of APEC was triggered by the U.S. move to appeal to unilateral means, the development of inward-looking regionalism in Europe and North America, and the resultant uncertainty about the prospect of the liberal trading regime. The emergence of global-scale problems outweighed the concerns of the governments which had previously resisted the broader regional arrangement. For many participants, APEC was seen as an insurance mechanism to ensure market access across the Pacific while constraining the U.S. unilateral tendency. As discussed in Chapter 6, the Asian financial crisis prompted East Asian policy elites to cooperate *on an East Asian regional basis* rather than within the existing broader institutional frameworks at either the global or Asia-Pacific levels.

### 3.3 HOW ARE REGIONAL INSTITUTIONS CREATED?

While the previous section addressed demand-side conditions of institution-building by asking the question of *why* a regional institution is created, this part of the analysis deals with supply-side conditions by asking *how* questions. The question of “how” requires investigating the actual political process of construction, examining who provides leadership in initiating and organizing the efforts to establish a regional institution and who provides ideas that shape institutional design. It also requires examination of under what conditions the supply of leadership becomes possible.

As implied earlier, I reject the view implicit in most demand-side theories of institution-building that assumes that as the demand for the creation of institutions increases, it will be automatically translated into the supply of an institution. Even if there is strong demand for the creation of a regional institution, no institution will be created if no one takes initiatives and

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<sup>38</sup> Defraigne et al., *Report on East Asian Integration: Opportunities and Obstacles for Enhanced Economic Cooperation*, 99; Mark Beeson, *Regionalism and Globalization in East Asia: Politics, Security, and Economic Development* (Houndmills, Basingstoke: Palgrave Macmillan, 2007), 5.

assumes the “costs of organizing.”<sup>39</sup> As Wayne Sandholtz points out, “without leadership, the demand for cooperation will remain latent.”<sup>40</sup> Specifically, I highlight the way in which non-great powers provide entrepreneurial leadership in forming a regional institution. I also explore the role that policy networks can play in providing innovative policy ideas and information. The ensuing section first outlines the different types of leadership that states can exercise, second discusses the concept of “policy networks,” and lastly considers the existence of structural constraints which limit the successful exercise of entrepreneurial leadership by non-great powers.

### 3.3.1 Leadership

Traditionally, supply-side theories of institution-building have focused on the presence of a hegemon.<sup>41</sup> Drawing on insights from hegemonic stability theory, some scholars maintain that the existence of a single regional hegemon is a necessary condition for constructing a regional multilateral institution. Others suggest that institution-building may be led by what Thomas Schelling calls a *k-group*, that is a minimum subset (k) of the entire group (n) that can benefit from the provision of public goods even if other members (n-k) free ride.<sup>42</sup> Still others highlight the importance of the regional “core” composed of a few powerful countries, which can provide “joint leadership.” For example, the importance of the Franco-German axis as a motor of European integration is well recognized in the literature on European literature.<sup>43</sup> Whether led by a single hegemon or a small number of core countries, this type of institution-building is based on what Oran Young calls “structural leadership,” which is predicated upon the possession of material resources that can be translated into bargaining power.<sup>44</sup>

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<sup>39</sup> Sandholtz, *High-Tech Europe: The Politics of International Cooperation*, 20-21.

<sup>40</sup> *Ibid.*, 303.

<sup>41</sup> Aggarwal, "Building International Institutions in Asia-Pacific," 1031.

<sup>42</sup> Thomas C. Schelling, *Micromotives and Macrobehavior* (New York: Norton, 1978). See also Duncan Snidal, "The Limits of Hegemonic Stability Theory," *International Organization* 39, no. 4 (1985): 579-614. For an application of this line of thinking to institution-building in the Asia-Pacific and East Asia, see David P. Rapkin, "Leadership and Cooperative Institutions in the Asia-Pacific," in Andrew Mack and John Ravenhill, eds., *Pacific Cooperation: Building Economic and Security Regimes in the Asia-Pacific Region* (Boulder: Westview Press, 1995).

<sup>43</sup> See, for example, Douglas Webber, *The Franco-German Relationship in the European Union* (London: Routledge, 1999); Gisela Hendriks and Annette Morgan, *The Franco-German Axis in European Integration* (Cheltenham, UK: Edward Elgar, 2001).

<sup>44</sup> Young, "Political Leadership and Regime Formation: On the Development of Institutions in International Society," 281-308.

However, this concept of structural leadership is not only very limited analytically, but also fails to capture the way that regional institution-building unfolded in the Asia-Pacific and East Asia. To explain the construction of regional institutions led by weaker powers such as Australia (in the case of APEC) and the ASEAN members as a group (in the case of APT), this dissertation draws on the literature which deals with the non-structural types of leadership. Young identifies two non-structural forms of leadership: entrepreneurial and intellectual leadership. These notions of leadership do not rely on material power assets as a source of influence. Instead, “entrepreneurial leadership” derives from “negotiating skill to frame issues in ways that foster integrative bargaining,” while “intellectual leadership” is based upon “intellectual capital or generative systems of thought that shape the perspective of those who participate in institutional bargaining.”<sup>45</sup> Akin to Young’s concept of entrepreneurial leadership, Ikenberry proposes the concept of “situational leadership,” which is based on “the ability to see specific opportunities to build or reorient international political order, rather than the power capacities of the state.”<sup>46</sup>

This pluralistic view of leadership allows us to explore the possibility that weaker powers can take non-structural forms of leadership in forming regional institutions. Andrew F. Cooper, Richard A. Higgott, and Kim Richard Nossal suggest that “middle powers” are often engaged in a very distinct type of diplomacy characterized by the exercise of entrepreneurial and intellectual leadership.<sup>47</sup> According to them, the concept of middle powers can be best defined in terms of the form of their diplomatic activities: “their tendency to pursue multilateral solutions to international problems, their tendency to embrace compromise positions in international disputes, and their tendency to embrace notions of ‘good international citizenship’ to guide their diplomacy.”<sup>48</sup> Similarly, the literature on middle powers generally highlights several diplomatic features common to middle powers, including their attempts to maximize their diplomatic capability by concentrating resources based on their priority of goals, their creativity to generate innovative ideas, their tendency to construct coalitions of “like-minded” states, and the

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<sup>45</sup> Ibid.: 293, 298.

<sup>46</sup> G. John Ikenberry, “The Future of International Leadership,” *Political Science Quarterly* 111, no. 3 (1996): 395.

<sup>47</sup> Andrew F. Cooper, Richard A. Higgott, and Kim Richard Nossal, *Relocating Middle Powers: Australia and Canada in a Changing World Order* (Vancouver: UBC Press, 1993).

<sup>48</sup> Ibid., 19.

likelihood of gaining credibility in their initiatives.<sup>49</sup> The concept of middle power is particularly useful for analyzing Australia's initiative in proposing the APEC.

More generally, I take insights from a body of literature on the role and influence of non-great powers in international relations.<sup>50</sup> This body of literature challenges the neorealist view that powerful states shape international relations by imposing their interests and will on others. The extreme form of realism rests on the earlier premise, suggested by Thucydides, that "the strong do what they have the power to do and the weak accept what they have to accept."<sup>51</sup> Contrary to this traditional view, many scholars, including Robert O. Keohane and Joseph S. Nye, point out that power differentials in material resources and assets do not by themselves explain bargaining outcomes.<sup>52</sup> Part of the explanation for this lies in the differences in the intensity of preferences – "the willingness of states to expend resources or make concessions."<sup>53</sup> From this perspective, smaller states may exercise more influence over bargaining outcomes than larger states when they have more intense preferences than the latter. Building on this body of literature, I explore the possibility that weaker states can influence the process and form of regional institution-building, challenging the traditional overall power structure model's view that "powerful states make the rules."<sup>54</sup>

In line with the preceding discussion, I adopt the notion of political leadership proposed by Sandholtz, which departs significantly from the traditional conception of leadership that focuses on its role in providing public goods or underwriting the international rules.<sup>55</sup> According to Sandholtz, "political leaders are actors who are willing to assume the costs of organizing."<sup>56</sup> This view of leadership highlights the roles of leaders in *proposing, mobilizing, shaping the*

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<sup>49</sup> John Ravenhill summarizes these features in "five Cs": capacity, concentration, creativity, coalition-building, and credibility. See John Ravenhill, "Cycles of Middle Power Activism: Constraint and Choice in Australian and Canadian Foreign Policies," *Australian Journal of International Affairs* 52, no. 3 (1998): 309-327.

<sup>50</sup> Thomas Risse-Kappen, *Cooperation among Democracies: The European Influence on U.S. Foreign Policy* (Princeton, N.J.: Princeton University Press, 1995); Davis B. Bobrow and Steve Chan, "On Being Strategic: Feasible Emphases for Nonmajor Powers," *Pacific Focus* 23, no. 1 (1998): 5-31; Michael William Mosser, "Engineering Influence: The Subtle Power of Smaller States in International Organizations" (Ph.D. Dissertation, University of Wisconsin-Madison, 2002).

<sup>51</sup> Thucydides, *The History of the Peloponnesian War* (Harmondsworth, England: Penguin, 1980), 402.

<sup>52</sup> Keohane and Nye, *Power and Interdependence: World Politics in Transition*, 18.

<sup>53</sup> Andrew Moravcsik, "Taking Preferences Seriously: A Liberal Theory of International Politics," *International Organization* 51, no. 4 (1997): 523.

<sup>54</sup> Keohane and Nye, *Power and Interdependence: World Politics in Transition*, 42.

<sup>55</sup> For a conception of leadership as the provider of the public good, see, for example, Kindleberger, *The World in Depression, 1929-1939*, 307. See also Gilpin, *The Political Economy of International Relations*, 72-92.

<sup>56</sup> Sandholtz, *High-Tech Europe: The Politics of International Cooperation*, 21.

*agenda, building consensus, and brokering compromises.* All of these functions are the costs required for initiating and forming cooperative efforts. They include investments of time, personnel, energy, financial commitments, and other political resources.<sup>57</sup> This type of leadership does not necessarily require the preponderance of material resources necessary for hegemonic leadership.

Building on this notion of non-structural leadership, I argue that at the time of structural changes, non-great powers like Australia and the ASEAN members as a group exercised political leadership in initiating and fostering the process of regional institution-building in the Asia-Pacific and East Asia. In the case of APEC, the Australian government took a primary role in assuming “the costs of organizing” by proposing the initiative, mobilizing support from the previously hesitant ASEAN governments, and suggesting the agenda. The Japanese government also played a supportive role in fostering to broker compromises and build consensus among the proposed members in its maneuver to shape the Australia-proposed Asia-Pacific regional forum into its own vision, which better reflected ASEAN’s concerns than the Australian proposal. In the case of APT, the ASEAN members as a group initiated the process, mobilized support from the three Northeast Asian countries, and played a central role in preparing the agenda as a convener of the APT meetings. Given the lack of a hegemonic leadership in creating a regional institution, the roles that these less powerful states played were pivotal in creating both regional arrangements.

### **3.3.2 Policy Networks**

Even if in the end it may be the state which plays a central role in the actual establishment of an intergovernmental regional arrangement, there is no reason to deny the possibility that non-state actors can contribute to the construction of the regional forum. In particular, I explore the roles that policy networks can play in providing policy ideas and information which influence the shape and direction of regional institutions.

*Policy networks* can be defined as “a set of relatively stable relationships which are of non-hierarchical and independent nature linking a variety of actors, who share common interests

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<sup>57</sup> Ibid., 23.

with regard to a policy and who exchange resources to pursue these shared interests acknowledging that co-operation is the best way to achieve common goals.”<sup>58</sup> The concept of a policy network should be distinguished from that of a *policy community*, which refers to a more formalized and institutionalized relationship between non-governmental and governmental members of a policy network which is highly integrated into the policy-making process.<sup>59</sup>

Peter M. Haas proposed the concept of “epistemic community,” defined as “a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue-area,” who share a set of “normative and principled beliefs,” “causal beliefs,” “notions of validity,” and “common policy enterprise.”<sup>60</sup> Transnational advocacy networks refer to more broader networks of actors, which includes not only a group of scientists like epistemic communities but also economic actors, firms, and activists, who are bound together by shared ideas and values and who are more explicitly enthusiastic about advocating policy change.<sup>61</sup> Whether such policy communities, epistemic communities, or transnational advocacy networks exist in the Asia-Pacific and East Asia itself is an empirical question worth investigation. I use the broadest concept of a policy network to refer to these different kinds of groups.

As reviewed in the previous chapter, in the literature of European integration, advocates of neofunctionalism generally emphasize the importance of the role of supranational entrepreneurship played by such organizations as the European Commission. While there are disagreements over whether the role of supranational actors is essentially indispensable in determining the content and pace of European integration, there seems little doubt that supranational actors have sometimes provided government negotiators with new policy ideas that proved conducive to the development of European integration. Although such supranational actors do not exist in Asia, nascent nongovernmental policy networks for promoting regional institution-building efforts did form, first in the Asia-Pacific and then in the East Asian context. This part of the analysis aims at identifying the conditions under which these policy networks

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<sup>58</sup> Tanja Börzel, "Organizing Babylon - On the Different Conceptions of Policy Networks," *Public Administration* 76 (1998): 254.

<sup>59</sup> Kingdon, *Agendas, Alternatives, and Public Policies*.

<sup>60</sup> Peter M. Haas, "Introduction: Epistemic Communities and International Policy Coordination," *International Organization* 46, no. 1 (1992): 3.

<sup>61</sup> Margaret E. Keck and Kathryn Sikkink, *Activists beyond Borders: Advocacy Networks in International Politics* (Ithaca, N.Y.: Cornell University Press, 1998), 2.

can play a role in the regional intergovernmental process. It also attempts to clarify the exact roles that they play in the process of regional institution-building.

It is often suggested in the existing literature that under conditions of uncertainty, policy networks, either epistemic-like communities or advocacy networks, are more likely to be able to act as policy entrepreneurs, who bring changes in public policy by introducing innovative policy ideas and setting new agendas.<sup>62</sup> This is because these moments of uncertainty are when government officials are faced with unusual or unstable situations that make it difficult for them to make informed decisions.<sup>63</sup> Therefore, policy entrepreneurs are more likely to succeed in promoting their policy ideas at those critical historical moments. However, as discussed below, even at these moments, decision-makers' choice among those ideas available to them is constrained by the broader normative structures.

### 3.3.3 Structural Constraints

What are the conditions under which non-great powers can play an entrepreneurial leadership role? When can weaker states play a significant role in determining the shape of regional institutions that involve great powers? When can policy networks effectively influence public policy by providing innovative ideas?

The supply of political leadership by smaller powers and the successful entry of ideas provided by non-governmental actors into governmental policy are not free from material and normative constraints. "Negative demand," discussed earlier, can translate into "negative supply" – which is roughly defined here as an effort to prevent or block any efforts to construct institutions. When such negative supply derives from a country with structural power, it can act as what David P. Rapkin calls "blocking power," which refers to the negative exercise of the same kinds of structural power necessary for positive leadership activities to block the other's initiatives for collective action.<sup>64</sup> According to Rapkin, the absence of this sort of blocking power is a necessary condition for a successful exercise of leadership. This is supported by the fact that, on several occasions, East Asian countries' attempts to build "Asians-only" regional

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<sup>62</sup> Haas, "Introduction: Epistemic Communities and International Policy Coordination," 13-14.

<sup>63</sup> Campbell, *Institutional Change and Globalization*, 115.

<sup>64</sup> David P. Rapkin, "The United States, Japan, and the Power to Block: The APEC and AMF Cases," *The Pacific Review* 14, no. 3 (2001): 373-410.

groupings were effectively blocked by the U.S. government. Therefore, as discussed in subsequent chapters, the attitude of the U.S. government toward a regionalist project was a particularly important factor for determining whether the initiative got off the ground.

Moreover, the provision of leadership is constrained by normative structures. For example, in the Asia-Pacific context, the inability of Japan to take a leadership role, despite its economic capabilities, is often attributed to what some call a “legitimacy deficit” because of the historical memory of colonialism, military aggression, and war atrocities prevalent among Asian countries.<sup>65</sup> Therefore, the question of who can provide leadership not only a matter of material power assets, but also of normative consideration of legitimacy of the actor among potential members. From this view, as Ravenhill points out, “*who* promotes an initiative can be a significant factor in whether or not it is successful.”<sup>66</sup>

Similarly, the question of which ideas are chosen to shape institutional design is not free from historical normative structures. Critical junctures provide moments of “openness” as suggested by the punctuated equilibrium model.<sup>67</sup> However, even at these critical choice moments, which are considered to allow for more agency, “ideas do not float freely.”<sup>68</sup> They are still both constrained and guided by historically evolved normative structures.<sup>69</sup> In other words, what Ikenberry calls the “shadow of the past” weighs heavily on which ideas are permissible and which course of action is possible and appropriate.<sup>70</sup> In summary, the choice of who can take a leadership role and what kind of institutions can be accepted is constrained by normative structures.

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<sup>65</sup> Rapkin, "Leadership and Cooperative Institutions in the Asia-Pacific," 98-129.

<sup>66</sup> Emphasis in original. Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 21. Similarly, Alastair Iain Johnston suggests that *who* makes a proposal can sometimes be more controversial than the *content* of the proposal itself.” See Alastair Iain Johnston, "Socialization in International Institutions: The ASEAN Way and International Relations Theory," in G. John Ikenberry and Michael Mastanduno, eds., *International relations theory and the Asia-Pacific* (New York: Columbia University Press, 2003), 125.

<sup>67</sup> Krasner, "Approaches to the State: Alternative Conceptions and Historical Dynamics," 223-246; Kathleen Thelen, "How Institutions Evolve: Insights from Comparative Historical Analysis," in James Mahoney and Dietrich Rueschemeyer, eds., *Comparative Historical Analysis in the Social Sciences* (Cambridge: Cambridge University Press, 2003), 209.

<sup>68</sup> Thomas Risse-Kappen, "Ideas Do Not Float Freely: Transnational Coalitions, Domestic Structure, and the End of the Cold War," *International Organization* 48, no. 2 (1994): 185-214.

<sup>69</sup> Thelen, "How Institutions Evolve: Insights from Comparative Historical Analysis," 213.

<sup>70</sup> Ikenberry, "Conclusion: An Institutional Approach to American Foreign Economic Policy," 226.

### 3.4 INSTITUTIONAL FORM AND EVOLUTION

Having proposed an analytic framework for exploring the creation of regional institutions, this stage of analysis delves into the questions of institutional features and evolution. Why do regional institutions take the forms that they take and why and how do they evolve?

There are at least four contending views on institutional form and evolution: neorealism, functional rationalist institutionalism, constructivist/sociological institutionalism, and historical institutionalism. The neorealist perspective postulates that institutional characteristics reflect the underlying power relations among member states. For neorealists, institutions are designed to allow more powerful states to promote their interests at the expense of the less powerful states. Institutions change as a result of either shifts in the underlying distribution of capabilities among member states or changes in the interests or preferences of the most powerful states. The second view, a functional rationalist approach, suggests that institutions are created for the functions that they perform, especially in terms of reducing transactions costs and thus enhancing efficiency. From this perspective, institutional features should reflect the nature of problems that they face. Institutions change as a result of either “upgrading” (learning effects) or institutional dysfunction because of a shift in external conditions or the emergence of new types of problems.<sup>71</sup> The third view is based on a constructivist or sociological understanding of institutions. In this view, institutions emerge out of a diffusion of norms and ideas. Therefore, institutional features reflect the most prevailing shared norms among actors. Institutional change occurs as the shared norms change or they are replaced by new norms.

The last view is provided by historical institutionalism. It maintains that institutional creation is a result of long-term historical processes and it often emerges at historical critical junctures. Institutional choice is guided and constrained by previous decisions. Hence, institutional form is adopted from historically available options.<sup>72</sup> Once an institution is created, it tends to be “sticky,” even after the initial conditions that triggered its creation have

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<sup>71</sup> Thelen, "How Institutions Evolve: Insights from Comparative Historical Analysis," 215; Jeffrey Stacey and Berthold Rittberger, "Dynamics of Formal and Informal Institutional Change in the EU," *Journal of European Public Policy* 10, no. 6 (2003): 865.

<sup>72</sup> Mark D. Aspinwall and Gerald Schneider, "Same Menu, Separate Tables: The Institutional Turn in Political Science and the Study of European Integration," *European Journal of Political Research* 38 (2000): 6; Hall and Taylor, "Political Science and the Three New Institutionalisms," 957.

disappeared.<sup>73</sup> Institutional development is characterized by a path-dependent evolution, because of the lock-in effects of “increasing returns.” Institutional change is likely to be characterized by a process of *layering* (creating new institutions by building on the preexisting institutions) and *conversion* (remodeling of existing institutions for new purposes).<sup>74</sup> Therefore, institutional features reflect the historical accumulation of practices, norms, and procedures in preexisting institutions.

To explore institutional features and evolution of regional institutions more in depth, I analyze four key dimensions of the institutions: 1) membership; 2) organizational structure; 3) external orientation; and 4) issue areas.<sup>75</sup> The issue of membership is highly contested in any regional institution. Who is included and who is not? Is membership exclusive and restrictive or inclusive and flexible? Should expansion of membership be allowed? Who favors or resists the enlargement? What determines membership preferences? Alternative perspectives on membership will be assessed as to whether membership reflects either members’ concerns over bargaining power within and/or outside the organization, the density of economic interactions and cross-border economic complementarities, the identities of member states, or membership in the preexisting institutions.

Organizational structure refers to the way in which the constituent entities are connected.<sup>76</sup> It includes such elements as how their linkages are structured, how internal decisions are made, and the nature of agreement. The relationship among the constituent entities can be loosely connected through conventions and customs without a tightly fixed structure or highly structured with a high degree of bureaucratization, centralization, and administrative infrastructures with a highly-tasked secretariat. Decision-making rules may be based on unanimity, consensus, majority-voting, or supermajority-voting. In terms of decision-making styles, informal consultations or formal negotiations may be emphasized. The nature of agreements and decisions can be legalistic or non-legalistic. Legalistic agreements can involve legally-binding obligations, specific rules and procedures, and the delegation of some functions

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<sup>73</sup> Pierson, *Politics in Time: History, Institutions, and Social Analysis*.

<sup>74</sup> Thelen, "How Institutions Evolve: Insights from Comparative Historical Analysis," 225-230.

<sup>75</sup> These key dimensions are partly based on the typology employed by Joseph A. Camilleri. See Camilleri, *Regionalism in the New Asia-Pacific Order*, 12-15. See also Koremenos, Lipson, and Snidal, "The Rational Design of International Institutions," 761-799; Nesadurai, *Globalisation, Domestic Politics and Regionalism: The ASEAN Free Trade Area*, 159-163.

<sup>76</sup> Camilleri, *Regionalism in the New Asia-Pacific Order*, 13.

of monitoring and enforcement to a third party.<sup>77</sup> Non-legalistic agreements are informal and non-binding and are usually ambiguous and flexible about the rules and obligations, and implementation of the agreed commitments is based on voluntary actions of members, subject only to peer pressure. As with membership, alternative views on the organizational structure will be examined according to whether it reflects either the preferences of the most powerful members, a rational design aimed at maximizing efficiency of the organization, regional norms and procedures, or the institutional forms of preexisting regional institutions.

External orientation<sup>78</sup> refers to the relationship between the regional institution and the existing external institutional arrangements, including the global regime and other regional institutions. Is the newly created regional institution supportive of or obstructive to the global trade regime based on the General Agreement on Tariffs and Trade (GATT) or its successor, the World Trade Organization (WTO)? Is it inward-looking and thus discriminatory against non-member states? Or is it based on the concept of “open regionalism” (which means that trade concessions given to members are given to non-members as well)?

Vinod K. Aggarwal points out that there are at least four schools of thought with regard to institution-building in the Asia-Pacific: (1) pure GATT/WTO-ists; (2) the PECC-led GATT/WTO-consistent school of open regionalism; (3) skeptics of open regionalism; and (4) advocates of an Asian bloc.<sup>79</sup> How should a new institution be “nested” within broader preexisting institutional arrangements?<sup>80</sup> Neorealists tend to see the formation of a new regional institution as a counter-balancing regional bloc (namely, the fourth group in Aggarwal’s category). Liberals would support the global liberal economic order based on GATT/WTO (namely, Aggarwal’s first group). Both constructivist and historical institutionalism would emphasize the new institution’s “nesting” within the broader normative structures (namely, Aggarwal’s second group).

Regional institutions can also be distinguished by the scope of issues that they cover. Do they deal with a wide range of comprehensive issues or narrowly focused specific ones? What is

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<sup>77</sup> Goldstein et al., "Introduction: Legalization and World Politics," 385-399; Kenneth W. Abbott et al., "The Concept of Legalization," *International Organization* 54, no. 3 (2000): 401-419.

<sup>78</sup> The term “external orientation” was adopted from Camilleri, *Regionalism in the New Asia-Pacific Order*, 14.

<sup>79</sup> Aggarwal, "Building International Institutions in Asia-Pacific," 1036-1038; Vinod K. Aggarwal and Charles E. Morrison, "APEC as an International Institution," in Ipeei Yamazawa, ed., *Asia Pacific Economic Cooperation (APEC): Challenges and Tasks for the Twenty-First Century* (London: Routledge, 2000), 307-308.

<sup>80</sup> For the concept of “nesting,” see Aggarwal, "Analyzing Institutional Transformation in the Asia-Pacific," 23-61.

the balance of emphasis among different issue areas? What explains the shift in the priority among different issue areas? Alternative views will be assessed based on whether the issue scope and priority reflects the preference of the most powerful members, institutional solutions to the problems that member states face, the widely accepted appropriateness of the issue areas, or the issue-scope of the preexisting institutions.

### 3.5 RESEARCH HYPOTHESES

The primary purpose of the dissertation is twofold: 1) to identify the conditions that led to the formation of two regional arrangements, namely, APEC and the ASEAN+3; and 2) to analyze the institutional evolution of each institution after its inception. To achieve the first goal, I have suggested an analytical framework comprising three elements: 1) triggers; 2) the configuration of state preferences concerning regionalism; and 3) the provision of leadership and regionalist ideas. Accordingly, the central hypothesis is that *three factors – triggering events or developments, the demand for a regionalist arrangement; and the supply of political leadership and regionalist ideas – must be present if any initiative for regional institution-building is to get off the ground.* The last two elements highlight the two dimensions of institution-building, namely, demand- and supply-side conditions. With regard to the sources of these demand- and supply- conditions, the following auxiliary hypotheses will be explored in this study. After laying out the alternative hypotheses on these two conditions, competing hypotheses with regard to institutional form and evolution are presented.

#### *Demand-Side Hypotheses*

With regard to the demand-side conditions for triggering regional institutional-building, the key question is: *Why and when do governments demand the creation of a regional institution?* The following four hypotheses are deduced from competing theoretical perspectives (Neorealism, Liberalism, Constructivism, Defensive Regionalism) with regard to the motives and timing of constructing a regional arrangement. The first hypothesis derives from the neorealist perspective which highlights the “collective power-enhancing” function of regionalism.

The formation of a regional grouping may be aimed at enhancing collective bargaining power against either the hegemon or regional groupings outside the region.

H1: Governments are likely to demand the creation of a regional institution when there is a major shift in the geopolitical balance of power (either because of the decline of the hegemon or the emergence of regional blocs).

The key indicator for this hypothesis is a change in the distribution of capabilities. This includes a change in the hegemon's power or a shift in the configuration of regional groupings. The second hypothesis is based on the liberal proposition as follows:

H2: Governments are likely to demand creation of a regional institution as the level of cross-border economic interactions within a region grows.

The key indicator for this hypothesis is a change in the level of economic transactions, measured in terms of intraregional trade and investment vis-à-vis the rest of the world. The third hypothesis is deduced from the constructivist approach:

H3: Governments are likely to demand the creation of a regional institution as a result of either a rise in regional awareness or internalization of regionalist ideas.

If this hypothesis is correct, we would expect to observe a shift in policy elites' policy discourses and speech in how they identify their countries in relations with others and in their ideas about how the region should be organized vis-à-vis the rest of the world before a regional institution is created. The fourth hypothesis is derived from the defensive regionalism perspective discussed earlier:

H4: Governments are likely to demand the creation of a regional institution when they perceive extraregional challenges that the existing policy apparatus cannot manage.

If this hypothesis is correct, we would expect to observe governmental perceptions of the external challenges (either from a shift in the hegemon's actions, a rise of protectionism, or a crisis in the global liberal regime) and their recognitions of the inadequacy of the existing institutional arrangements to cope with them. The rationale for this hypothesis stems from the premise that governments undertake new policies when they perceive problems in their existing policies. Without the presence of urgent problems, inaction may well be a preferred policy option. By considering these alternative hypotheses, this stage of analysis aims not only to reveal governmental motivations behind the creation of regional institutions, but also to identify the timing for governmental actions.

### *Supply-Side Hypotheses*

With regard to the supply-side conditions for bringing a regional institution into being, the four hypotheses below will be considered. Each hypothesis privileges different actors in explaining *how a regional institution is created*. Two questions are at the heart of theoretical and empirical investigation. The first question is concerned with the relative importance of great powers and non-great powers in the process of regional institution-building, while the second relates to the respective role between state and non-state actors.

With regard to the first question, the neorealist perspective emphasizes the roles played by the most powerful states, leading to the following hypothesis:

H1: Regional institution-building is led by either a single regional hegemon or a core of powerful states through the exercise of structural leadership. Only powerful states can assume the costs of organizing regional institution-building efforts and mold the institution in their favor.

If neorealist perspectives are right, then the creation of APEC should be led by the most powerful member, namely, the United States. The establishment of APT should be led by greater powers, such as Japan and China. According to this perspective, smaller states are expected to have little influence over the process of constructing regional institutions.

An alternative hypothesis can be deduced from the literature on non-great powers:

H2: Regional institution-building is led by smaller powers which assume the cost of organizing through the exercise of entrepreneurial leadership in proposing an initiative and mobilizing support.

This view challenges the neorealist perspective by arguing that non-great powers can be active players in world politics and have significant influence on the policies of greater powers through non-structural leadership.

With regard to the relative importance of state and non-state actors, the neorealist perspective provides the following hypothesis:

H1: Non-governmental actors have little or no influence on the process of regional institution-building. States retain control over the direction and pace of regional institution-building.

In contrast to the neorealist perspective, policy network approaches provide an alternative hypothesis:

H2: Non-governmental policy networks play an important role in the process of regional institution-building, especially by providing new policy ideas that depart from the aggregation of state interests.

To assess the alternative hypotheses outlined above, this stage of analysis requires a careful empirical examination of the actual *process* of regional institution-building.

### *Hypotheses Regarding Institutional Form and Evolution*

With regard to institutional form and evolution, the following four competing hypotheses are considered. From the neorealist perspective, the following hypothesis is deduced:

H1: Institutional form reflects the underlying relative power differentials among member states. Institutional change is driven by shifts in the distribution of capabilities or changes in the preference of the most powerful members.

If neorealist theories are right, we would expect that the institutional form is largely shaped by the preference of the most powerful members; small states are expected to have little or no influence on the institutional form. In the case of APEC, the United States, as the most powerful member, has the most significant impact on shaping the institutional design of APEC, and APEC's institutional development should be influenced by changes in U.S. capabilities or preferences. In the case of APT, neorealist theorists would expect that the institutional form should reflect the preferences of the three Northeast Asian countries, namely, Japan, China, and South Korea.

From the functional rational institutionalist perspective, the following hypothesis is deduced:

H2: Institutional form is rationally designed by a functional logic for solving collective action problems and for enhancing efficiency. Institutional change occurs as a result of a change in the nature of problems that members face.

If functional rationalist arguments are right, then institutional development should be characterized by increasing efficiency as a result of institutional learning. Such institutional "upgrading" may be triggered by changes in the nature of problems.

From the constructivist-sociological institutionalist perspective, the following hypothesis is deduced:

H3: Institutional form is shaped by regional norms and identity. Institutional change occurs as norms and actors' identities evolve.

If constructivist-sociological institutionalists are right, then institution form and development should reflect the dominant normative structures and the prevailing understanding of what constitutes a region.

From the historical institutionalist perspective, the following hypothesis is deduced:

H4: Institutional form is shaped by previous institutional choices. Institutional change is characterized by creating new institutions on top of the preexisting institutional arrangements (“layering”) or by redirecting the existing institutions for new purposes (“conversion”).

If historical institutionalists are right, we should expect to observe a close resemblance between preexisting institutions and newly created ones.

### 3.6 RESEARCH METHODS

To test the research hypotheses outlined in the previous section, this study employs the case-study method as it allows the researcher not only to identify the conditions under which institution-building proceeds, but also to investigate “causal mechanisms” in a historically-informed context. Although a large-N statistical study may be able to generate more generalizable theories, this dissertation aims at providing “contingent generalizations” rather than at discovering a “covering law” conception of causal patterns.<sup>81</sup>

I reject the view that regional institution-building takes only one path. Just as the literature on state-building or democratization suggests many pathways to these ends, I believe that regional institution-building also involves “complex” causal relations and can take many different paths rather than one specific causal pathway.<sup>82</sup> Therefore, my aim is to identify “causal configurations” of conditions, each of which can be generated through different causal

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<sup>81</sup> Alexander L. George and Richard Smoke, *Deterrence in American Foreign Policy: Theory and Practice* (New York, Columbia University Press, 1974); Alexander L. George and Andrew Bennett, *Case Studies and Theory Development in the Social Sciences* (Cambridge, Mass.: MIT Press, 2005).

<sup>82</sup> I use the term “complex” causal relations in the sense that Andrew Bennett and Alexander L. George use them. They state that complex causal relations “involve interacting variables that are not independent of each other.” See Andrew Bennett and Alexander L. George, “Case Studies and Process Tracing in History and Political Science: Similar Strokes for Different Foci,” in Colin Elman and Miriam Fendius Elman, eds., *Bridges and Boundaries: Historians, Political Scientists, and the Study of International Relations* (Cambridge, Mass.: MIT Press, 2001), 154.

pathways, but both demand- and supply- conditions need to be met at the critical juncture if a regional project is to be launched successfully. In other words, those factors are necessary conditions which are *jointly sufficient* for inducing an outcome of interest – in this case, the creation of regional institutions.<sup>83</sup>

In each of the paired case studies discussed below, the method of “structured, focused comparison” will be employed, whereby the same set of questions about the conditions and processes are asked to provide methodological rigor. Further, in each longitudinal “within-case” study, I use the method of “process-tracing,” by which one seeks “to investigate and explain the decision process by which various initial conditions are translated into outcomes.”<sup>84</sup> The process-tracing method allows the researcher to investigate the causal mechanisms which produced the causal effects. In employing these methods, the researcher collected data from various sources, including primary sources (policy statements, documents, and other archival materials), secondary literature (newspaper reports, academic articles and books), and interviews.

### *Case Selection*

My case studies are composed of two sets of roughly paired comparisons: 1) the failure of the OPTAD proposals in the 1970s and early 1980s vs. the successful establishment of APEC in 1989; and 2) the abortive effort to create the EAEG/C in 1990 vs. the successful take-off of the APT process in the late 1990s. Since selecting successful cases only (selecting on the dependent variable<sup>85</sup>) suffers from a selection bias problem, I have intentionally chosen to investigate at least one failed case of an institution-building attempt. Since there have been numerous proposals for institution-building in the Asia-Pacific that have failed, it is difficult to identify what constitutes a representative of those cases of failure. The cases that I selected to investigate are chosen not only because of their prominence but also because of the fact that they share certain crucial characteristics with the successful cases which allow the researcher to

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<sup>83</sup> For concepts of “causal complexity,” “causal configurations,” and “conjunctural causation,” see Charles C. Ragin, *The Comparative Method: Moving beyond Qualitative and Quantitative Strategies* (Berkeley: University of California Press, 1987). For more discussion on necessary and sufficient conditions, see Gary Goertz and Harvey Starr, eds., *Necessary Conditions: Theory, Methodology, and Applications* (Lanham, Md.: Rowman & Littlefield, 2002); Gary Goertz, *International Norms and Decision Making: A Punctuated Equilibrium Model* (Lanham, Md.: Rowman & Littlefield, 2003).

<sup>84</sup> Alexander L. George and Timothy J. McKeown, “Case Studies and Theories of Organizational Decision Making,” *Advances in Information Processing in Organizations* 2 (1985): 35.

<sup>85</sup> Gary King, Robert O. Keohane, and Sidney Verba, *Designing Social Inquiry: Scientific Inference in Qualitative Research* (Princeton, N.J.: Princeton University Press, 1994), 129-137.

examine directly the question of why one proposal succeeds while the other fails, despite these similarities.

These two sets of comparisons are used to test the theoretical framework proposed here to identify the conditions under which institution-building succeeds. They show the variation of major independent variables, i.e., the presence or absence of three conditions (demand- and supply- conditions and triggers). While the examination of the two successful cases of institution-building itself can make a “before and after” comparison, the inclusion of the failed cases makes the variation of the dependent variable more explicit.

For the successful cases, I chose to focus on the two regional institutions APEC and the APT rather than other prominent cases of regional institutions in the Asia-Pacific – the ADB, ASEAN, and the ARF, for example – for five reasons. First, as mentioned above, both cases can be compared with fairly similar proposals that had previously failed. Second, while the ADB and ASEAN were established largely in the context of the Cold War East-West rivalry, the other three institutions were created mostly in the post-Cold War environment. Third, ASEAN was excluded from the analysis, because it was composed of only developing countries, and there are arguably different motivations for creating regional institutions between those involving only developing countries and those which include both developed and developing countries. Fourth, the ARF was excluded to limit the issue scope of the study - it mainly deals with security issues, while both APEC and the APT primarily focus on economic issues. Also, the comparison between APEC and the APT makes an interesting case because the former focuses more on trade and investment issues and the latter on financial and monetary issues. Finally, while each of the paired comparisons between the successful and failed cases provide a primary comparative study, the comparison between “Asia-Pacific” and “East Asian” regional arrangements also makes an interesting case because they contain “competing conceptions of economic regionalism,” being comprised of a different membership.<sup>86</sup>

The case selection of those regional institutions only within Asia and the Pacific is justified for several reasons. If one is interested in understanding the conditions for institution-building, why study regional institutions in Asia and the Pacific as opposed to doing cross-regional comparisons, for example, between Europe and Asia-Pacific or between Asia and North

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<sup>86</sup> Richard A. Higgott and Richard Stubbs, "Competing Conceptions of Economic Regionalism: APEC versus EAEC in the Asia Pacific," *Review of International Political Economy* 2, no. 3 (1995): 516-535.

America? While I concur that a systematic comparison among regional institutions across different regions has its benefits in that it increases the number of cases which can thereby generate more generalizable hypotheses about institution-building, comparisons of cases dealing with approximately the same membership within the same region (which permits success vs. failure comparison) has its own merits. The most obvious benefit of a “within-case” comparison is that it allows the researcher to control many factors, such as cultural contexts, that cannot be controlled in cross-regional comparative studies.

#### 4.0 CONSTRUCTING ASIA-PACIFIC REGIONALISM

Regionalist ideas for creating an institutional mechanism for promoting Pacific economic cooperation have existed since the mid-1960s. However, it was only in 1989 that the first-ever region-wide intergovernmental forum in the Asia-Pacific region was created in the form of Asia-Pacific Economic Cooperation (APEC) through Australian Prime Minister Bob Hawke's initiative. In particular, as John Ravenhill points out, the Hawke initiative had "a remarkable resemblance to those made two decades previously for an Organization for Pacific Trade and Development (OPTAD)."<sup>1</sup> This raises a set of questions: *Why* and *how* did the APEC initiative by Hawke finally get off the ground, while similar proposals for Asia-Pacific regional schemes in the previous decades failed to elicit governmental support from potential members? What accounts for the change of attitude among the previously reluctant governments toward Asia-Pacific regionalist projects? How is it explained that an initiative from a non-great power like Australia led to the creation of a regional multilateral arrangement?

For some analysts, APEC follows the economic logic of regionalism as an attempt to capitalize on the rapid economic growth of East Asian economies and the increasing economic interdependence among them.<sup>2</sup> For others, APEC represents the culmination of longer historical processes of the network activities of individuals, including academics, business leaders, and committed government officials.<sup>3</sup> However, as argued below, although the rise of economic interdependence and the aspirations for Asia-Pacific regionalist schemes provided a supportive background for forming APEC, both factors did not *cause* the creation of APEC. We need to analyze the specific historical and political circumstances that made the formation of APEC possible and the actual political process by which the long-incubating Asia-Pacific regionalist idea was brought into practice.

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<sup>1</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 41.

<sup>2</sup> Peter Drysdale, *International Economic Pluralism: Economic Policy in East Asia and the Pacific* (Sydney: Allen & Unwin, 1988); Drysdale and Garnaut, "The Pacific: An Application of a General Theory of Economic Integration," 183-223.

<sup>3</sup> For example, see Higgott, "Ideas, Identity, and Policy Coordination in the Asia-Pacific," 367.

To this end, this chapter analyzes both the configuration of state preferences concerning Asia-Pacific regionalism among key governments (demand-side) and the exercise of political leadership (supply-side) in proposing a regionalist project, eliciting support from the previously reluctant governments, and brokering compromises. It will be argued in this chapter that the urgent demand for an Asia-Pacific regionalist mechanism was triggered by several developments in the extraregional environment in the late 1980s, including the growth of U.S. unilateralism, the prospect of rising regional trading blocs, and the stalemate of the GATT negotiations. While Japan and Australia both desired the creation of an Asia-Pacific regional forum, it was the Australian government that took the explicit initiative in proposing and convening such a forum in Canberra in November 1989.<sup>4</sup>

This chapter is organized into two main parts. The first section begins by tracing the origins of Asia-Pacific regionalist ideas in the 1960s and 1970s. The chapter then moves to analyze why these early proposals for an intergovernmental institutional arrangement failed to get off the ground by investigating the variation of state preferences among key governments with regard to regionalism during the same period. This first section ends with an exploration of how and why only a semi-governmental body, the Pacific Economic Cooperation Council (PECC), was formed in 1980 instead. The second part analyzes the formation of APEC by first exploring the shift in state preferences among the same governments in an attempt to explain *why* APEC was formed in 1989. Finally, the chapter investigates the process by which APEC came into being in order to account for *how* it was created. In both parts, the emphasis will be placed on Japan and Australia as the central drivers for promoting Asia-Pacific regionalist schemes and the United States and ASEAN states as veto players for such proposals.

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<sup>4</sup> The inaugural Canberra meeting brought together trade and foreign ministers from twelve economies in the Asia-Pacific region: six member countries of ASEAN (Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand) and other six non-ASEAN members (Australia, Canada, Japan, New Zealand, South Korea, and the United States).

#### 4.1 ORIGINS OF ASIA-PACIFIC REGIONALIST IDEAS

The origins of Asia-Pacific regionalist ideas can be traced back to the mid-1960s, when Japanese academics made several proposals for promoting Pacific economic cooperation.<sup>5</sup> The first important regionalist idea was advanced through a series of studies and research undertaken by Japanese economists such as Saburo Okita and Kiyoshi Kojima at the Japan Economic Research Center (JERC) established in December 1963. In November 1965, Kojima of the Hitotsubashi University and Hiroshi Kurimoto, an official of the Japan ECAFE Association, proposed the idea of a Pacific Free Trade Area (PAFTA) at JERC's first international conference in Tokyo. The PAFTA proposal called for a regional trade arrangement that would consist of five developed economies, the United States, Canada, Australia, New Zealand, and Japan. Modeled as a regional free trade area like the European Economic Community (EEC), it would involve discrimination in tariff and trade policies against non-member countries. Kojima's original proposal was primarily motivated by his concern about the consequences of the forming a European closed economic bloc and the desire to counter the emergence of European regionalism in the form of the EEC by strengthening Pacific economic cooperation through trade liberalization and production specialization.<sup>6</sup>

In March and April of 1967, Kojima, at the request of Japanese Foreign Minister Takeo Miki, undertook a 'study tour' to promote his PAFTA proposal in the other four advanced countries. Through this tour, financed by the Ministry of Foreign Affairs (MOFA), Kojima discussed his idea with many of the prominent figures who have since played a major role in the development of Pacific regionalist ideas and transnational policy networks.<sup>7</sup> While the PAFTA proposal did not materialize, Kojima's tour laid the foundation for the first Pacific Trade and Development (PAFTAD) conference in January 1968.<sup>8</sup>

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<sup>5</sup> Tsutomu Kikuchi, *APEC: Ajia Taiheiyo Shinchitsujo no Mosaku [APEC: In Search of a New Order in the Asia-Pacific]* (Tokyo: Nihon Kokusai Mondai Kenkyujo, 1995); Katzenstein, "Introduction: Asian Regionalism in Comparative Perspective," 1-44. See, however, Woods, *Asia-Pacific Diplomacy*. In this book, the author traces the origins of Pacific cooperation to the Institute of Pacific Relations (IPR), formed in 1925.

<sup>6</sup> Kiyoshi Kojima and Hiroshi Kurimoto, "A Pacific Economic Community and Asian Developing Countries," *Measures for Trade Expansion of Developing Countries* (Japan Economic Research Center, 1966), 93-114.

<sup>7</sup> The people Kojima met include Peter Drysdale and John Crawford, both located at the Australian National University (ANU), Frank Holmes at the Victoria University of Wellington, Howard P. Jones of the East-West Center in Honolulu, Harry G. Johnson of the University of Chicago, Hugh T. Patrick of Yale University, and H. Edward English of Carleton University in Ottawa. See Woods, *Asia-Pacific Diplomacy*, 42.

<sup>8</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 51.

In 1968, with the support of Foreign Minister Miki and the sponsorship from his ministry, Kiyoshi Kojima organized the first PAFTAD conference under the auspices of JERC and chaired by its president, Saburo Okita. This conference brought together a group of economists from the five advanced countries to discuss the desirability and feasibility of the PAFTA proposal. The PAFTA proposal was quickly rejected, particularly by the American participants, who argued that regionalism would undermine the U.S.-supported global liberal trading system.<sup>9</sup>

Faced with the lack of interest in his PAFTA proposal among governments in the other four Pacific developed countries, Kojima reformulated his original PAFTA proposal, recognizing that his proposal for a PAFTA was premature. At the conference, he proposed that an Organization for Pacific Trade and Development (OPTAD) be established as “an intermediate step” to achieve a long-term goal of realizing a Pacific Free Trade Area. The OPTAD, as a more modest organization, was to be modeled after the Organization for Economic Cooperation and Development (OECD). At the same conference, the Australian economist Peter Drysdale of the Australian National University (ANU), who was a student of both Kojima and Sir John Crawford, introduced his version of an OPTAD proposal. Nevertheless, neither proposal generated any significant interest from governments in the region.<sup>10</sup>

The outcomes of the first PAFTAD conference were twofold. First, participants generally agreed that a Pacific free trade area as proposed by Kojima was not feasible.<sup>11</sup> As Kojima himself admits, the distribution of gains would be very unequal because of different levels of economic development among the five proposed members. Moreover, his PAFTA proposal was criticized in that it would create a “rich men’s club” which would have adverse effects on developing Asian countries. While the PAFTA proposal was originally restricted to the five advanced Pacific countries, it was designed to welcome developing countries in Asia and Latin America as associated members. Nevertheless, the gains for these developing countries to join the group were expected to be insignificant.<sup>12</sup>

The second important outcome was that, while the PAFTA and OPTAD proposals did not gain much support from participants in the conference, they recognized the need to continue

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<sup>9</sup> Hugh T. Patrick, "From PAFTAD to APEC: Economists Networks and Public Policymaking," in *Discussion Paper No. 2* (APEC Study Center, Columbia University, 1997), 10.

<sup>10</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 52.

<sup>11</sup> Patrick, "From PAFTAD to APEC: Economists Networks and Public Policymaking," 10.

<sup>12</sup> See Hadi Soesastro, "ASEAN and the Political Economy of Pacific Cooperation," *Asian Survey* 23, no. 12 (1983): 1260-1261; Kikuchi, *APEC: Ajia Taiheiyo*, 72.

discussions on broader issues of regional economic cooperation other than trade arrangements. Moreover, they agreed that it was imperative to invite economists from developing countries as participants in the subsequent conferences to incorporate the interests of developing countries in examining Pacific cooperation issues.<sup>13</sup>

Accordingly, the second Pacific Trade and Development conference was convened in 1969 at the East-West Center in Hawaii. The central theme of this second conference was regional developments in general and the role of developing countries in particular. This conference brought together economists not only from the original five participating countries at the first conference, but also from the Asian developing economies. At this conference, Australian representatives called for a conference the following year to consider foreign direct investment issues, which led to the third PAFATAD in Sydney in August 1970. At the third PAFTAD conference, Canadian participants promised to hold a fourth conference in Canada to examine barriers to trade among the Asia Pacific economies. Thus, efforts by committed individuals to ensure the completion of the series of preliminary conferences by taking leadership and securing funding began the PAFTAD process which continued in the following decades.<sup>14</sup> Subsequently, the PAFTAD conferences were held at one and a half year intervals on average.<sup>15</sup>

In October 1972, at a joint ministerial conference between Australia and Japan, the two governments agreed to fund the establishment of the Australia, Japan, and Western Pacific Economic Relations Research Project to be conducted jointly by JERC and the ANU's Research School of Pacific Studies. The project was headed by Saburo Okita and Sir John Crawford, and research was led by Kiyoshi Kojima and Peter Drysdale. These prominent figures in the PAFTAD circle kept the OPTAD proposal alive during the first half of the 1970s.<sup>16</sup> Their joint report, presented by Crawford and Okita to the governments of Australia and Japan in 1976, recommended that the two governments should work together to realize the establishment of an

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<sup>13</sup> Patrick, "From PAFTAD to APEC: Economists Networks and Public Policymaking," 10-11. In this paper, the author points out that this point was strongly articulated in particular by Arthur Paul of the Asia Foundation. See also Kikuchi, *APEC: Aja Taiheiyō*, 73.

<sup>14</sup> Patrick, "From PAFTAD to APEC: Economists Networks and Public Policymaking," 11.

<sup>15</sup> For different themes of each conference, see Peter Drysdale, *The Pacific Trade and Development Conference: A Brief History* (Canberra, Australia: Research School of Pacific Studies Australian National University, 1984), 2; Woods, *Asia-Pacific Diplomacy*, 44.

<sup>16</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 52.

OPTAD.<sup>17</sup> Nevertheless, the report did not elicit any prompt or substantial responses. The proposal was largely neglected outside of Australia, Japan, and PAFTAD circles until the late 1970s.<sup>18</sup>

In the business world, an initiative of Japanese and Australian business leaders led to the formation of the Pacific Basin Economic Council (PBEC) in April 1967.<sup>19</sup> This private organization brought together businessmen, bankers, and industrialists, originally from the five developed Pacific countries, to promote discussions regarding regional trade and investment and cooperation between the private and public sectors. The PBEC grew out of the development of bilateral collaboration between Australian and Japanese businessmen through the Australia-Japan Business Cooperation Committee, established in 1962.<sup>20</sup>

In summary, some regionalist ideas for Pacific cooperation emerged during the 1960s, mostly from Japanese academics in collaboration with Australian counterparts. During the period from the late 1960s to the late 1970s, Pacific regionalist ideas were “internationalized” through the formation of nascent transnational policy networks such as PAFTAD and PBEC, though they remained confined to academic and business circles.<sup>21</sup> There are at least two important developments in Pacific regionalist ideas. First, while the original regionalist ideas were mostly oriented toward cooperation among advanced Pacific countries rather than cooperation between developed and less developed countries, there was a growing consensus by the late 1970s that developing countries, represented by ASEAN, should be incorporated into any proposed group in Asia and the Pacific. Second, while Kojima’s original PAFTA proposal in 1965 envisioned an EEC-type of institutional integration, a group of academics in the PAFTAD circle, including Kojima himself, abandoned the original proposal and modified it into a more loosely structured institutional arrangement modeled on the OECD. The PAFTAD

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<sup>17</sup> Sir John Crawford and Saburo Okita, *Australia, Japan and Western Pacific Economic Relations: A Report to the Governments of Australia and Japan* (Canberra: Australian Government Publishing Service, 1976).

<sup>18</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 52.

<sup>19</sup> For the official history of the PBEC, see Esme Marris and Malcolm Overland, *PBEC: The History of the Pacific Basin Economic Council, 1967 to 1997: Bridging the Pacific* (Honolulu: Pacific Basin Economic Council, 1997).

<sup>20</sup> Takashi Terada, "Nagano Shigeo: Business Leadership in the Asia Pacific Region and the Formation of the Pacific Basin Economic Council," *Australian Journal of Politics and History* 47, no. 4 (2001): 475-489. See also Peter Drysdale, "The Proposal for an Organization for Pacific Trade and Development Revisited," *Asian Survey* 23 (1983): 1294.

<sup>21</sup> Hadi Soesastro, "Institutional Aspects of Pacific Economic Cooperation," in Hadi Soesastro and Sung-joo Han, eds., *Pacific Economic Cooperation: The Next Phase* (Jakarta: CSIS, 1983), 3-52; Hadi Soesastro, "Pacific Economic Cooperation: The History of an Idea," in Ross Garnaut and Peter Drysdale, eds., *Asia Pacific Regionalism: Readings in International Economic Relations* (Pymble, Australia: Harper Educational, 1994), 77-88.

played a significant role in developing more realistic regionalist ideas, while forming a group of experts with similar interests. Yet the OPTAD concept did not gain much attention at the governmental level until the late 1970s, as discussed below.

#### **4.1.1 State Preferences Concerning Regionalism**

Having briefly outlined the origins of regionalist ideas and the formation of the two non-governmental forums in the Asia-Pacific region in the 1960s and 1970s, the following section examines governmental responses toward those regionalist ideas and the variation of preferences with regard to regional cooperation among relevant governments.

##### **4.1.1.1 Japan**

The Japanese government was the first to take an interest in Asia-Pacific regionalist schemes proposed by academics. The first official expression of Japanese interest in the idea of Asia-Pacific economic cooperation was Foreign Minister Takeo Miki's announcement of his "Asia-Pacific Policy" in 1967.<sup>22</sup> In his Diet speech in March, he stressed the importance of cooperation among Asia-Pacific countries. In May of that year, he further detailed his Asia-Pacific policy in the speech entitled "Asia-Pacific Diplomacy and Japan's Economic Cooperation." In this speech delivered at the *Keizai Doyukai* (Japan Committee for Economic Development), he highlighted four key points in his Asia-Pacific policy. The first point was the importance of developing a shared recognition among Asia-Pacific countries that the stability and prosperity of the region required cooperation among them. Second, he stressed the necessity of regional cooperation among Asian developing countries and Japan's role in providing financial, technological, and intellectual assistance to those countries. The third point was cooperation among the advanced Pacific countries. But he did not forget to highlight the importance of ensuring that the policy would not create a rich man's club or a closed bloc. Fourth, and most importantly, he called for a solution to the North-South problem in the Asia-Pacific region. He maintained that it was imperative for the "haves" of the Pacific to give

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<sup>22</sup> Before Miki became a foreign minister in December, 1966, he had since the late 1940s expressed his interest in the North-South problem in general and in reducing Asia's poverty in particular. See Terada, "The Origins of Japan's APEC Policy: Foreign Minister Takeo Miki's Asia-Pacific Policy and Current Implications," 340.

assistance to the “have-nots” of Asia. In this context, Miki suggested that Japan play an important role as a “bridge” between developing Asian countries and advanced Pacific nations.<sup>23</sup> Although this speech signaled the first official endorsement of a Pacific organization by the Japanese government, Miki’s Asia-Pacific policy did not lead to major policy initiatives while he was Foreign Minister. Nevertheless, as noted above, his support for Kojima’s PAFTA project and for the PAFTAD conference contributed to the subsequent development of Asia-Pacific cooperation ideas.<sup>24</sup>

In contrast to the active research at the private level, Japan’s official interest in the idea of Asia-Pacific cooperation remained dormant for a decade until Prime Minister Masayoshi Ohira came into office in 1978.<sup>25</sup> The 1970s witnessed many changes in the external environment, which posed serious challenges to the Japanese government. They include the decline of the U.S. hegemony as demonstrated by the defeat in the Vietnam War and the collapse of the Bretton Woods system, two oil shocks in 1973 and 1979 and the increasing concerns for securing natural resources, the rise of North-South tensions as represented by the New International Economic Order (NIEO) movement, the entry of China into the international scene, and the rising trade frictions as exemplified by U.S.-Japan negotiations over textiles. These challenges highlighted some of the recurring themes of post-war Japanese policy-making, including how to manage the supremely important bilateral relationship with the United States, especially in the face of shifting U.S. power and the resultant increasing pressure on Japan, how to improve Japan’s relationship with other Asian countries, and how to secure natural resources necessary for its economic prosperity.

Since the mid-1970s, the Japanese government’s interest in strengthening its relationship with other countries in the Asia-Pacific region grew with the recognition of the danger of

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<sup>23</sup> Ibid.: 342. While Miki put the North-South problem at the center of his concern, his approach to the issue was primarily the one from the North, emphasizing the role of the provision of aid and development assistance for developing countries in Asia by the advanced Pacific countries, including Japan. See also Terada, "Directional Leadership in Institution-Building: Japan's Approaches to ASEAN in the Establishment of PECC and APEC," 200; Mie Oba, *Ajia Taiheiyo Chiiki Keisei eno Dotei: Kyokai Kokka Nichigo no Aidentiti Mosaku to Chiiki Shugi [Journey to the Formation of the Asia-Pacific Region]* (Kyoto: Mineruvashobo, 2004), 209-210; Kikuchi, *APEC: Ajia Taiheiyo*, 65-66.

<sup>24</sup> Peter Drysdale, "An Organization for Pacific Trade, Aid and Development: Regional Arrangements and the Resource Trade," *Mineral Resources in the Pacific Area: Papers and Proceedings of the Ninth Pacific Trade and Development Conference Held in San Francisco, California, August 22-26, 1977* (San Francisco: Federal Reserve Bank of San Francisco, 1978), 618.

<sup>25</sup> Young Jong Choi, "Institutionalizing Asia and the Pacific: Interdependence, States and Institutional Preferences: Japan's Policy in a Comparative Perspective" (Ph.D. dissertation, University of Washington, 1998), 314.

excessive dependence on the United States, especially in response to two Nixon shocks in the early 1970s. The newly-elected Prime Minister Takeo Fukuda, in December 1976, placed a special emphasis on Japan's relations with the ASEAN countries. In reaction to the anti-Japanese demonstrations that Prime Minister Kakuei Tanaka's 1974 visit to Southeast Asia caused in the region, Prime Minister Fukuda announced Japan's policy toward Southeast Asia in 1977 in what is known as the Fukuda Doctrine, which stipulates that Japan will never seek to become a military power and that Japan will seek to establish its relationship with ASEAN as equal partners based on a "heart-to-heart" understanding.<sup>26</sup>

Against this backdrop, the next wave of governmental interest in Japan was driven by the elevation of Prime Minister Ohira in 1978. During his campaign for the Prime Ministership, Ohira frequently stressed the importance of cooperation among Pacific countries. Immediately after he came into office, Ohira established the Pacific Basin Cooperation Study Group (PBCSG) to seek ways to promote regional cooperation among Pacific countries. The study group, composed of Japanese bureaucrats, businesspeople, and academics, was headed by Saburo Okita until he was appointed Minister of Foreign Affairs in November 1979.<sup>27</sup> The interim report and the Final Report were submitted in November 1979 and in May 1980, respectively.<sup>28</sup>

The report included the most comprehensive issue areas including the promotion of cultural and educational exchanges, the development of transportation and communication in the region, a call for joint research for energy, food, and the exploitation of maritime resources, and the importance of developing cooperative and mutually supportive relations with the existing institutions in the region.<sup>29</sup> The broad approach endorsed in this study was not unrelated to the concept of "comprehensive security" advanced by the Ohira government. In the face of rising

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<sup>26</sup> For a detailed analysis of the Doctrine, see Suelo Suelo, *The Fukuda Doctrine and ASEAN : New Dimensions in Japanese Foreign Policy* (Singapore: Institute of Southeast Asian Studies, 1992).

<sup>27</sup> Woods, *Asia-Pacific Diplomacy*, 90; Soesastro, "ASEAN and the Political Economy of Pacific Cooperation," 5.

<sup>28</sup> The final report is included in *Ohira Sori no Seisakukenkyukai Hokokusho* [Reports of Prime Minister Ohira's Study Group] (*Jiyuminshuto Kohokuininkai Shupankyoku*: Tokyo, 1981). It is included also in United States. Congress. Joint Economic Committee., *Pacific Region Interdependencies : A Compendium of Papers* (Washington: U.S. G.P.O., 1981).

<sup>29</sup> Hoon-mok Chung, "Economic Integration in the Pacific Basin: A Historical Review," in Sung-joo Han, ed., *Community-Building in the Pacific Region: Issues and Opportunities* (Seoul, Korea: Asiatic Research Center Korea University, 1981), 17.

resource nationalism during the 1970s, the importance of “energy/resource security” was increasingly felt by the Japanese, whose country was endowed with few natural resources.<sup>30</sup>

Most importantly, the PBCSG developed the concept of “open regionalism” which became the fundamental principle upon which APEC was later founded.<sup>31</sup> The report by the study group states that “[a] regionalism that is open to the world, not one that is exclusive and closed, is the first characteristic of our concept.”<sup>32</sup> The Japanese governmental interest in the Pacific Basin Cooperation concept faded in the aftermath of the sudden death of Ohira in June 1980. Yet it has since become central to any conception of regionalist projects that the Japanese government has promoted.

The Japanese preference for open regionalism is not surprising because Japan traded on a global scale. The Japanese general support for an “Asia-Pacific” concept also makes sense for the combination of economic, political, and ideational reasons. Economically, Japan had close trade relationships with both sides of the Pacific. While the U.S. market proved most important for Japanese products, Southeast Asia became important for Japan as a source of raw materials and export markets (which compensated for the loss of China in the immediate post-war era). Politically, given the supremely important bilateral relationship with the United States, Southeast Asia became a natural place where Japan could seek some diplomatic autonomy vis-à-vis the United States through its economic diplomacy, while not deviating from U.S. core interests. In terms of identity, although clearly located in Asia, Japan was alienated from the other Asian countries because of its war atrocities and its infamous Greater East Asia Co-prosperity Concept. On the other hand, when Japan was accepted to the OECD in 1964 and became the only Asian industrial country, the Japanese felt isolated in the West-dominated organization. Thus, the Japanese government has long sought to strengthen its position both as a member of Asia and as a member of Pacific advanced countries at the same time. The concept of “Asia-Pacific” to combine both the Asian and Pacific regions was a solution to Japan’s search for its regional

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<sup>30</sup> The issue of energy/resource security was the theme in the Ninth PAFTAD conference held in San Francisco in 1978. For a Japanese perspective, see Kiyoshi Kojima, "Japan's Resource Security and Foreign Investment in the Pacific: A Case Study of Bilateral Devices between Advanced Countries," in Lawrence B. Krause and Hugh T. Patrick, eds., *Mineral Resources in the Pacific Area : Papers and Proceedings of the Ninth Pacific Trade and Development Conference Held in San Francisco, California, August 22-26, 1977* (San Francisco: Federal Reserve Bank of San Francisco, 1978).

<sup>31</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 54.

<sup>32</sup> Quoted in *Ibid.*

identity. Promoting the concept of Asia-Pacific, Japan worked to position itself as a bridge between Asian developing countries and Pacific advanced countries.

#### **4.1.1.2 Australia**

Just as Japan's initial interest in ideas of Pacific cooperation grew in response to the development of European integration, Australians became increasingly concerned about the loss of the European market and the consequent impact on their trade and economy as a result of the establishment of the European Economic Community (EEC) in 1958 and the European Free Trade Association (EFTA) in 1960.<sup>33</sup> To respond to the development of European integration since the late 1950s, Australia began to diversify its economic relationship by discovering new trading partners in Asia and the Pacific, with Japan at the top of the list.

In 1957, when the Treaty of Rome was signed to establish the EEC, Australia signed the Agreement on Commerce between Australia and Japan in order to expand its trade with Japan. In 1960, Australia agreed to the conditional export of iron ore, which had been prohibited since 1938. In 1963, Australia further removed the restriction of Australian iron ore exports, which provided a significant boost to the Japanese steel industry in particular and to the Japanese economy in general.<sup>34</sup> As a result, Australian trade with Japan expanded dramatically during the 1960s.

In 1961, the U.K. formally announced its intention to apply for full membership in the EEC. The establishment of European Common Agricultural Policy in 1962, and the prospect of the U.K. participation in the EEC, raised further concerns among the Australians for whom the European market was crucial for their exports of agricultural products.<sup>35</sup> Australia's response to these challenges was to intensify the development of new markets in Japan and other countries in the Asia-Pacific region.<sup>36</sup> In 1967, Japan became the largest importer of Australian goods, replacing the United Kingdom. Australian exports to Japan in relation to its total exports grew

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<sup>33</sup> The original members of the EEC were Germany, France, Italy, Belgium, Luxemburg, and the Netherlands, while those of the EFTA include the U.K., Austria, Denmark, Norway, Portugal, Sweden, and Switzerland.

<sup>34</sup> Terada, "Nagano Shigeo: Business Leadership in the Asia Pacific Region and the Formation of the Pacific Basin Economic Council," 473.

<sup>35</sup> The accession of the U.K. to the EEC did not materialize at this time, when General de Gaulle rejected its membership in 1963. See Mattli, *The Logic of Regional Integration: Europe and Beyond*, 84.

<sup>36</sup> Drysdale, "An Organization for Pacific Trade, Aid and Development: Regional Arrangements and the Resource Trade," 613.

from 4.0% in 1949/50, to 14.4% in 1959/60 and 25.0% in 1969/70, while its exports to the U.K. dropped from 39.4% to 11.8% during those two decades.<sup>37</sup>

However, the Australian government was relatively indifferent to the idea of Pacific cooperation when some Japanese politicians expressed their interest in the idea in the early 1960s.<sup>38</sup> Thus, Australian interests in the idea of Pacific cooperation were primarily led by academic and business leaders. Business leaders became strongly concerned about the development of the EEC, the prospect of the U.K. admission to the EEC, and its consequent removal of the Commonwealth preference system. In 1963, Australian and Japanese business leaders established the Australia-Japan Business cooperation Committee (AJBCC) in Australia and its counterpart, the Japan-Australia Business Committee (JABCC) in Japan to promote their bilateral commercial relations. In 1967, W.R.C. Anderson, Director of the Associated Chambers of Manufactures of Australia and Executive Director of AJBCC put forward a proposal to bring business leaders from the Pacific Basin countries together to discuss issues of mutual concern and interest, which resulted in the establishment of PBEC in 1967.<sup>39</sup> As noted earlier, Drysdale at the ANU was one of the earliest advocates for an OPTAD. His OPTAD proposal examined the costs and benefits of the Australian participation in PAFTA/OPTAD. These business and academic leaders led the way in promoting cooperation among Pacific countries and in developing the idea of Asia-Pacific cooperation from the late 1960s through the 1970s.

The period from the late 1960s and the early 1970s witnessed more challenges to Australia. In 1967, the U.K. announced its plan to gradually retreat its military forces east of Suez. In 1969, U.S. President Richard Nixon called for self-reliance in defense matters for Asian states in his speech that came to be known as the Guam Doctrine. These announcements increased uncertainty in regional security in the Southeast Asian region, which in turn challenged Australia's foreign policy in the region. In 1971, the U.S. announced its decision to end its commitment to convert U.S. dollars into gold. The end of the gold standard and the subsequent Smithsonian agreements resulted in a shift in the floating exchange rates system. This shift not only increased uncertainty in economic affairs, but also demonstrated the decline of U.S.

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<sup>37</sup> John Ravenhill, "Australia and APEC," in Vinod K. Aggarwal and Charles E. Morrison, eds., *Asia-Pacific Crossroads: Regime Creation and the Future of APEC* (New York: St. Martin's Press, 1998), 145.

<sup>38</sup> Oba, *Ajia Taiheiyo Chiiki Keisei eno Dotei: Kyokai Kokka Nichigo no Aidentiti Mosaku to Chiiki Shugi [Journey to the Formation of the Asia-Pacific Region]*, 161.

<sup>39</sup> Marris and Overland, *PBEC: The History of the Pacific Basin Economic Council, 1967 to 1997: Bridging the Pacific*, 2-3.

hegemony. Furthermore, the U.K. was finally admitted to the European Community (EC) in 1973, further reducing Australian exports to the United Kingdom.

Against this backdrop, the Labor government of Gough Whitlam (1972-1975) hastened to end Australia's involvement in the Vietnam War, endorsed the Zone of Peace, Freedom and Neutrality (ZOPFAN) proposal, and sought to improve Australia's relationship with ASEAN countries. Further, Whitlam proposed the establishment of a broader consultative grouping in Asia and the Pacific region, though he failed to elaborate the proposal in any detail.<sup>40</sup>

As discussed below, the 1979 meeting between the next Prime Minister Malcolm Fraser and the Japanese Prime Minister Ohira paved the way for starting the PECC process the following year. Nevertheless, his conservative Coalition government (1975-1983) was not that enthusiastic about establishing an intergovernmental forum in Asia and the Pacific that people in the OPTAD circle advocated.<sup>41</sup> Instead, Fraser was more interested in being active in the Commonwealth Heads of Government Regional Meeting (CHOGRM) which was brought into being through his own initiative.<sup>42</sup>

#### 4.1.1.3 United States

The traditional U.S. position favored a global multilateral trading forum over a regional one. Thus, in principle, the U.S. government generally employed a multilateral approach based on GATT to pursue trade and investment liberalization abroad. At the same time, in dealing with smaller countries in Asia, the U.S. government preferred a bilateral approach in order to maximize its negotiating leverage.<sup>43</sup> Given the U.S. preference for globalism, the earliest proposal for Pacific regional economic cooperation in the form of a Pacific Free Trade Area

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<sup>40</sup> John Ravenhill, "Adjusting to the ASEAN Way: Thirty Years of Australia's Relations with ASEAN," *The Pacific Review* 11, no. 2 (1998): 274.

<sup>41</sup> Oba, *Ajia Taiheiyo Chiiki Keisei eno Dotei: Kyokai Kokka Nichigo no Aidentiti Mosaku to Chiiki Shugi [Journey to the Formation of the Asia-Pacific Region]*, 230, 255. As Mie Oba points out, although the 1979 Drysdale/Patrick paper stressed that the OPTAD proposal has gained a measure of bipartisan support in Australia, the incumbent administration that time was not enthusiastic about the proposal. See Peter Drysdale and Hugh T. Patrick, *Evaluation of a Proposed Asian-Pacific Regional Economic Organisation* (Canberra: Australian National University, 1979), 30.

<sup>42</sup> The participants in the CHOGRM included leaders from the following twelve countries: Bangladesh, Sri Lanka, India, Singapore, Malaysia, Papua New Guinea, Tonga, Fiji, Republic of Nauru, Western Samoa, New Zealand, and Australia. See Oba, *Ajia Taiheiyo Chiiki Keisei eno Dotei: Kyokai Kokka Nichigo no Aidentiti Mosaku to Chiiki Shugi [Journey to the Formation of the Asia-Pacific Region]*, 230-237.

<sup>43</sup> Donald Crone, "The Politics of Emerging Pacific Cooperation," *Pacific Affairs* 65, no. 1 (1992): 74.

(PAFTA) proposed by Kojima in 1965 “was largely ignored by the United States.”<sup>44</sup> Participation in a regional preferential trading system was not consistent with the U.S. commitment to an open, multilateral, global trading system. Accordingly, the proposal “never attracted significant support in the United States for either economic or political reasons.”<sup>45</sup>

It was not until the late 1970s that Pacific regionalist ideas were taken up in American public policy discourse. A decade had passed since the original OPTAD was proposed by Kojima in 1968. In April 1978, the U.S. Senator John Glenn, Chair of the Subcommittee on East Asian and Pacific Affairs, Senate Committee on Foreign Relations, showed an interest in the Pacific economic cooperation concept and requested the Congressional Research Service (CRS) to conduct the feasibility study of a Pacific economic cooperation in April 1978. Commissioned by the CRS, Drysdale and Patrick undertook the study and examined the interest and participation of the United States in an OPTAD.

With the submission of the paper entitled *Evaluation of a Proposed Asian-Pacific Regional Economic Organization* in May 1979, the OPTAD idea was seriously considered in U.S. congressional circles for the first time.<sup>46</sup> The paper was prepared in response to “a new interest in the idea of a regional economic association among Asia-Pacific nations, especially with the elevation of Mr. Ohira to the Prime Ministership of Japan in November 1978.”<sup>47</sup> This new interest in a Pacific regional institution was partly inspired by a conference held in Shimoda, Japan in late 1977, which included discussions on the topic of regionalism in the context of problems in the U.S.-Japan economic relations.<sup>48</sup> Glenn, who participated in the Shimoda conference, followed Ohira’s frequent speeches during his election campaign in which he talked about his idea of Pan-Pacific Association.<sup>49</sup>

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<sup>44</sup> Mark Borthwick, "United States Policies Toward Pacific Cooperation," in Roy U. T. Kim and Hilary Conroy, eds., *New Tides in the Pacific: Pacific Basin Cooperation and the Big Four (Japan, PRC, USA, USSR)* (New York: Greenwood Press, 1987), 126.

<sup>45</sup> Drysdale and Patrick, *Evaluation of a Proposed Asian-Pacific Regional Economic Organisation*, 25.

<sup>46</sup> United States. Congress. House. Committee on Foreign Affairs. Subcommittee on Asian and Pacific Affairs., "The Pacific Community Idea: Hearings before the Subcommittee on Asian and Pacific Affairs of the Committee on Foreign Affairs, House of Representatives, Ninety-sixth Congress, first session, July 18, October 23 and 31, 1979," (Washington: U.S. Govt. Print. Off., 1979); United States. Congress. Joint Economic Committee., *Pacific Region Interdependencies : A Compendium of Papers*.

<sup>47</sup> Drysdale and Patrick, *Evaluation of a Proposed Asian-Pacific Regional Economic Organisation*, ii.

<sup>48</sup> Drysdale, *International Economic Pluralism: Economic Policy in East Asia and the Pacific*, 209, 225.

<sup>49</sup> Soesastro, "Institutional Aspects of Pacific Economic Cooperation," 5.

The revised Drysdale and Patrick's proposal called for the creation of an intergovernmental organization by concluding that the OPTAD would promote the U.S. interests as "a useful vehicle for the effective revitalization of the United States economic leadership in the Asian-Pacific region."<sup>50</sup> However, the Jimmy Carter administration did not support the proposal and remained mostly skeptical about the creation of a regional institution in the Asia-Pacific region. This U.S. stance did not change after the newly elected President Ronald Reagan came into power in 1981. Reagan was even more preoccupied with developments outside of the region as the renewed tension between the two camps of the Cold War intensified further.<sup>51</sup>

In summary, the U.S. government continued to reject regional approaches to Asia Pacific economic cooperation in favor of multilateral approaches on a global level and bilateral resolution of particular issues with specific countries in Asia.<sup>52</sup> While it was significant that the idea of Pacific cooperation entered policy discourses in the United States in the late 1970s, the proposal was not endorsed by the government. Skeptics within the government believed that regional approaches would undermine the U.S. global economic policy and unnecessarily constrain U.S. policy autonomy.

#### **4.1.1.4 ASEAN**

Most of the Southeast Asian countries, except Thailand which was never colonized, gained independence in the fifteen years after the end of World War II. Therefore, these nations had a strong preference for maintaining their newly-achieved national sovereignty. In the context of the Cold War, many countries in Southeast Asia, particularly Indonesia, pursued neutrality and nonalignment policies. When ASEAN was created in 1967, it was aimed at enhancing stability and security in the region by reducing tensions among the member nations and by keeping the communist forces outside.

Given the strong preference for regional autonomy, the idea of Pacific cooperation was largely ignored in ASEAN circles until the late 1970s. Government officials in the ASEAN countries took note of the Pacific cooperation idea only in 1978, when Japanese Prime Minister Ohira announced his Pacific Basin Cooperation Concept. Earlier proposals were generally

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<sup>50</sup> Drysdale and Patrick, *Evaluation of a Proposed Asian-Pacific Regional Economic Organisation*, 31.

<sup>51</sup> Borthwick, "United States Policies Toward Pacific Cooperation," 133.

<sup>52</sup> Patrick, "From PAFTAD to APEC: Economists Networks and Public Policymaking," 16.

viewed as reflecting only the interests of the advanced Pacific countries and their desire to dominate the region's economic development.<sup>53</sup>

Beginning in the late 1970s, however, government officials in ASEAN perceived an increased interest in the idea of Pacific cooperation among other countries in the Asia-Pacific, as represented by the U.S. Congressional report. However, government officials did not take the idea seriously enough to consider it at the governmental level. Instead, the Indonesian government, for example, suggested that at this stage it was most appropriate to study the idea at the non-governmental level to examine the pros and cons for ASEAN countries. Academics in research institutions, such as the Centre for Strategic International Studies (CSIS) in Indonesia, had been interested in the idea at least since 1979, when CSIS began to prepare the seminar on the topic of Asia-Pacific economic interdependence in the following year. The resulting report of this seminar suggested the desirability of establishing a loosely-structured non-governmental mechanism to facilitate consultations among its members on economic issues of mutual interest.<sup>54</sup> Meanwhile, Narongchai Akrasanee organized a study project in ESCAP on the topic of ASEAN and Pacific Economic Cooperation. The summary report of this project was presented at the second PECC meeting in Bangkok in June 1982, which was initiated by the Deputy Prime Minister of Thailand, Thanat Khoman, and organized by the Pacific Cooperation Committee (PCC) of Thailand.

Yet, ASEAN governments remained "reluctant to jump on the Pacific community bandwagon."<sup>55</sup> They were concerned that a wider regional grouping would dilute the identity and cohesion of ASEAN itself, which was formed in 1967 but which still lacked a strong foundation. Moreover, they were particularly afraid of the possibility that a new regional arrangement would be dominated by great powers in the region. Another reason for the reservations among ASEAN countries derived from their desire to safeguard "non-alignment" credentials, which might be undermined by joining a regional institution closely associated with the United States and Japan.<sup>56</sup> Given these concerns, the idea of Pacific cooperation was "hard

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<sup>53</sup> Jusuf Wanandi, "Pacific Economic Cooperation: An Indonesian View," *Asian Survey* 23, no. 12 (1983): 1271-1272. The author's comments here are on the Indonesian government, but it seems the same is largely true for officials in other ASEAN countries.

<sup>54</sup> *Ibid.*: 1273.

<sup>55</sup> Sung-joo Han, "The Politics of Pacific Cooperation," *Asian Survey* 23, no. 12 (1983): 1287.

<sup>56</sup> *Ibid.*: 1288.

to sell” among ASEAN countries.<sup>57</sup> Therefore, the reactions from ASEAN countries to the idea of Pacific cooperation were largely negative when the idea finally gained some attention. Writing in 1983 at the CSIS meeting in Thailand, Jusuf Wadandi aptly summarized the concerns among ASEAN countries about the Pacific cooperation idea as follows:

Many government circles in the ASEAN countries have reiterated the fact that (a) ASEAN itself remains their main preoccupation in view of the many tasks that still need to be tackled; (b) the idea of broader Pacific regional cooperation remains unclear as to its objectives, substance, membership, and leadership; and (c) the ASEAN governments themselves do not have the manpower and time to explore the idea further.<sup>58</sup>

Strong reservations among the ASEAN countries notwithstanding, by the late 1970s or early 1980s, there was a consensus among advocates of the Pacific cooperation idea that the participation of ASEAN was crucial.<sup>59</sup> Therefore, in the eyes of those advocates, the resistance by the ASEAN countries was a major obstacle for institution-building in the Pacific.<sup>60</sup>

#### **4.1.2 The Failure to Launch the OPTAD and the Formation of PECC**

Japanese Prime Minister Ohira’s official announcement of the idea of a Pacific Basin Cooperation Concept in 1978 and discussion of the OPTAD proposal within U.S. congressional circles in 1979 heralded “the beginning of a new era in the development of Pacific economic cooperation ideas.”<sup>61</sup> In the late 1970s and the early 1980s, the concept of Pacific cooperation was widely discussed in some governmental circles. Despite the momentum that the idea gained during this period, the proposal for creating an intergovernmental organization did not get off the ground. The outcome of interstate discussions on the Pacific cooperation concept during this period was the creation of an only semi-governmental forum in the form of PECC (Pacific Economic Cooperation Conference, later Council) in 1980. What explains the failure to launch an intergovernmental organization? How was the PECC established, instead?

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<sup>57</sup> Hadi Soesastro, "On the Pacific Community Idea in Indonesia," in Sung-joo Han, ed., *Community-Building in the Pacific Region: Issues and Opportunities* (Seoul, Korea: Asiatic Research Center Korea University, 1981), 362.

<sup>58</sup> Wanandi, "Pacific Economic Cooperation: An Indonesian View," 1272.

<sup>59</sup> Han, "The Politics of Pacific Cooperation," 1287. See also, United States. Congress. House. Committee on Foreign Affairs. Subcommittee on Asian and Pacific Affairs., "The Pacific Community Idea: Hearings before the Subcommittee on Asian and Pacific Affairs of the Committee on Foreign Affairs, House of Representatives, Ninety-sixth Congress, first session, July 18, October 23 and 31, 1979."

<sup>60</sup> Kahler, "Institution-Building in the Pacific," 21.

<sup>61</sup> Soesastro, "Pacific Economic Cooperation: The History of an Idea," 82; Woods, *Asia-Pacific Diplomacy*, 89.

The 1979 the Drysdale/Patrick paper reformulated the previous OPTAD proposal. While Kojima's original PAFTA/OPTAD proposals were largely motivated by *external events* such as the development of European regionalism, Drysdale and Patrick focused on *internal dynamics* by highlighting the growing economic interdependence in the Asia Pacific region and the consequent increasing need for creating institutional mechanisms.<sup>62</sup> They pointed to three factors that "gave a major impetus to the increased importance of the Pacific within the world economy and the growth of economic interdependence among the Asia-Pacific economies themselves." The first was the growth of Japan's economic power. Japan's development into the third largest economy in the world had an enormous impact on the Pacific economy. The second important factor was the remarkable trade and economic growth achieved by the developing economies of Northeast and Southeast Asia. This development was encouraged by the effect of Japan's trade and economic growth on regional trade growth and the shift towards the deliberate adoption of outward-looking trade-oriented industrialization strategies replacing the previous protectionist strategies. The third factor was the slowing-down of economic growth in Western Europe.<sup>63</sup> However, the U.S. administration remained skeptical about the OPTAD proposal. The U.S. adopted a passive position by treating ASEAN's response to the Pacific cooperation idea as a determinant in shaping the U.S. response.<sup>64</sup> Thus, the U.S. government took no initiative on the proposal.

As noted earlier, Japan's Prime Minister Ohira established the Pacific Basin Cooperation Study Group (PBCSG), which had its first meeting in March 1979. In May 1979, Prime Ministers Ohira and Malcom Fraser of Australia had a meeting at UNCTAD V in Manila, where they explored a vague concept of regional cooperation.<sup>65</sup> To further discuss the concept, Ohira visited Fraser in Australia in January 1980, accompanied by his new foreign minister Okita. This meeting between Ohira and Fraser led to the agreement between the two that they hold a seminar meeting to discuss the concept further. Given ASEAN's reservations on the Pacific Concept, they agreed that a non-governmental seminar was the proper first step for discussing

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<sup>62</sup> Soesastro, "ASEAN and the Political Economy of Pacific Cooperation," 1259-1262.

<sup>63</sup> Drysdale and Patrick, *Evaluation of a Proposed Asian-Pacific Regional Economic Organisation*, 6-7.

<sup>64</sup> Borthwick, "United States Policies Toward Pacific Cooperation," 133.

<sup>65</sup> Woods, *Asia-Pacific Diplomacy*, 90.

the Concept.<sup>66</sup> Following the Ohira-Fraser agreement, Foreign Minister Okita asked his old friend Sir John Crawford, who was Chancellor of the Australian National University, if he would be willing to host a seminar to explore the Pacific Community idea. Crawford agreed to hold the seminar on the conditions that both Australian and Japanese governments defer the decision on the seminar's participants, agendas, and modality to him and that they both support the seminar.<sup>67</sup>

Prior to the seminar, in March 1980, the Japanese government dispatched Kiyohisa Mikanagi, former ambassador to the Philippines, to five ASEAN countries to explain the Pacific Concept and elicit support from ASEAN's support. Although Singapore, the Philippines, and Thailand gave positive responses, Indonesia and Malaysia responded cautiously, reserving their judgment.<sup>68</sup> In response to the skeptical attitudes of some ASEAN countries, both Australian and Japanese governments confirmed that it would be premature to establish an intergovernmental organization. Yet, the seminar chairman, Crawford, insisted on the importance of governmental involvement in the seminar.<sup>69</sup>

Accordingly, the Pacific Community Seminar was held in Canberra in September 1980, inviting not only academics and business leaders, but also government officials in their private capacity. Although it was not clear at this moment whether a similar conference would be held in the following years, the Canberra Seminar became known as the first PECC meeting. The PECC was subsequently held in every one and a half year, retaining a unique tripartite composition. Its original national member committees represented the following economies: Australia, Canada, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Thailand, the United States, and the Pacific Islands. In addition to these member committees, PBEC and PAFTAD also participated in PECC as institutional members, though as such they had no vote on the standing committee.

Although the Canberra meeting witnessed considerable reservations among members, especially from ASEAN, a consensus emerged around the following principles:

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<sup>66</sup> Terada, "Directional Leadership in Institution-Building: Japan's Approaches to ASEAN in the Establishment of PECC and APEC," 206.

<sup>67</sup> Kikuchi, *APEC: Ajia Taiheiyo*, 122.

<sup>68</sup> Terada, "Directional Leadership in Institution-Building: Japan's Approaches to ASEAN in the Establishment of PECC and APEC," 206.

<sup>69</sup> *Ibid.*: 207.

- the need to avoid military and security issues in order to create a sense of community without creating a sense of threat;
- that an EEC-type discriminatory trading arrangement is not an appropriate form of economic cooperation in the Pacific;
- the need to “hasten slowly,” and to proceed towards long-term goals step by step;
- the need to ensure that any new wider regional mechanism is complementary with the existing bilateral, regional, and global arrangements and that it does not undermine them;
- the need to ensure that it is an outward-looking arrangement;
- the need for an “organic approach,” building upon the existing non-governmental arrangements in the Pacific;
- the need to involve academics, business leaders, and government officials jointly in this co-operative effort;
- the need to avoid unnecessary bureaucratization;
- the need for a fairly loose, and as far as possible, non-institutionalized structure;
- the need for all members to be placed on an equal footing;
- the need to concentrate attention on areas of mutual interests.<sup>70</sup>

These principles highlighted in the so-called Canberra consensus were closer to those recommended by the Japanese study group organized than was the OPTAD proposal in the PAFTAD circles. The Canberra seminar shifted discussions over Pacific economic cooperation ideas from “what is *desirable*” to “what is *feasible*.”<sup>71</sup> Therefore, the participants in the seminar put forward a modest, more practical approach, taking into consideration the disparity in levels of economic development in the region and the political sensitivities involved.

Based on this Canberra consensus, Crawford, the chair of the seminar, sent a report to all governments represented at the meeting. However, none of those governments, even the Japanese government, gave him any official response.<sup>72</sup> Not surprisingly, ASEAN governments were most skeptical of the proposal. For example, Indonesian Foreign Minister Mochtar Kusumaatmadia refused to offer any official response on the grounds that the contents of the

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<sup>70</sup> Sir John Crawford and Greg F. H. Seow, eds., *Pacific Economic Co-operation: Suggestions for Action* (Singapore: Heinemann Asia for the Pacific Community Seminar, 1981). See also Soesastro, "Institutional Aspects of Pacific Economic Cooperation," 35-37.

<sup>71</sup> Kikuchi, *APEC: Ajia Taiheiyo*, 135. Emphasis added. By the early 1980s, the distinction between desirability and feasibility became common in the discussions over the Pacific cooperation idea. Sung-joo Han pointed out in 1981 that the debates so far had been focusing more on the desirability while the feasibility aspect of the concept had received much less attention. Sung-joo Han, "Political Conditions of Regional Integration: Theoretical and Practical Considerations," in Sung-joo Han, ed., *Community-Building in the Pacific Region: Issues and Opportunities* (Seoul, Korea: Asiatic Research Center Korea University, 1981), 160. See also Soesastro, "Pacific Economic Cooperation: The History of an Idea," 83.

<sup>72</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 55.

proposed Pacific cooperation were unclear.<sup>73</sup> As Stuart Harris argues, it was ironic that the vagueness deliberately embraced in the outcome of the Canberra seminar, generated out of the concerns of the ASEAN countries in particular, increased ASEAN's skepticism about hidden motivations of the developed countries.<sup>74</sup>

#### **4.1.3 Explaining the Failure to Launch the OPTAD**

Why and how did the OPTAD proposal fail to get off the ground in the late 1970s and the early 1980s, despite the fact that it finally caught attention from most relevant governments? The preceding discussion has shown that some regional governments, especially Japan and Australia, recognized the demand for creating an intergovernmental body. Meanwhile, the U.S. administration remained largely unenthusiastic about the idea. Moreover, some ASEAN countries remained extremely cautious about the proposal because of the fear of domination, especially in the context of the Cold War great power rivalry. In other words, there was a strong "negative demand" for an Asia-Pacific regionalist scheme in favor of strengthening ASEAN's solidity. By this time, however, advocates of Pacific economic cooperation had concluded that the ASEAN's involvement in the proposed intergovernmental process would be necessary. Consequently, ASEAN's resistance to the creation of an intergovernmental institution proved a major obstacle for launching an Asia-Pacific regionalist project.

Given ASEAN's reservations about the idea of Pacific cooperation, no government was willing to take the initiative to establish an intergovernmental institution. The reluctant U.S. government only suggested that the creation of such an institution would be predicated on acceptance by ASEAN countries. Japan's Ohira and Australia's Fraser took a joint initiative to create PECC, a semi-governmental organization, instead. Although it was significant that the PECC process incorporated government officials, the PECC was essentially non-governmental, because government officials participated only in their private capacity. Unfortunately, Ohira suddenly passed away from a heart attack in June 1980 before the PECC meeting was held. Unlike Ohira, his successor, Zenko Suzuki, was not interested in the Pacific Basin Concept.

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<sup>73</sup> Kikuchi, *APEC: Ajia Taiheiyo*, 145. See also Soesastro, "Institutional Aspects of Pacific Economic Cooperation," 10.

<sup>74</sup> Harris, "Policy Networks and Economic Cooperation: Policy Coordination in the Asia-Pacific Region," 383. See also Kikuchi, *APEC: Ajia Taiheiyo*, 144.

Moreover, MOFA officials were not that enthusiastic about Ohira's Pacific Concept.<sup>75</sup> They were particularly concerned that the Japanese initiative in Asia would raise ASEAN's suspicions about Japan's ambitions for regional hegemony, given the latter's historical legacy and its growing economic clout.

In short, neither demand nor supply conditions were met at this time. On the demand side, the growing recognition of the need for an intergovernmental process among the Japanese and Australian governments was outweighed by the existence of strong resistance (or "negative demand") by the ASEAN governments. On the supply side, although there were ample regionalist ideas that were mostly developed by non-governmental actors, there was no political leadership to act on those ideas.

## 4.2 THE FORMATION OF APEC

While earlier Asia-Pacific regionalist proposals did not materialize, why was the APEC initiative successfully launched in 1989? The ensuing section explores both the demand- and supply-conditions that resulted in the formation of APEC in turn. It will be argued that the late 1980s witnessed the convergence of different factors conducive to the formation of regionalism, including the politically-driven demand for a regionalist project and the supply of political leadership which assumed the "costs of organizing" by proposing a regionalist initiative, mobilizing support, and brokering compromises.

### 4.2.1 Why Create an Asia-Pacific Institution?

The following section assesses the configuration of state preferences concerning regionalism among key governments, including Japan, Australia, the United States, ASEAN members, in the latter half of the 1980s. It also examines what underlies the divergent preferences among relevant governments.

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<sup>75</sup> Terada, "Directional Leadership in Institution-Building: Japan's Approaches to ASEAN in the Establishment of PECC and APEC," 207-208; Oba, *Ajia Taiheiyo Chiiki Keisei eno Dotei: Kyokai Kokka Nichigo no Aidentiti Mosaku to Chiiki Shugi [Journey to the Formation of the Asia-Pacific Region]*, 276.

#### 4.2.1.1 Japan

As discussed earlier, Japan has been central to the development of the Asia-Pacific concept. The late 1980s witnessed a renewed interest within the Japanese government in the idea of an Asia-Pacific intergovernmental forum. In contrast to the previous time which was characterized by politicians' strong personal commitment to the idea, this time the idea was taken up by bureaucrats in the Ministry of International Trade and Industry (MITI). The MITI's new interest in a regionalist approach was directly triggered by the move of the U.S. to consider a bilateral free trade agreement between the United States and Japan.

In response to the growing trade frictions between the United States and Japan, the United States had put increasing pressure on Japan, through bilateral negotiations, to open its market. Further, the unilateral tendency in the U.S. policy was most explicitly demonstrated by the U.S. threat of using the Super-301 authority of the amendment introduced in the 1988 trade bill. To respond to these challenges, Japan was motivated to use a multilateral arrangement to hedge against the increasing U.S. pressures in the bilateral negotiations.<sup>76</sup> Moreover, in the face of the decline of the U.S. hegemony, the Japanese were increasingly worried about the impact of an eventual drop in the absorption capacity of the U.S. market on the region's export-oriented economies.<sup>77</sup>

In February 1988, an informal study group for Asia Pacific Trade Development was formed within MITI. The group submitted an internal report in June 1988, calling for the creation of an Asia-Pacific forum. The MITI report identified the following three factors that promoted MITI to propose regional economic cooperation: 1) the growth of regionalism in North America and Europe (the conclusion of the U.S.-Canada Free Trade Agreement in January 1988 and the EC's move toward the Single European Market in 1992); 2) the rapid growth of Asia Pacific economies that could disturb the current world economic order; and 3) the proliferation of many proposals, such as a U.S.-ASEAN free trade zone, a U.S.-Japan trade agreement, and an Asia Pacific OECD.<sup>78</sup>

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<sup>76</sup> *Nihon Keizai Shimbun*, May 11, 1989, p. 1; For the use of a multilateral approach as a hedge against the hegemony's behavior, see Bobrow, "Hegemony Management: The US in the Asia-Pacific," 177.

<sup>77</sup> Charles Smith, "The Backroom Boys: Japanese Supportive But Wary of the Limelight," *Far Eastern Economic Review* 146, November 16, 1989, p. 11.

<sup>78</sup> MITI, *Aratanaru Ajia Taiheiyo Kyoryoku o Motomete [Toward New Asia-Pacific Cooperation]* (Tokyo: MITI, 1988), 2. Quoted in Terada, "The Genesis of APEC: Australia-Japan Political Initiatives," 15.

The increasing Japan's demand for Asia-Pacific economic cooperation in the late 1980s was based on a combination of political, economic, and ideational motivations.<sup>79</sup> Politically, in the face of increasing U.S. unilateral tendency and bilateral pressures, the Japanese preferred a multilateral approach to dealing with the United States. In envisioning an Asia-Pacific regional institution that would include the United States as a member, the Japanese expected that it would constrain U.S. unilateralism in a multilateral setting where many Asian countries with similar concerns over U.S. policies. Such an approach would maximize their bargaining leverage vis-à-vis the United States. Economically, given the growing trade and investment relationship between Japan and Southeast Asian countries within the context of the continued importance of the U.S. market, Asia-Pacific economic cooperation made perfect sense. In terms of Japan's search for a regional identity, the Asia-Pacific concept provided Japan with a solution for avoiding the unwanted choice between the West and Asia. To sum up, although Tokyo's interest in the Asia-Pacific concept reflected Japan's long search for its own identity between Asia and the West as well as its economic interest to further enhance regional market activities and to secure market access on both sides of the Pacific, what became a direct trigger for the MITI's proposal was the political incentives to hedge against the rise of U.S. unilateralism and to counter the growth of regionalism in North America and Europe.

#### **4.2.1.2 Australia**

It was not until 1983, when Prime Minister Bob Hawke from the Labor Party came into office, that the Australian government started to pursue an overt "push into Asia" in its search for a community.<sup>80</sup> Immediately after he came into office in March 1983, Hawke expressed his intention to strengthen Australian relationship with countries in the Asia-Pacific on several occasions. In November 1983, in his speech before the Australia-Thai Chamber of Commerce in

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<sup>79</sup> However, the demand for a regional institution was not shared by all Japanese policy elites. Most importantly, the Ministry of Foreign Affairs (MOFA) feared that MITI's proposal would "arouse suspicion in Asia that Japan was trying to revive the Greater East Asian Co-Prosperty Sphere using its economic power and Asia would not accept it." See Terada, "The Genesis of APEC: Australia-Japan Political Initiatives," 25. The divergence of preferences within the Japanese government, especially between MITI and MOFA continued to be a nagging problem for formulating a coherent policy. This lack of coherence sent mixed signals that confused other countries in the region.

<sup>80</sup> Richard A. Higgott and Kim Richard Nossal, "Australia and the Search for a Security Community in the 1990s," in Emanuel Adler and Michael N. Barnett, eds., *Security Communities* (Cambridge: Cambridge University Press, 1998). See also Heribert Dieter, "APEC, Australia and New Zealand: Pathways to Asia?," in Jürgen Rüländ, Eva Manske, and Werner Draguhn, eds., *Asia-Pacific Economic Cooperation (APEC): The First Decade* (London: RoutledgeCurzon, 2002), 142.

Bangkok, Hawke proposed the creation of a regional economic association, underscoring his government's commitment to the Asia-Pacific region.<sup>81</sup>

Just as Japan often found itself awkwardly positioned between the Western advanced countries and other Asian countries, Australia “sits uneasily between two worlds” – between the Anglo-American world of Australia's nineteenth-century origins and twentieth-century development and the new world of an Asian “neighborhood.”<sup>82</sup> Hawke's attempt to redefine Australian identity more with Asia and away from the old European orientation reflected his search for an appropriate regional identity. This so-called “Asianization” of Australia in its search for a regional identity, however, was not unrelated to the Australian desire to strengthen its relationship with the fast-growing economies in Asia.

In the early 1980s, economic crises afflicted those economies that depended heavily on commodity exports, including Australia, New Zealand, and Canada. In order to help the Australian economy recover, the Hawke administration was required to undertake major domestic economic reforms. The appointment of Ross Garnaut, an economist at the ANU, as Hawke's economic policy advisor was important for this purpose. Partly based on Garnaut's advice, the Hawke administration implemented economic reforms, including the deregulation of financial and foreign exchange markets, liberalization of foreign investment policy, and the reduction of company taxes. Most importantly, the Hawke government reduced the level of tariff protection to the Australian manufacturing industry by a third.<sup>83</sup> The reduction of tariff levels had been initiated by the Whitlam Labor government. However, the liberalization process was largely stalled during the conservative Fraser government.<sup>84</sup> In principle, the Labor government adopted the teaching of neoclassical economics, replacing the Keynesian consensus that had been dominant among Australian bureaucrats for much of the postwar period.

The need for economic reform intensified in the mid-1980s. A sharply rising current account deficit and a steep fall of the Australian dollar prompted then-Treasurer Paul Keating to warn that the country was slipping into the status of a “banana republic” unless tough measures

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<sup>81</sup> Terada, "The Genesis of APEC: Australia-Japan Political Initiatives," 9; Oba, *Ajia Taiheiyo Chiiki Keisei eno Dotei: Kyokai Kokka Nichigo no Aidentiti Mosaku to Chiiki Shugi [Journey to the Formation of the Asia-Pacific Region]*, 329-330.

<sup>82</sup> Higgott and Nossal, "Australia and the Search for a Security Community in the 1990s," 265-266.

<sup>83</sup> Terada, "The Genesis of APEC: Australia-Japan Political Initiatives," 9.

<sup>84</sup> Ravenhill, "Australia and APEC," 145.

were taken immediately.<sup>85</sup> Australia's external debts rose at an alarming rate as its terms of trade deteriorated with the decline of world markets for primary products. As a country whose foreign earnings derived largely from a few primary commodities with little value added, such as agricultural and mineral products, the future of the Australian economy looked grim.<sup>86</sup>

The late 1980s added a further challenge to the Australian economy, as the prospect of the fragmentation of the global economy was increasingly perceived, especially by Keating.<sup>87</sup> In North America, the Canada-United States Free Trade Agreement was signed in 1987, while negotiation of the Single Internal Market arrangements for 1992 proceeded in Europe. The fear of being marginalized in a world of trading blocs from whose membership Australia would be excluded was certainly the motive behind Hawke's APEC initiative in the beginning of 1989.<sup>88</sup> Meanwhile, Australia was increasingly frustrated with GATT negotiations, where the issue of liberalization of agricultural products was not gaining enough attention. Disputes over agricultural trade with the United States had prompted Canberra to take the lead in organizing the Cairns group at the outset of the Uruguay Round to increase the collective bargaining power among countries committed to the liberalization of agricultural trade.<sup>89</sup> The fact that the initial Hawke proposal did not include the United States apparently signaled his government's desire to create "a new source of leverage against Washington."<sup>90</sup>

Together, the slow progress in the Uruguay Round, the growth of regionalism in other parts of the region, and the increasing U.S. tendency to resort to unilateralism all contributed to Australian motivations to seek a multilateral approach with countries in the Asia-Pacific.<sup>91</sup> Thus, these external developments in the late 1980s became a major trigger for Hawke's APEC initiative. However, the initiative also reflected long-term themes in Australian foreign policy, including its goals of securing market access after the loss of its market in Europe and of seeking

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<sup>85</sup> "Banana Skins In Australia," *Financial Times*, May 5, 1986, p. 20; Emilia Tagaza, "Advantage Howard As Hawke Faces the Shots," *Financial Times*, June 11, 1986, p. 3.

<sup>86</sup> *Financial Times*, June 5, 1986, p. VIII.

<sup>87</sup> Dieter, "APEC, Australia and New Zealand: Pathways to Asia?," 143.

<sup>88</sup> Ibid; Ravenhill, "Australia and APEC," 149-150; Crone, "The Politics of Emerging Pacific Cooperation," 72; Crone, "Does Hegemony Matter? The Reorganization of the Pacific Political Economy," 520.

<sup>89</sup> Higgott and Nossal, "Australia and the Search for a Security Community in the 1990s," 269-270. For a detailed analysis of the formation of the Cairns group, see Richard A. Higgott and Andrew F. Cooper, "Middle Power Leadership and Coalition Building: Australia, the Cairns Group, and the Uruguay Round of Trade Negotiations," *International Organization* 44, no. 4 (1990).

<sup>90</sup> James Cotton and John Ravenhill, "Australia's 'Engagement with Asia'," in James Cotton and John Ravenhill, eds., *Seeking Asian Engagement: Australia in World Affairs, 1991-95* (Melbourne: Oxford University Press, 1997), 7.

<sup>91</sup> Ravenhill, "Australia and APEC," 147.

a regional identity in search of community, with the fear of being left alone. Therefore, the idea of Asia-Pacific cooperation comfortably found its way into the Australian policy initiative in response to both the immediate causes and the Australian long-term search for its place in the world.

As discussed above, Australian interest in the idea of Pacific cooperation was advanced first by business leaders and academics from the late 1960s on. The APEC initiative taken by the Hawke government was largely consistent with ideas promoted by PAFTAD and PECC circles. Australia was home to many influential people who were involved in those communities that had been developing and promoting the idea of Pacific cooperation for a long time. Many of these individuals became directly involved in the government as well. The group included: Stuart Harris, former secretary of the Department of Foreign Affairs and Trade (DFAT) and head of the Northeast Asia Program at the Australian National University; Andrew Elek, who accompanied Hawke's trip to Seoul, and was the head of the Economic and Trade Division within DFAT and an economist in the Research School of Pacific Studies at the ANU; Ross Garnaut, who became Hawke's chief economic policy advisor, and was a professor of economics in the same Research School at the ANU; and Peter Drysdale, head of the Australia-Japan Research Centre at the ANU who long collaborated with Japanese academics close to the Japanese government. As John Ravenhill concludes, "[t]heir views were influential in the trade policy bureaucracy and shaped Australian attitudes on the form that APEC should take and the role it should play."<sup>92</sup>

As in the case of Japan, Australian interest in the Asia-Pacific regionalist idea was based on the long-term themes in Australian foreign policy, including economic interests in securing market access after the loss of the European market and the search for a new regional identity independent of the nation's European heritage. However, the major impetus for Hawke's APEC initiative came from political challenges arising from a set of external developments in the late 1980s.

#### **4.2.1.3 The United States**

Since the U.S. government continued to favor its traditional preference for globalism in principle and bilateralism in dealing with Asian countries, U.S. policymakers did not think of a

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<sup>92</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 105.

regionalist option as a particularly attractive approach. However, the U.S. government came to accept a regionalist approach at the end of the 1980s. Why did they become more receptive to an Asia-Pacific regionalist idea?

In the mid-1980s, U.S. growing trade deficits with Asian countries became one of the central issues in its economic policy. As a result, the U.S. interest in Pacific cooperation began to emerge, viewing it as “a means of reducing the growing trade frictions that had accompanied expansion of Pacific commerce.”<sup>93</sup> The growing economies in the NIES and ASEAN countries even prompted Under Secretary of State for Political Affairs Lawrence Eagleburger to forecast a “shift in the center of gravity of U.S. foreign policy interests from the transatlantic relationship toward the Pacific Basin and particularly Japan.”<sup>94</sup>

In the meantime, the Uruguay Round of the GATT negotiations, started in 1986, got stalemated, especially in the face of European resistance. Consequently, U.S. officials found regional cooperation in the Asia-Pacific to be a means to induce European concessions at the round. In face of the difficulty in reaching an agreement on trade liberalization, the United States started to consider a regional approach as an alternative to its long-standing position which favored global multilateralism. The U.S. concluded a free trade agreement with Canada in 1988 and started to discuss possible free trade agreements with other countries, including Japan and ASEAN.

Against this background, several proposals for a regional strategy toward the Pacific region were advanced in mid-1988 and early 1989. In July 1988, Secretary of State George Shultz, under the second Reagan administration, proposed the creation of an intergovernmental mechanism for economic cooperation in the Pacific region. In his speech before the Association of Indonesia Economists in Jakarta, Schultz proposed a “Pacific Basin forum where like-minded countries could compare experiences, discuss ideas, and prepare analyses on subjects that are of interest to most countries in the region.”<sup>95</sup> In December 1988, Senator Bill Bradley called for a coalition of eight Pacific Rim countries (PAC-8) to reinforce the Uruguay Round at GATT, promote policy coordination, and remove barriers to economic growth in less developed

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<sup>93</sup> Borthwick, "United States Policies Toward Pacific Cooperation," 134.

<sup>94</sup> *Ibid.*, 135.

<sup>95</sup> Address Before the Association of Indonesian Economists, Jakarta, July 1997, 1988. George P. Shultz, "U.S. Policy in East Asia and the Pacific," Selected Document, No. 30, pp. 5-9.

countries.<sup>96</sup> In April 1989, Senator Alan Cranston introduced a resolution that called for the establishment of annual summit meetings to promote economic and military cooperation in the region.<sup>97</sup>

The increasing interest in the creation of a Pacific economic arrangement was shared and supported by many prominent academics as well as by some Pacific-oriented business leaders who had been participating in non-governmental organizations such as PECC. Yet the U.S. government took no formal initiatives to respond to these calls for the establishment of an intergovernmental institution in the Pacific.<sup>98</sup>

When Hawke's initiative was announced in January 1989, the U.S. reaction was "restrained – if not skeptical," partly because Bush had been in office barely two weeks.<sup>99</sup> It was not until Baker's speech that the Bush administration officially endorsed the Asia-Pacific cooperation idea. On June 26, 1989, Secretary of State James Baker in his speech to the Asia Society in New York argued that "the need for a new mechanism for multilateral cooperation among the nations of the Pacific Rim is *an idea whose time has come*." Baker highlighted three points. First, a new mechanism should cover a wide range of issues from trade and economic affairs to issues such as cultural exchange and the protection of the Pacific region's natural resources. For that purpose, each government should act according to its resources and capabilities based on what President George W. Bush called "creative responsibility-sharing." Second, any region-wide institution in the Pacific should be an "inclusive entity" that would promote trade and investment and that should be consistent with existing institutions such as the GATT, the OECD, and ASEAN. Third, a pan-Pacific arrangement should "recognize the diversity of social and economic systems and differing levels of development in the region."<sup>100</sup> This speech signaled a major change in the U.S. attitude toward a regional multilateral approach

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<sup>96</sup> In explaining his PAC-8 proposal, Senator Bill Bradley stressed that the largest deficit lies in the Pacific. *Nihon Keizai Shimbun*, May 11, 1989, p. 1. The membership of Bradley's proposed group would include Australia, Canada, Japan, Republic of Korea, Mexico, the Philippines, Thailand, and the United States.

<sup>97</sup> Ravenhill, "Australia and APEC," 163. See also "The Promise of Pacific Economic Cooperation," statement by Assistant Secretary of State Richard Solomon before the Senate Foreign Relations Committee on September 21, 1989 (Lexis/Nexis).

<sup>98</sup> Richard W. Baker, "The United States and APEC Regime Building," in Vinod K. Aggarwal and Charles E. Morrison, eds., *Asia-Pacific Crossroads: Regime Creation and the Future of APEC* (New York: St. Martin's Press, 1998), 168.

<sup>99</sup> *Ibid.*

<sup>100</sup> "A New Pacific Partnership: Framework for the Future," address by Secretary of State James Baker to the Asia Society, New York, June 20, 1989, U.S. State Department, emphasis added.

by dropping the previous position that viewed the creation of a regional institution as a solution in search of a problem.

This shift in U.S. policy was motivated by three reasons. First, U.S. officials started to view an Asia-Pacific regional arrangement as a vehicle for reducing the growing trade deficits especially with countries in Asia. Second, the stalemate of the GATT negotiations prompted U.S. policymakers to actively seek an alternative approach to achieve trade liberalization, which dropped the traditional commitment to avoid any regional arrangements. Also, the U.S. government viewed cooperation with other countries in the Asia-Pacific as a means to increase its bargaining leverage vis-à-vis Europe in global multilateral negotiations. Finally, U.S. policymakers were increasingly concerned about securing its market access in the fastest growing economies in Asia.<sup>101</sup> As implied in the initial Hawke proposal which did not include the United States, “the prospect of being left out and of being the target of such a bloc” apparently contributed to the U.S. change in favor of Asia-Pacific economic cooperation.<sup>102</sup>

#### **4.2.1.4 ASEAN**

Throughout the 1980s, ASEAN members remained largely suspicious about the creation of a wider regional institution of which ASEAN would be a part. However, ASEAN finally agreed to participate in an Asia-Pacific regional forum proposed by Australia in 1989. What changed the attitudes of ASEAN leaders?

ASEAN’s eventual agreement to participate in the Asia-Pacific regional scheme can be attributed to external changes in the world economy and the resultant modification of their economic policies. First, as in the case of Australia, New Zealand, and Canada, most countries in ASEAN were afflicted by the economic crises that hit commodity exporters in the first half of the 1980s. As a result, ASEAN countries were under pressure to take major steps toward domestic economic liberalization. Meanwhile, the rapid economic growth demonstrated by the NIES, which had employed an export-led economic strategy since the mid-1960s, had a demonstrable effect on ASEAN’s development strategy. Partly driven by the collapse of oil and commodity prices from 1982 to 1986, and partly because of the successful model of the NIES in their neighborhood, the ASEAN countries embarked upon successive policies of deregulation,

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<sup>101</sup> Baker, "The United States and APEC Regime Building," 171.

<sup>102</sup> Crone, "Does Hegemony Matter? The Reorganization of the Pacific Political Economy," 520.

liberalization, and reforms.<sup>103</sup> The crises provided a window of opportunity for pro-liberalization reformers in the countries.<sup>104</sup> As a consequence, as John Ravenhill argues, economic liberalization policies implemented in these countries “removed some of the obstacles that had previously stood in the way of regional economic collaboration.”<sup>105</sup>

Second, the shift in economic policy in the 1980s in ASEAN countries led to a major change in the composition of their exports. By the end of the 1980s, the share of manufacturing in total exports rose to more than half the total export earnings of Malaysia, Singapore, and Thailand, and more than a third of those of the Philippines and Indonesia.<sup>106</sup> The rise of the share of manufacturing in these economies served to reduce the reluctance of ASEAN governments toward the establishment of a regional economic institution backed by the more internationally-oriented sectors which had become more confident in their competitiveness in the world economy.

As a result of these changes, by the end of the 1980s, the ASEAN countries had experienced a cognitive shift in terms of their relations with external regions as well as a major shift in their economic policies. As Amitav Acharya argues, during the first wave of regionalism in the 1950s and 1960s, “many countries in the developing world saw collective self-reliance through regional cooperation as an important way of countering Western dominance.”<sup>107</sup> ASEAN was no exception. Like other regionalist projects in the developing countries, ASEAN sought to increase “regional autonomy and self-reliance.”<sup>108</sup> However, the acceleration of neo-liberal economic policies in the age of globalization since the 1980s undermined these regional norms. Consequently, instead of using regional institutions to reduce dependency, policy elites in developing countries have started to view them as devices to strengthen their participation in the global economy.<sup>109</sup>

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<sup>103</sup> Tan Kong Yam, Toh Mun Heng, and Linda Low, "ASEAN and Pacific Economic Co-operation," *ASEAN Economic Bulletin* 8, no. 3 (1992): 313.

<sup>104</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 66-72; John Ravenhill, "Institutional Evolution at the Trans-Regional Level: APEC and the Promotion of Liberalization," in Mark Beeson, ed., *Reconfiguring East Asia: Regional Institutions and Organizations after the Crisis* (London: RoutledgeCurzon, 2002), 232; Richard Stubbs, "Signing on to Liberalization: AFTA and the Politics of Regional Economic Cooperation," *The Pacific Review* 13, no. 2 (2000): 301.

<sup>105</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 71.

<sup>106</sup> *Ibid.*, 76. See also Yam, Heng, and Low, "ASEAN and Pacific Economic Co-operation," 315.

<sup>107</sup> Acharya, "Regionalism: The Meso Public Domain in Latin America and South-East Asia," 296.

<sup>108</sup> *Ibid.*

<sup>109</sup> *Ibid.*; Bowles, "ASEAN, AFTA, and the 'New Regionalism'," 225.

ASEAN has largely dropped discourses informed by the dependency school of thought and has adopted an export- and foreign investment-led industrialization strategy, replacing its previous import-substitution economic policy.<sup>110</sup> Ravenhill suggests that existing non-governmental regional institutions such as PAFTAD, PBEC, and PECC have contributed to “transforming the debate about regionalism in the Asia Pacific away from the dependency theory rhetoric of North-South confrontation towards notions of interdependence.”<sup>111</sup> Although the fear of domination by greater powers has remained in the minds of ASEAN policy elites, they have become more aware of the need to establish stronger ties with external powers, as demonstrated by the establishment of the Post-Ministerial conferences (PMC) in the late 1970s.

A direct impetus for considering a new policy alternative came from the United States, which unofficially sounded out the ASEAN members regarding the idea of concluding an ASEAN-U.S. FTA in the late 1980s.<sup>112</sup> Simply put, ASEAN was not ready for an FTA with the United States.<sup>113</sup> Meanwhile, facing the rise of protectionist tendencies in other parts of the world, ASEAN was increasingly concerned about their market access at the global level, which underlay their rapid economic growth experienced in the 1980s. Consequently, although ASEAN members continued to be concerned about the possibility of being diluted in the wider Asia-Pacific regional framework, ASEAN finally, though reluctantly, agreed to participate in the Asia-Pacific forum in 1989.

#### 4.2.2 Explaining the Shift in State Preferences

Despite earlier reservations, why did those reluctant governments in the Asia-Pacific region, including ASEAN and the United States, come to agree to join an Asia-Pacific intergovernmental arrangement? What led to the shift in the configuration of state preferences among key governments in favor of Asia-Pacific regionalism?

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<sup>110</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 64; Paul Bowles, "Regionalism and Development after(?) the Global Financial Crises," *New Political Economy* 5, no. 3 (2000): 434.

<sup>111</sup> Ravenhill, "Institutional Evolution at the Trans-Regional Level: APEC and the Promotion of Liberalization," 231.

<sup>112</sup> *Nihon Keizai Shimbun*, February 6, 1989, p. 1. See also, Susumu Yamakage, *ASEAN Pawaa: Ajia Taiheiyo no Chuukaku e [ASEAN Power: Putting ASEAN in the Core of the Asia-Pacific]* (Tokyo: University of Tokyo Press, 1997), 232-233.

<sup>113</sup> Naoko Munakata, "Has Politics Caught Up with Markets?," in Peter J. Katzenstein and Takashi Shiraishi, eds., *Beyond Japan: The Dynamics of East Asian Regionalism* (Ithaca, N.Y.: Cornell University Press, 2006), 141.

Having observed the change in the configuration of state preferences in the previous section, the following analysis evaluates the four different precipitants for explaining the emergence of regionalist motives identified by major theoretical approaches that we reviewed in the previous chapters. The first perspective emphasizes the political logic of regionalism based on geopolitical concerns and seeks evidence in the change in the distribution of power. The second perspective stresses the economic logic of regionalism by hypothesizing the relationship between regionalization (the rise in the level of regional economic transactions) and regionalism. The third perspective highlights the ideational underpinnings of regionalism by investigating ideational changes through elite socialization. The last perspective views regionalism as a defensive mechanism, arguing that a set of extraregional developments induces collective regionalist reactions to deal with the new challenges that many regional powers face.

State preferences with regard to regionalism are certainly predicated upon the combination of geopolitical, economic, and identity-based concerns. However, as the preceding investigation of the relevant governments revealed, it is argued that what was most decisive in inducing the urgent governmental demand for an Asia-Pacific regionalist project was a sense of crises in global processes caused by a set of extraregional developments emphasized by the fourth perspective.

#### **4.2.2.1 The Distribution of Power**

Realists emphasize the shift in the broader distribution of power as a main factor for inducing the creation of regionalism. In this respect, two important changes in the configuration of power relations in the late 1980s were identified by many analysts: 1) the decline of U.S. hegemony; and 2) the shift in regional power alignments due to the development of regionalism in Europe and North America. The first perspective, represented by Donald Crone's work reviewed in Chapter 2, explains the emergence of regional institutions as a result of the decline of the U.S. hegemony.<sup>114</sup> However, the decline of U.S. hegemony during the 1980s is not empirically substantiated. If measured in terms of share of world trade, the U.S. share in 1989 (13.84 %) was almost at the same level as that of 1970 (13.79 %). Also, the importance of the U.S. market for the rest of the world *increased* during the same period, as the U.S. market share

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<sup>114</sup> Crone, "Does Hegemony Matter? The Reorganization of the Pacific Political Economy," 501-525.

of world imports rose from 13.5 % to 15.8 %. Furthermore, the share of the U.S. in the exports of the economies of the Western Pacific *increased* substantially in the first half of the 1980s.<sup>115</sup> As argued below, what mattered was the change in the U.S. policy.

The second perspective attributes the emergence of Asia-Pacific regionalism to the formation and strengthening of regional groupings in other parts of the world. In particular, the signing of the Single European Act in February 1986 (which aimed at the conclusion of the European Single Market by the end of 1992) and the U.S.-Canada Free Trade Agreement in December 1987 provided regionalist competitive impulses among some Asia-Pacific countries. Coupled with other extraregional developments, it is argued below that these developments were significant in inducing the demand for Asia-Pacific regionalism.

#### **4.2.2.2 The Growth of Regional Economic Interdependence**

A growing economic interdependence has been frequently cited as an economic rationale for creating an intergovernmental regional institution.<sup>116</sup> Table 4-1 shows that the level of intraregional trade within the APEC economies as a share of total trade increased from 53% in 1962 to 59% in 1980 and to 69% in 1990. In this respect, this observation generally seems to support the liberal perspective that posits that regionalization leads to regionalism. APEC's trade intensity index increased from 1.64 in 1962 to 1.86 in 1975, but it decreased in the 1980s, indicating the decline of intraregional trade bias. However, as already noted in Chapter 2, no matter which measure is used as an indicator for regional economic interdependence, the level of intraregional trade itself does not provide any guidance on what level of intraregional trade is sufficient to induce the creation of an intergovernmental mechanism aiming to support the activities of private firms.

These data on intraregional trade need to be complemented by a more detailed analysis of the patterns of cross-border interactions among private firms. Indeed, as often argued, the Asian regionalization process was driven by the private sector.<sup>117</sup> Most importantly, Japanese private corporations became the central drivers in developing an integrated regional economy in Asia.

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<sup>115</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 59-60.

<sup>116</sup> Drysdale and Garnaut, "The Pacific: An Application of a General Theory of Economic Integration," 220.

<sup>117</sup> Nicole Gallant and Richard Stubbs, "Asia-Pacific Business Activity and Regional Institution-Building," in Justin Greenwood and Henry Jacek, eds., *Organized Business and the New Global Order* (London: Macmillan Press, 2000), 100; Stubbs, "Asia-Pacific Regionalization and the Global Economy: A Third Form of Capitalism?," 786.

During the 1970s, the Japanese full removal of restrictions on the export of capital led to increasing flows of Japanese foreign direct investment (FDI) into other Asian countries. This in turn increased trade among the Asia-Pacific countries.<sup>118</sup>

**Table 4-1: Intraregional Share as a Share of Total Trade of the Region**

	1962	1965	1970	1975	1980	1985	1990
APEC	0.53	0.55	0.60	0.57	0.59	0.68	0.69
ASEAN 6	0.31	0.23	0.18	0.14	0.14	0.18	0.17
EU-15	0.56	0.59	0.61	0.60	0.58	0.60	0.66
EFTA	0.22	0.25	0.28	0.18	0.13	0.13	0.13
Mercosur	0.06	0.11	0.10	0.07	0.11	0.07	0.11
Andean Community	0.01	0.02	0.02	0.04	0.05	0.05	0.05
NAFTA	0.36	0.37	0.40	0.38	0.34	0.40	0.38

*Source:* Jeffrey A. Frankel, *Regional Trading Blocs in the World Economic System* (Washington, DC: Institute of International Economics, 1997), p. 22, Table 2-1.

*Notes:* APEC (18): ASEAN 6 plus China, Hong Kong, Taiwan, Japan, Korea, Australia, New Zealand, United States, Canada, Mexico, Chile, Papua New Guinea  
 ASEAN (6): Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand  
 EU (15): Belgium, Luxembourg, Denmark, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, the United Kingdom, Austria, Finland, and Sweden  
 EFTA (6): Austria, Finland, Iceland, Norway, Sweden, and Switzerland  
 Andean Community (5): Bolivia, Colombia, Ecuador, Peru, and Venezuela  
 NAFTA (3): the United States, Canada, and Mexico

**Table 4-2: Trade Intensity Indices of Selected Regional Arrangements**

	1962	1965	1970	1975	1980	1985	1990
APEC	1.64	1.69	1.82	1.86	1.82	1.74	1.76
ASEAN 6	9.57	9.22	8.22	4.86	4.08	5.11	3.98
EU-15	1.24	1.28	1.33	1.41	1.46	1.51	1.49
EFTA	1.25	1.39	1.74	2.61	2.21	2.29	2.01
Mercosur	2.45	6.42	5.57	3.82	6.14	4.84	9.07
Andean Community	0.29	0.69	1.57	2.63	3.37	4.41	8.06
NAFTA	1.63	1.76	1.93	2.17	2.08	1.95	2.09

*Source:* Jeffrey A. Frankel, *Regional Trading Blocs in the World Economic System* (Washington, DC: Institute of International Economics, 1997), p. 26, Table 2-2.

The single most important catalyst for the surge of Japanese foreign investment in Southeast Asia was the 1985 Plaza Accord, which led to the rapid appreciation of the yen from around 250 yen to the dollar in April 1985 to around 150 yen to the dollar in July 1987.<sup>119</sup> This forced an increasing number of Japanese export-manufacturing companies to re-locate outside Japan. Many companies first looked to South Korea and Taiwan as their destinations for

<sup>118</sup> Gallant and Stubbs, "Asia-Pacific Business Activity and Regional Institution-Building," 100.

<sup>119</sup> Hook, "Japan and the Construction of Asia-Pacific," 178.

investment. However, as their currencies began to appreciate, they shifted their target to Southeast Asia to seek cheap labor and land.

Coincidentally, many ASEAN countries were seeking to attract more FDI. Triggered by low commodity prices, a region-wide recession in 1985 and 1986 prompted the governments of Malaysia and Thailand to liberalize their inward FDI policies to attract export-oriented foreign firms in the manufacturing sector to diversify their economies and earn foreign currency.<sup>120</sup> These opening moves were followed by the FDI liberalization of the Philippines and Indonesia. Consequently, as shown in Table 4-3, ASEAN attracted growing amounts of FDI in the 1980s. Table 4-4 indicates the importance of these FDI inflows for all of the ASEAN Five countries. Between 1971 and 1990, Indonesia, Malaysia, and Thailand recorded an increase in the ratio of FDI to gross domestic capital formation. During the same period, Singapore and Malaysia were most heavily dependent on the inflow of FDI; its ratios to gross fixed capital formulation were 42.1% and 28.7%, respectively.

**Table 4-3: Inward Foreign Direct Investment in ASEAN (US\$ million)**

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Indonesia	300	133	225	292	222	310	258	385	576	682	1,092
Malaysia	934	1,265	1,397	1,261	797	695	489	423	719	1,668	2,611
Singapore	1,236	1,660	1,602	1,134	1,302	1,047	1,710	2,836	3,655	2,887	5,575
Thailand	189	289	188	356	412	160	262	354	1,106	1,837	2,575
Philippines	114	243	193	247	137	105	157	415	999	568	550

Source: UNCTAD, *FDI Statistics*, Online.

**Table 4-4: Ratio of Foreign Direct Investment Inflow to Gross Domestic Capital Formation (Percentages)**

	1971-75	1976-80	1981-85	1986-90
Indonesia	18.3	20.7	27.8	33.4
Malaysia	24.0	27.2	34.1	29.3
Philippines	25.3	30.1	24.0	17.9
Singapore	41.4	42.0	46.8	37.7
Thailand	24.7	27.3	23.5	32.1

Source: Davis B. Bobrow, Steve Chan, and Simon Reich, "Southeast Asian Prospects and Realities: American Hopes and Fears," in *The Pacific Review* 9(1) (1996), p. 10.

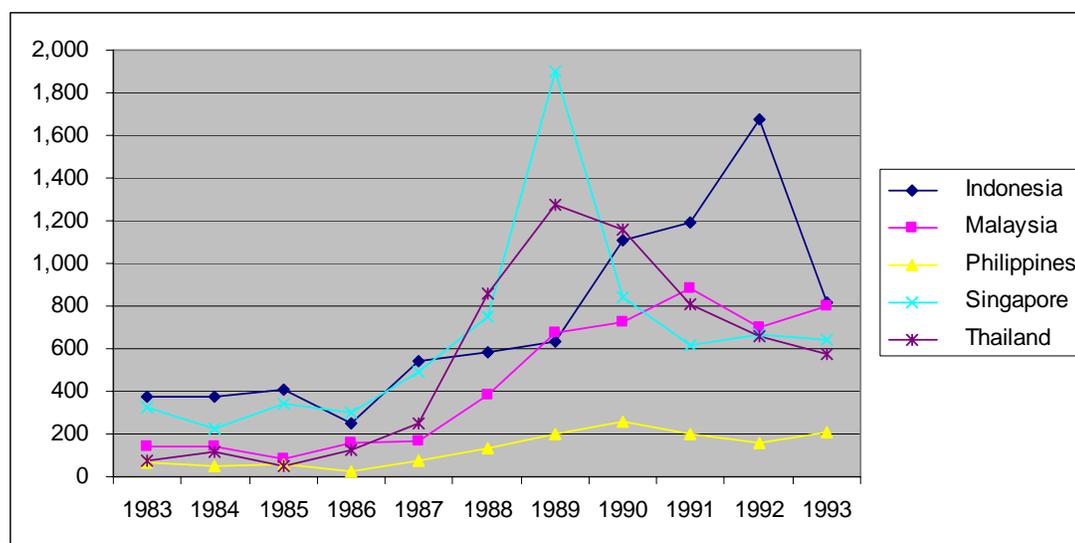
In the post-Plaza Accord era, Japan has become a particularly important source of investment for many Southeast Asian countries. As Figure 4-1 shows, Japan's FDI into Singapore and Thailand skyrocketed in the latter half of the 1980s. Subsequently, from the end

<sup>120</sup> Stubbs, *Rethinking Asia's Economic Miracle: The Political Economy of War, Prosperity, and Crisis*, 162.

of the 1980s into the early 1990s, Malaysia and Indonesia also received increasing amounts of Japanese FDI. Consequently, Japanese FDI in the ASEAN region rose from \$855 million in 1986 to \$4.7 billion in 1989.<sup>121</sup> Many Japanese companies created regionalized networks of production by developing sub-contracting links to their affiliates in the Asian region.<sup>122</sup> The establishment of regional production networks, primarily by Japanese firms, promoted a triangular trade pattern in which Southeast Asian economies imported capital goods, parts, and components from Japan; processed and assembled intermediate goods; and exported the final products to Western markets, especially the United States. Japanese capital and technology played a central role in the economic development of East Asian economies, especially in the second half of the 1980s.

**Figure 4-1: Direct Investment in ASEAN-5 by Japan, 1983–1993**

US\$ million



Sources: JETRO, Historical Data, Japan's outward FDI by country and region, [http://www.jetro.go.jp/en/stats/statistics/rnfdi\\_01\\_e.xls](http://www.jetro.go.jp/en/stats/statistics/rnfdi_01_e.xls); Prepared by JETRO from Ministry of Finance (MOF) statistics for Japan's inward and outward FDI, MOF Policy Research Institute Monthly Finance Review, and Bank of Japan foreign exchange rates.

The massive inflow of Japanese FDI into the ASEAN region was followed by the Newly Industrializing Economies (NIES), such as Hong Kong, South Korea, and Taiwan, which further

<sup>121</sup> Gallant and Stubbs, "Asia-Pacific Business Activity and Regional Institution-Building," 100-101.

<sup>122</sup> Hatch and Yamamura, *Asia in Japan's Embrace: Building a Regional Production Alliance*.

increased regional economic activities. Consequently, during this period, FDI became a more important factor than simple trade in integrating a regional economy.<sup>123</sup>

As shown in the preceding section, the empirical data provides enough evidence for the rise of intraregional market activities within the Asia-Pacific region. However, many observers have pointed out that Asian regionalization in the form of increasing regional cross-border transactions in the private sector was not followed by state-led regionalist projects to create formal political institutions.<sup>124</sup> Undoubtedly, private corporations have served as the major drivers in the process of regionalization in East Asia. However, it is not clear whether they were influential in the construction of regionalism (as opposed to regionalization). There is not enough evidence to support the argument that these private firms strongly demanded the creation of an intergovernmental forum. According to Ravenhill, “[f]or the most part, export-oriented firms have used their own production networks rather than attempting to seek help from governments to overcome the transaction costs of transnational business operations in East Asia.”<sup>125</sup> In light of the private sector’s relative lack of interest in putting demands on governments to create an intergovernmental forum to support their corporate activities, the relationship between regionalization and regionalism is not as straightforward as assumed by liberals.

Instead, as illustrated in the previous section, despite the growing factors for supporting the economic logic of regionalism, political resistance against the creation of an intergovernmental regional institution, especially among ASEAN countries, prevented the creation of such an institution until the late 1980s. Furthermore, since liberal perspectives focus primarily on the intensification of intraregional cross-border economic transactions as the major variable for explaining the emergence of regionalism, they tend to overlook the impact of extraregional developments, which, as argued below, played a more decisive role in changing the minds of reluctant government officials.

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<sup>123</sup> Pempel, "Transpacific Torii: Japan and the Emerging Asian Regionalism," 57.

<sup>124</sup> Katzenstein, "Regionalism in Comparative Perspective," 123-159.

<sup>125</sup> As Ravenhill points out, there have been few studies on the role of private firms in influencing governmental decisions in constructing an intergovernmental arrangement. See John Ravenhill, "A Three Bloc World? The New East Asian Regionalism," *International Relations of the Asia-Pacific* 2 (2002): 173-174. See also Michael Borrus, Dieter Ernst, and Stephan Haggard, *International Production Networks in Asia: Rivalry or Riches* (London New York: Routledge, 2001).

#### 4.2.2.3 Ideas, Elite Socialization, and Policy Networks

As described earlier, increasing interactions and social exchanges among individuals within the Asia-Pacific region had been gradually developed since the late 1960s. Like the rise in regional interdependence, the activities of non-governmental policy networks and the development and diffusion of Asia-Pacific regionalist ideas provided a context conducive to the formation of a regional arrangement. The inauguration of the PECC process in 1980 and the subsequent continuation was particularly important for keeping Asia-Pacific regionalist ideas alive and further developing dense networks of people. After the first PECC meeting in 1980, the Malaysian government declined to support a second PECC meeting in the following year.<sup>126</sup> Therefore, the initiative taken by Thai Deputy Prime Minister Thanat Khoman to host the second PECC meeting in 1982 was especially important in keeping the process moving.

At the instigation of Thanat, who is often referred to as the father of ASEAN, the second PECC meeting was organized by Thailand Pacific Economic Cooperation Committee and the John F. Kennedy Foundation (Thailand) with the assistance of ESCAP. At this meeting, the PECC International Standing Committee (PECC-ISC) was established. The PECC-ISC comprised eight members: Crawford (Australia), Okita (Japan), Thanat (Thailand), Ali Moertopo (Indonesia), David Sycip (the Philippines), Eric Trigg (Canada), Richard L. Sneider (U.S.), and Nam Duck-Woo (Korea). This group of individuals, sometimes collectively referred to as *Pacific Mafia*, was at the core of the Pacific cooperation movement.<sup>127</sup>

Although the PECC process did not lead to the creation of an intergovernmental regional institution, it nonetheless laid an important groundwork for the formation of APEC in at least two respects. First, by taking an inclusive approach to the issue of membership, the PECC served to “defuse many of the divisions which had until now posed major conceptual and practical obstacles to innovation.”<sup>128</sup> Within the first decade, its membership expanded to include twenty national member committees.<sup>129</sup> By expanding its membership to many Pacific Latin American countries and the Pacific island nations, it deflected the argument that Pacific cooperation reflects only the interests of advanced economies. Also, Chinese participation in the

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<sup>126</sup> Harris, "Policy Networks and Economic Cooperation: Policy Coordination in the Asia-Pacific Region," 383.

<sup>127</sup> Woods, *Asia-Pacific Diplomacy*, 98-99; Kikuchi, *APEC: Ajia Taiheiyo*, 154.

<sup>128</sup> Camilleri, *Regionalism in the New Asia-Pacific Order*, 78.

<sup>129</sup> Those committees represent the following economies: Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Peru, the Philippines, Russia, Singapore, Chinese Taipei, Thailand, the United States, and the Pacific Island nations.

organization in 1986 was important because both government and business leaders in the Asia-Pacific were increasingly concerned about how to integrate this fast-growing economy into the regional economy since its adoption of open door reform policy in the late 1970s.

Second, the direct involvement of government officials, albeit in a private capacity, made the PECC an important site of information exchange and expression of differences in an informal setting. Understanding differences among economies at different levels of economic development was especially important in crafting a feasible institutional design for a new, intergovernmental institution with diverse membership. The tripartite compositions of the group strengthened the interactions and communications among academics, business leaders, and government officials. In other words, it became an important agency of socialization of policy elites in the region by making them familiar with important ideas such as the principle of open regionalism.<sup>130</sup>

Nonetheless, it is important to stress that the role that PECC played in the creation of APEC was more indirect rather than in a directly causal way. Certainly, it was significant that the push for Asia-Pacific economic cooperation was promoted through personal networks among a small group of individuals in a number of Asia-Pacific countries at the non-governmental level over extended periods of time.<sup>131</sup> However, the development and promotion of regionalist ideas by nascent policy networks failed to generate the immediate governmental demand for creating an institutional arrangement at the official level. As shown in the previous section, until the late 1980s, many governments, especially in ASEAN members and the United States, viewed proposals for intergovernmental regional arrangements as “solutions in search of problems.”<sup>132</sup> In short, the emergence and spread of Asia-Pacific regionalist ideas did not *cause* the creation of APEC. Rather, these ideas provided what John Ruggie calls “reasons for action” rather than “causes of action.”<sup>133</sup>

The direct impetus for the creation of APEC was not the result of the pressure from these transnational policy networks like PECC. PECC and PBEC had lobbied governments to create

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<sup>130</sup> Ravenhill, "Institutional Evolution at the Trans-Regional Level: APEC and the Promotion of Liberalization," 231.

<sup>131</sup> Harris, "Policy Networks and Economic Cooperation: Policy Coordination in the Asia-Pacific Region," 384.

<sup>132</sup> Kahler, "Institution-Building in the Pacific," 21; Ravenhill, "Institutional Evolution at the Trans-Regional Level: APEC and the Promotion of Liberalization," 230.

<sup>133</sup> Ruggie states that “the aspirations for a united Europe has not caused European integration but it is the reason the direct causal factors have had their causal capacity.” See John Gerard Ruggie, *Constructing the World Polity: Essays on International Institutionalization* (London: Routledge, 1998), 22.

an intergovernmental forum in 1988.<sup>134</sup> However, despite their general support for the creation of a ministerial-level meeting, many PECC participants were uncomfortable about Hawke's original proposal for creating an OECD-type institution in Asia.<sup>135</sup> Moreover, some PECC participants were concerned that the Hawke initiative would undermine the role of PECC.<sup>136</sup> There was some resistance against the Hawke initiative from PECC members due to the differences of opinions with regard to the desirable form of regional cooperation.<sup>137</sup> Yet, even within PECC participants, they were also divided between those who thought that it was desirable to maintain the tripartite structure of regional cooperation in the form of PECC and those who considered that the PECC was a temporary stepping stone toward creating an intergovernmental regional organization.<sup>138</sup> Consequently, although PECC participants had discussed the possibility of convening a PECC-sponsored ministerial conference in 1988, some remained skeptical about the creation of an intergovernmental body and cautioned that it would be premature and unnecessarily raise difficult political concerns.<sup>139</sup>

In this light, the role that PECC played in inducing the governmental demand for a regional intergovernmental mechanism was rather indirect. One of the functions that the network activities of non-governmental bodies such as PAFTAD, PBEC, and PECC played was "to serve as an agency of socialization."<sup>140</sup> According to Jusuf Wanandi, a change in ASEAN's attitudes toward the creation of a broader regional institution was partly driven by "a gradual process of socialization of the idea of Pacific economic cooperation within each of the ASEAN countries."<sup>141</sup> Despite the important role that nascent transnational policy networks such as PAFTAD, PBEC, and PECC played in developing and spreading the idea of Pacific cooperation, it was not a *sufficient* condition for the creation of APEC. As argued in the next section, the

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<sup>134</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 82.

<sup>135</sup> Steve Bates, "The New Regionalism: Comparing the Development of the EC Single Integrated Market, NAFTA and APEC" (Australian National University, 1996), 307.

<sup>136</sup> Terada, "The Genesis of APEC: Australia-Japan Political Initiatives," 42.

<sup>137</sup> Oba, *Ajia Taiheiyo Chiiki Keisei eno Dotei: Kyokai Kokka Nichigo no Aidentiti Mosaku to Chiiki Shugi [Journey to the Formation of the Asia-Pacific Region]*, 342-343.

<sup>138</sup> Jusuf Wanandi, *The Role of PECC in the 1990's and Pacific Institutions* (Jakarta: Centre for Strategic and International Studies, 1989), 2.

<sup>139</sup> Oba, *Ajia Taiheiyo Chiiki Keisei eno Dotei: Kyokai Kokka Nichigo no Aidentiti Mosaku to Chiiki Shugi [Journey to the Formation of the Asia-Pacific Region]*, 343.

<sup>140</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 64.

<sup>141</sup> Wanandi, *The Role of PECC in the 1990's and Pacific Institutions*, 12.

major trigger for inducing the urgent governmental demand for such an idea came from a set of extraregional developments.

#### 4.2.2.4 Perceived Crises in Global Processes as a Trigger

The preceding discussions suggested that intraregional developments, either the rise in regional economic interdependence or the development of regionalist ideas did not automatically prompt reluctant government officials to change their attitudes in favor of Asia-Pacific institution-building. Instead, as demonstrated by the cross-national studies in the previous section, it was a set of extraregional challenges that prompted governments to realize the inadequacy of the existing policy apparatus and the urgent need for a new political mechanism. More specifically, the urgent demand for a collective regionalist response among many governments in Western Pacific countries was primarily driven by perceived crises in global processes stemming from the U.S. unilateral tendency, the growth of inward-looking regionalism in Europe and North America, and the possible collapse of the Uruguay Round of the GATT negotiations and its consequent breakdown of the liberal trading system.<sup>142</sup>

The first challenge came from the growing unilateral tendency of U.S. trade policy. In the face of its growing trade deficits with many Asian countries in the late 1980s, the U.S. government was increasingly frustrated with what Americans viewed as unfairly closed markets in those economies. The U.S. administration actively sought to use the Super-301 section of its domestic trade bill. As a result, governments under Western Pacific economies felt increasing pressure from the U.S. government to open their markets. The U.S. government, albeit unofficially, even proposed the possibility of concluding free trade agreements with many Asian countries, which were also perceived as a threat for them. Therefore, political leaders in many of Western Pacific countries felt an increasing need to collectively create a mechanism to constrain the U.S. hegemonic behavior by what some analysts call “regional entrapment.”<sup>143</sup>

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<sup>142</sup> This view is consistent with most analyses in the literature. See, for example, Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 81; Richard A. Higgott, Andrew Fenton Cooper, and Jenelle Bonnor, "Asia-Pacific Economic Cooperation: An Evolving Case-Study in Leadership and Co-operation Building," *International Journal* 45, no. 4 (1990): 829; Higgott and Stubbs, "Competing Conceptions of Economic Regionalism: APEC versus EAEC in the Asia Pacific," 519; Mark Beeson, "Theorizing Institutional Change in East Asia," in Mark Beeson, ed., *Reconfiguring East Asia: Regional Institutions and Organizations after the Crisis* (London: RoutledgeCurzon, 2002), 14; Ellis S. Krauss, "Japan, the U.S., and the Emergence of Multilateralism in Asia," *The Pacific Review* 13, no. 3 (2000): 322.

<sup>143</sup> Ravenhill, "Institutional Evolution at the Trans-Regional Level: APEC and the Promotion of Liberalization," 169.

A second development which became an impetus for the formation of APEC was the emergence and strengthening of inward-looking regionalism in Europe and North America. The adoption of the Single European Act in 1987, which aimed at the completion of the European Single Market by the end of 1992, created fears of “Fortress Europe” throughout Asia. The U.S.-Canada Free Trade Agreement signed in December 1987 also became a serious concern among the Western Pacific countries because they heavily relied on North American markets. Moreover, the agreement signaled the U.S. policy shift toward a regional approach and away from its previous long-standing position which viewed the multilateralism based on the GATT global liberal trading system as the only appropriate strategy for pursuing trade liberalization. The growth of regional protectionism spurred growing fear among Asian economies whose rapid economic growth relied heavily on an export-led strategy. Asian countries became concerned about securing their market access in the North American and European regions as a result of their protectionist tendency.

Finally, the GATT Uruguay Round negotiations, started in 1986, were stalled, which raised a fear of the possible collapse of the liberal trading regime and the possibility that the global economy would be divided into rival trading blocs. As the main beneficiaries of an open trading system, the possible breakdown of the GATT negotiations presented a threat to many countries in the Asia-Pacific. The importance of promoting the Uruguay Round came to be shared by both government officials and the private sector. In May 1988, the PECC Osaka meeting highlighted “the urgency of bringing the Uruguay Round to a successful conclusion.”<sup>144</sup> Yet the Montreal mid-term review of the Uruguay Round in December 1988 failed to reach an agreement, which raised a sense of crisis in the global trading system. Australian Prime Minister Bob Hawke’s speech to the Korean Business Association in January 1989 reflected this sense of crisis in the GATT system. His call for a regional institution in the Asia-Pacific was motivated by his search for a regional approach to respond to these challenges in the international economic system.

Together, the U.S. unilateral tendency, the rise in inward-looking regionalism in North America and Europe, and the stalemate in the GATT negotiations constituted a sense of crisis in the global liberal trading system, which lowered the threshold for creating a new regional framework. The demand for regionalism was driven by regional leaders’ shared desire to avoid

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<sup>144</sup> *Kyodo*, Japan Economic Newswire, May 20, 1988.

expected losses rather than to gain the expected immediate economic gains. In other words, the creation of APEC at the critical juncture was spurred by “common aversions” rather than “common interests.”<sup>145</sup> For many Asia-Pacific policy elites, the formation of an Asia-Pacific regional economic forum based on the principle of open regionalism was viewed as a “defense against the closed markets”<sup>146</sup> or “a way of countering the protectionist tide which was perceived to be on the rise.”<sup>147</sup>

### 4.2.3 *How was APEC Created?*

The previous section examined the demand-side conditions by exploring the shift in state preferences in favor of Asia-Pacific regionalism in the late 1980s among key Asia-Pacific governments. However, the growing demand for a regional institution was not sufficient for bringing such an institution into being. Without political leadership, such aspirations would not be put into practice.

The ensuing section focuses on the supply-side conditions by investigating the actual political process by which APEC was brought into being in the late 1980s. In addressing *how* APEC was created, one cannot ignore the long-term historical forces that unfolded in the preceding decades. While the previous section argued that the activities of non-governmental bodies such as PAFTAD, PBEC, and PECC failed to create the governmental demand for an Asia-Pacific institutional arrangement, they were nevertheless significant in developing and promoting Asia-Pacific regionalist ideas. The history of regional institution-building in the Asia-Pacific region was characterized by path-dependent processes through the activities of those non-governmental organizations over extended periods of time.

However, how was the APEC initiative successfully launched in the late 1980s after the long incubation period over more than two decades? How did the formation of APEC become possible at this timing, but not earlier? More specifically, how did an initiative from a non-great power like Australia result in the creation of APEC, despite the earlier resistance from ASEAN

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<sup>145</sup> Arthur A. Stein, "Coordination and Collaboration: Regimes in an Anarchic World," in Stephen D. Krasner, ed., *International Regimes* (Ithaca: Cornell University Press, 1983), 125-126.

<sup>146</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 79.

<sup>147</sup> Higgott and Stubbs, "Competing Conceptions of Economic Regionalism: APEC versus EAEC in the Asia Pacific," 519.

countries and the initially lukewarm reaction from the U.S. hegemon? The following pages explore the roles that key governments played in the process of constructing APEC.

#### **4.2.3.1 Australia**

When Australian Prime Minister Bob Hawke called for the creation of an Asia-Pacific regional forum in his speech before the Korean Business Association in January 1989, it did not attract much attention outside government circles.<sup>148</sup> However, only ten months later, the Hawke initiative culminated in launching the first APEC ministerial meeting in Canberra in November 1989. How did the Australian government manage to gain support for the APEC proposal?

Since the announcement of the Hawke initiative, the Prime Minister's Office was responsible for developing and promoting Hawke's regional economic cooperation policy.<sup>149</sup> In the meantime, Australia's National Pacific Cooperation Committee (NPCC), chaired by Russell Madigan, advanced a proposal for a ministerial meeting on Pacific economic cooperation with the recognition that a more direct government involvement would be necessary to make the PECC process more meaningful. Madigan briefed the Prime Minister's Office about the proposal, arguing that PECC could be the convener for such a meeting. The link between the Prime Minister's Office and NPCC proved important in elaborating the idea of regional economic cooperation.<sup>150</sup>

Furthermore, the merger between the Department of Foreign Affairs and the Department of Overseas Trade into the Department of Foreign Affairs and Trade (DFAT) in 1987 proved significant in promoting a coherent economic policy in the region in general and subsequently advancing the APEC initiative in particular.<sup>151</sup> In early 1988, the Economic and Trade Development Division in DFAT, headed by Andrew Elek, began working on revising Hawke's 1983 proposal for a regional forum.<sup>152</sup> When the Japanese prime minister called for a Pacific forum modeled after OECD, and Shultz proposed a Pacific Basin forum in 1988, DFAT disagreed with the both proposals. On the one hand, Nakasone's proposal was too broad,

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<sup>148</sup> Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 55.

<sup>149</sup> Terada, "The Genesis of APEC: Australia-Japan Political Initiatives," 10.

<sup>150</sup> *Ibid.*, 11.

<sup>151</sup> *Ibid.*, 12.

<sup>152</sup> *Ibid.*

involving both political and economic issues, and was considered difficult to materialize. On the other hand, DFAT felt that Shultz's proposal was too restrictive, focusing on transport communications and lacking trade issues. Therefore, DFAT pursued a middle ground. Further, in full recognition of ASEAN's concerns about any proposal from the two biggest economies in the world, DFAT believed Australia had an advantage as a middle power to launch a similar proposal.<sup>153</sup>

On January 31, 1989, Australian Prime Minister Bob Hawke gave a speech in Seoul which called for the establishment of a regional meeting of a ministerial-level to set the stage for a "more formal intergovernmental vehicle."<sup>154</sup> The final decision to announce this proposal was not made before Hawke left Australia. When he met with Korean President Roh Tae Woo the day before the official announcement of the proposal, Hawke discussed the idea with the Korean president and learned that the Korean president was enthusiastic about his plan. Encouraged by the strong support, Hawke consulted with his staff. He decided to go ahead with the official announcement of the proposal for a regional forum in front of a group of Korean business people.<sup>155</sup>

After his speech, Hawke commissioned Richard Woolcott, Secretary of DFAT, as the Prime Minister's special envoy to explain and discuss the Australian proposal for creating an intergovernmental forum for regional economic cooperation. Woolcott's mission to several countries in the region in April 1989 proved especially important, because Hawke announced his proposal without informing in advance any countries except South Korea, and also because Hawke did not provide many details of his proposal during the speech.<sup>156</sup> Woolcott visited Australia's closest political partner, New Zealand, where he received a positive response.<sup>157</sup> With full recognition that convincing leaders in ASEAN would be most challenging and crucial for the successful launch of the proposed regional forum, the ASEAN countries were the first group after New Zealand to be consulted about the proposal.<sup>158</sup>

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<sup>153</sup> Ibid., 14.

<sup>154</sup> Quoted in Cooper, Higgott, and Nossal, *Relocating Middle Powers: Australia and Canada in a Changing World Order*, 92.

<sup>155</sup> Terada, "The Genesis of APEC: Australia-Japan Political Initiatives," 21. See also Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 55.

<sup>156</sup> Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 56.

<sup>157</sup> Ibid; Terada, "The Genesis of APEC: Australia-Japan Political Initiatives," 29.

<sup>158</sup> Andrew Elek, "Asia Pacific Economic Co-operation," *Southeast Asian Affairs* 1991 (1991): 38.

Woolcott gave special priority to Indonesia, which he viewed as the most important country “because it was the largest, and ASEAN does not react to any particular proposal or policy without ascertaining Indonesia’s view.”<sup>159</sup> Since Indonesia was most afraid that the creation of a wider regional arrangement would dilute and undermine the existing regional institution, namely ASEAN, Woolcott emphasized the Australian reassurance that ASEAN would be the “core” of the process. Yet Indonesian Foreign Minister Ali Alatas only promised that “he would study it.”<sup>160</sup>

Prime Minister of Singapore Lee Kuan Yew gave the most enthusiastic response to the Australian proposal. While some ministers and officials in other countries in ASEAN remained cautious about the proposal, most capitals in ASEAN afforded general support for the Australian proposal in principle.<sup>161</sup> During this trip, Woolcott had to distinguish Canberra’s proposal from one by Japan’s MITI by stating that Australia is “neither in competition or collusion with Japan.”<sup>162</sup> Australia’s status as a middle power appeared to ease suspicions among ASEAN countries.

#### **4.2.3.2 Japan**

As discussed earlier, the MITI had proposed creating an Asia-Pacific regional forum prior to the Hawke announcement. In the face of growing U.S.-Japan trade frictions and the U.S. tendency to appeal bilateral pressures, MITI officials sought a multilateral path to curb U.S. unilateral actions and protectionist tendencies. In early 1987, then-MITI Minister Hajime Tamura proposed a ministerial-level meeting among Japan, the United States, Canada, Australia, and New Zealand. The proposal was aimed at discussing economic issues of common interest among those Pacific industrial countries. Tamura’s proposal, however, did not materialize in the face of immediate opposition from the MOFA, which feared that the Japanese initiative, given its historical legacy of World War II, would arouse suspicion among ASEAN countries about Japan’s intentions.<sup>163</sup>

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<sup>159</sup> Quoted in Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 56.

<sup>160</sup> Ibid.

<sup>161</sup> Kikuchi, *APEC: Ajia Taiheiyo*, 189.

<sup>162</sup> *Far Eastern Economic Review* 144, May 11, 1989, p. 20.

<sup>163</sup> Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 58-59.

The following year, a direct trigger for Japan's move toward Asia-Pacific cooperation came from the United States. When Japanese Prime Minister Noboru Takeshita visited Washington in January 1998, Senate Majority Leader Robert Byrd suggested to him that the United States and Japan should study the possibility of concluding U.S.-Japan free trade agreement. Immediately after Takeshita came back to Japan, he ordered Shinji Fukukawa, then MITI's vice minister, to study the subject. Subsequently, the Study Group for Asia Pacific Trade Development was established, directed by MITI's then-director general of the International Economic Affairs Department, Yoshihiro Sakamoto.<sup>164</sup> In June 1988, the group submitted an interim report, the so-called Sakamoto Report, which called for the creation of an Asia Pacific economic forum to counter the U.S. proposal for a series of bilateral FTAs with Asia-Pacific economies.<sup>165</sup> The report suggested the following key points:

- The Asia-Pacific region's economic and trade relations should shift from "development through U.S. dependency" to "development through role-sharing cooperation in the region."
- The OECD model of rigid organization is not appropriate in the Asia-Pacific, which include countries with different levels of economic development. Any arrangement for economic cooperation in the Asia-Pacific should be consistent with the existing institutions such as ASEAN and it should operate by consensus, progress gradually, and remain open to other regions.
- To promote the above goals, Japan must expand its imports, increase its FDI in the region, and support the development of regional human resources.<sup>166</sup>

As Ellis S. Krauss argues, this report provided an institutional blueprint much closer to the form that APEC eventually took than the one envisioned by Australia.<sup>167</sup> Most importantly, the MITI's proposal envisioned the inclusion of the United States from the beginning.

However, MITI was aware that the overt Japanese initiative would alienate other Asian countries because of Japan's historical legacy of World War II and its economic power. From Tokyo's perspective, Australia was considered an appropriate partner to promote the idea of regional cooperation forum, because it could play a "cushioning role" as a middle power, which

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<sup>164</sup> Ibid., 59.

<sup>165</sup> Under Toyoda's guidance, Eiichi Tomiura wrote the first draft for this report. See Noboru Hatakeyama, *Tsusho Kosho: Kokuetsu o Meguru Dorama [Trade Negotiation: Seeking the National Interest]* (Tokyo: Nihonkeizai Shinbunsha, 1996), 141-142.

<sup>166</sup> MITI, *Aratanaru Ajia Taiheiyō Kyōryoku o Motomete [Toward New Asia-Pacific Cooperation]*, 25. Quoted in Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 59-60.

<sup>167</sup> Krauss, "Japan, the U.S., and the Emergence of Multilateralism in Asia," 477.

would lessen suspicion and caution from other Asian countries.<sup>168</sup> Hirokazu Okumura, who was then seconded from MITI to the Sydney office of Japan External Trade Organization (JETRO), consulted closely with DFAT officials about MITI's proposal.<sup>169</sup> Sakamoto also concluded that Australia would be an appropriate candidate for taking public leadership in proposing the forum because of Australia's non-threatening nature and a shared interest in promoting a regional cooperation arrangement.<sup>170</sup> When MITI's Vice Minister for International Affairs, Shigeo Muraoka, met with Australia's Minister of Negotiations, Michael Duffy, in Montreal in December 1988, he told Duffy that MITI was ready to let the Australians take explicit leadership.<sup>171</sup> Muraoka maintained that Japan's appropriate role in the process was to "work behind the scenes."<sup>172</sup>

After the Hawke proposal was announced in January 1989, MITI assigned Okumura and Hidehiro Konno, then Director of International Economy at MITI, to visit ASEAN countries to assess local reactions to the Hawke proposal and to discuss the MITI proposal. Upon his return, Okumura reported to Tokyo that ASEAN officials showed a positive response to the proposal.<sup>173</sup> Subsequently, in March, 1989, Muraoka visited many of the same countries, including Singapore, Malaysia, Thailand, and Indonesia. While he received general support for the idea of regional economic cooperation, he found that most ASEAN officials expressed hesitation about the inclusion of the United States in the proposed regional arrangement. It was only Singaporean Trade and Industry Minister Lee Hsien Loong who strongly supported the participation of the United States in a proposed arrangement.<sup>174</sup> Therefore, he made particular efforts to convince those officials in ASEAN countries who were reluctant regarding U.S. membership, arguing that "it would perhaps be more effective to combat and contain U.S. unilateral actions on trade issues if we could include the United States in the forum."<sup>175</sup> Officials in most ASEAN countries accepted this reasoning.

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<sup>168</sup> Terada's interview with a MITI official. See Terada, "The Australia-Japan Partnership in the Asia-Pacific: From Economic Diplomacy to Security Co-operation," 186.

<sup>169</sup> Terada, "The Genesis of APEC: Australia-Japan Political Initiatives," 16.

<sup>170</sup> Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 60.

<sup>171</sup> *Ibid.*, 61.

<sup>172</sup> *Nihon Keizai Shimbun*, May 11, 1989, p. 1.

<sup>173</sup> Terada, "The Genesis of APEC: Australia-Japan Political Initiatives," 24.

<sup>174</sup> Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 58.

<sup>175</sup> *Ibid.*

#### 4.2.3.3 The United States

Given the U.S. preference for bilateral approaches to dealing with problems in Asia, the U.S. government was slow to recognize the demand for a regional institution in the Asia-Pacific. The U.S. government at first did not respond to the MITI proposal.<sup>176</sup> When the Hawke initiative was officially announced in January 1989, the U.S. reaction was mostly “reactive” – very uncharacteristic of the usual U.S. foreign policy. The U.S. government was busy with the transition from the Reagan administration to the newly inaugurated Bush administration.<sup>177</sup>

However, when Secretary of State James Baker met with Australian Minister Gareth Evans in Washington in March 1989, Baker complained to Evans that Australia did not consult with the United States before it launched the proposal. Baker, in fact, vehemently opposed the original Australian proposal, which failed to include North America in the proposed grouping.<sup>178</sup> Baker firmly convinced the Australians that any regional arrangements in the Asia-Pacific region should include the participation of the United States. As noted above, Baker’s June 1989 speech expressed general U.S. support for an Asia-Pacific regional forum.

#### 4.2.3.4 ASEAN

In response to the Hawke initiative and the Woolcott mission, some ASEAN countries reacted negatively. Indonesia was particularly critical of the idea of creating a new institution in the region because there was already a mechanism for ASEAN countries to talk with external powers through the ASEAN Post-Ministerial Conferences (PMC). In response to the Woolcott mission, Indonesian Foreign Minister Ali Alatas claimed, “Why not think about existing forums?”<sup>179</sup>

At the ASEAN Ministerial Meeting (AMM) held in Brunei on July 3–4, 1989, ASEAN ministers discussed the proposals from Australia and Japan’s MITI for establishing an intergovernmental forum to promote Asia-Pacific economic cooperation, and confirmed the ASEAN’s position that ASEAN should remain the core of any Asia-Pacific forum. For example, Siddhi Savetsila, the Minister of Foreign Affairs of Thailand, stated that “ASEAN would have to

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<sup>176</sup> Krauss, "Japan, the U.S., and the Emergence of Multilateralism in Asia," 480.

<sup>177</sup> Ibid; Baker, "The United States and APEC Regime Building," 168.

<sup>178</sup> For the details of the conversation between Baker and Evans, see Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 62.

<sup>179</sup> *Far Eastern Economic Review* 144, May 11, 1989, p. 20.

be accorded a central place because of the cohesion already existing among the ASEAN states and because a mechanism for Pacific consultations already exists within the ASEAN PMC framework.”<sup>180</sup> At the following ASEAN Post Ministerial Conference (PMC) held in Brunei on July 6–8, the concept of Asia-Pacific cooperation was officially raised. At this PMC, ASEAN finally agreed to participate in the Canberra meeting by consensus.<sup>181</sup> Yet, some countries, especially Indonesia and Malaysia, remained cautious toward APEC. Alatas continued to express his skeptical view by stating that the Canberra meeting would be a one-off event.<sup>182</sup> Nonetheless, ASEAN’s agreement to participate in the Canberra meeting allowed Hawke to proceed with his initiative. Subsequently, in August, the Australian government issued formal invitations to the inaugural Asia-Pacific ministerial meeting to be held in Canberra in November 1989.<sup>183</sup>

Once ASEAN agreed to attend the Canberra meeting, ASEAN members sought to present ASEAN’s unified position at APEC, despite the internal differences among the ASEAN members. Immediately before the APEC, senior officials meeting for determining the agendas of the inaugural APEC meeting on September 10–12, 1989, ASEAN senior economic officials and economic ministers had an informal consultation to lay down guidelines for ASEAN’s approach toward the inaugural APEC meeting.<sup>184</sup>

At the inaugural APEC meeting, ASEAN had an opportunity to present its perspective of APEC. As the Chairman of the ASEAN Standing Committee, Alatas presented ASEAN’s view. In his statement, he put forward the basic principles, modalities and objectives which ASEAN viewed as the basis for the development of Asia-Pacific cooperation:

1. In any enhanced Asia Pacific economic cooperation, ASEAN’s identity and cohesion should be preserved and its cooperative relations with its dialogue partners and with other third countries should not be diluted.

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<sup>180</sup> ASEAN Secretariat, "22nd ASEAN Ministerial Meeting Bandar Seri Begawan, 3-4 July 1989," *ASEAN Newsletter* 34 (1989): 9.

<sup>181</sup> Jusuf Wanandi, "Building on ASEAN," *Far Eastern Economic Review*, August 17, 1989, p. 24; Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 64.

<sup>182</sup> Yamakage, *ASEAN Pawaa: Ajia Taiheiyo no Chuukaku e [ASEAN Power: Putting ASEAN in the Core of the Asia-Pacific]*, 241.

<sup>183</sup> Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 64.

<sup>184</sup> ASEAN Secretariat, "The Ministerial-Level Meeting on Asia-Pacific Economic Cooperation (APEC) Canberra, 7-9 November 1989," *ASEAN Newsletter* 36 (1989): 11; Yamakage, *ASEAN Pawaa: Ajia Taiheiyo no Chuukaku e [ASEAN Power: Putting ASEAN in the Core of the Asia-Pacific]*, 241.

2. Enhanced Asia Pacific economic cooperation should be based on the principles of equality, equity, and mutual benefit, taking fully into account the differences in stages of economic development and in socio-political systems among the countries of the region.
3. Enhanced Asia Pacific economic cooperation should not be directed towards the formation of an inward-looking economic or trading bloc; on the contrary, it should strengthen the open, multilateral economic and trade systems in the world.
4. Enhanced Asia Pacific economic cooperation should provide a forum for consultation and constructive discussions on economic issues and should not lead to the adoption of mandatory directives for any participant to undertake or implement.
5. Enhanced Asia Pacific economic cooperation should be aimed at strengthening the individual and collective capacity of participants for economic analysis and at facilitating more effective, mutual consultations so as to enable participants to identify more clearly and to promote their common interests and to project more vigorously those interests in the larger multilateral forums.
6. Implementation of enhanced Asia Pacific cooperation should proceed gradually and pragmatically, especially in institutionalization or institutional development, without inhibiting further elaboration and future expansion.<sup>185</sup>

Alatas also emphasized the importance of the existing institutional framework such as the ASEAN PMC. Subin Rinkayan of Thailand also spoke as the Chairman of the ASEAN Economic Ministers, cautioned against being too hasty in the initial stage of the APEC process.<sup>186</sup>

In what a senior official of the Japanese Foreign Ministry called “a remarkable show of unity,” ASEAN managed to convince the conference chairman, Gareth Evans, to stipulate in the Chairman’s Summary Statement a more loose organizational character for the new grouping than had been described in the original draft.<sup>187</sup> ASEAN also succeeded in receiving assurance that if similar meetings were to be held in the future, at least every other meeting should be held in an ASEAN member country.<sup>188</sup> Moreover, it was decided that representatives of the ASEAN secretariat would be invited to a preparatory meeting of high-ranking officials from the APEC

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<sup>185</sup> ASEAN Secretariat, “The Ministerial-Level Meeting on Asia-Pacific Economic Cooperation (APEC) Canberra, 7-9 November 1989,” 12.

<sup>186</sup> Ibid.: 11-12.

<sup>187</sup> Satoshi Isaka, “ASEAN Reasserts Its Regional Influence at Meeting of New Economic Organization,” *Japan Economic Journal*, November 18, 1989, p. 5.

<sup>188</sup> Chairman’s Summary Statement, APEC Ministerial Meeting Canberra, 6-7 November 1989, in APEC, *Selected APEC Documents, 1989-1994* (Singapore: APEC Secretariat, 1995), 47.

members to determine the agenda for the future APEC meetings.<sup>189</sup> On the whole, the first APEC meeting strongly reflected ASEAN's concerns about the institutionalization of the APEC process.

Still, after the first meeting, ASEAN continued to reiterate the conditions for ASEAN's continued participation in the APEC process. At the joint meeting of the ASEAN economic and foreign ministers in Kuching, Malaysia in February 1990, ministers reconfirmed ASEAN's position on APEC, most of which had already been stipulated in Alatas's statement. This came to be known as the Kuching consensus. Similarly, in July 1990, foreign ministers agreed that "APEC should continue to be a loose, exploratory, and informal consultative process, that APEC process should not dilute ASEAN's identity and that it should not be directed towards the establishment of an economic trading bloc."<sup>190</sup> Reflecting these resilient reservations among some ASEAN countries, Wanandi, director of the Centre for Strategic and International Studies in Jakarta, who was part of Indonesia's delegation to the Canberra meeting, wrote in early 1990 that although ASEAN supported the holding of the first APEC meeting in Canberra, "ASEAN's participation in it cannot be taken for granted."<sup>191</sup>

As we will see in more detail in the next chapter, in the initial stage of the APEC development, ASEAN managed to put some input in shaping the institutional form of APEC. Although many ASEAN members started to appreciate the benefits of APEC by the early 1990s, ASEAN continued to caution against the institutionalization of APEC in favor of its preferred informal forum based on consultations and consensus.

#### **4.2.4 Explaining the Process of Construction**

What explains the process by which APEC was created? How did an initiative from a non-great power like Australia result in the creation of APEC? Incremental and path-dependent processes by non-governmental organizations such as PAFTAD, PBEC, and PECC in the preceding

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<sup>189</sup> Satoshi Isaka, "ASEAN Reasserts Its Regional Influence at Meeting of New Economic Organization," *Japan Economic Journal*, November 18, 1989, p. 5.

<sup>190</sup> "Joint Communique of the 23<sup>rd</sup> ASEAN Ministerial Meeting," July 24-25, 1990, available at <http://search.aseansec.org/1058.htm>

<sup>191</sup> Jusuf Wanandi, *Asia Pacific Economic Cooperation: Ideas about Substance* (Jakarta: Centre for Strategic and International Studies, 1990), 11.

decades laid groundwork for the creation of APEC by developing and spreading Asia-Pacific regionalist ideas. However, it was the Australian Prime Minister Hawke's entrepreneurial leadership that made an Asia-Pacific regionalist idea gets off the ground.

As a middle power, Australia's power assets were circumscribed. Nevertheless, the Australian government pursued what Foreign Minister Gareth Evans called "niche diplomacy" by "concentrating resources in specific areas best able to generate returns worth having, rather than trying to cover the field."<sup>192</sup> The appointment of Evans as foreign minister in 1988 was particularly significant in promoting Australia's middle power activism.<sup>193</sup> Moreover, Australia used its middle-power status as strength rather than a weakness, because an initiative from a major power would cause suspicions from smaller powers, especially within ASEAN.

On the other hand, the Japanese government played a supportive role behind the scenes.<sup>194</sup> Japan's covert role can be explained by the following two factors. First, Japan was normatively constrained by other Asian nations' fear of Japan's resurgence in the region. Second, Japanese foreign policy was constrained by its important bilateral relationship with a major global power, the United States, which did not allow Japan to take a leadership role when it conflicted with U.S. interests.<sup>195</sup>

Despite the pivotal roles played by entrepreneurial leadership by Australia and Japan's support behind the scenes, the U.S. support expressed in Baker's speech in June 1989 was also significant for a non-great power like Australia to take the initiative in launching the APEC project successfully. Moreover, since ASEAN had been a major obstacle for the creation of regional institution, ASEAN's agreement in July 1989 to participate in the proposed Asia-Pacific regional forum was "a turning point in the history of Asia-Pacific regionalism."<sup>196</sup>

The empirical investigation of the process of APEC creation revealed the importance of political leadership at the "moment of openness" precipitated by structural changes in the world economy. The importance of timing highlights the historically contingent nature of institutional creation. A shared sense of crises in global processes in the late 1980s and the changes in the

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<sup>192</sup> Gareth J. Evans and Bruce Grant, *Australia's Foreign Relations: In the World of the 1990s* (Melbourne: Melbourne University Press, 1991), 323.

<sup>193</sup> Ravenhill, "Cycles of Middle Power Activism: Constraint and Choice in Australian and Canadian Foreign Policies," 322.

<sup>194</sup> Higgott, "APEC - A Sceptical View," 81.

<sup>195</sup> Krauss, "Japan, the U.S., and the Emergence of Multilateralism in Asia," 485.

<sup>196</sup> Terada, "Directional Leadership in Institution-Building: Japan's Approaches to ASEAN in the Establishment of PECC and APEC," 212.

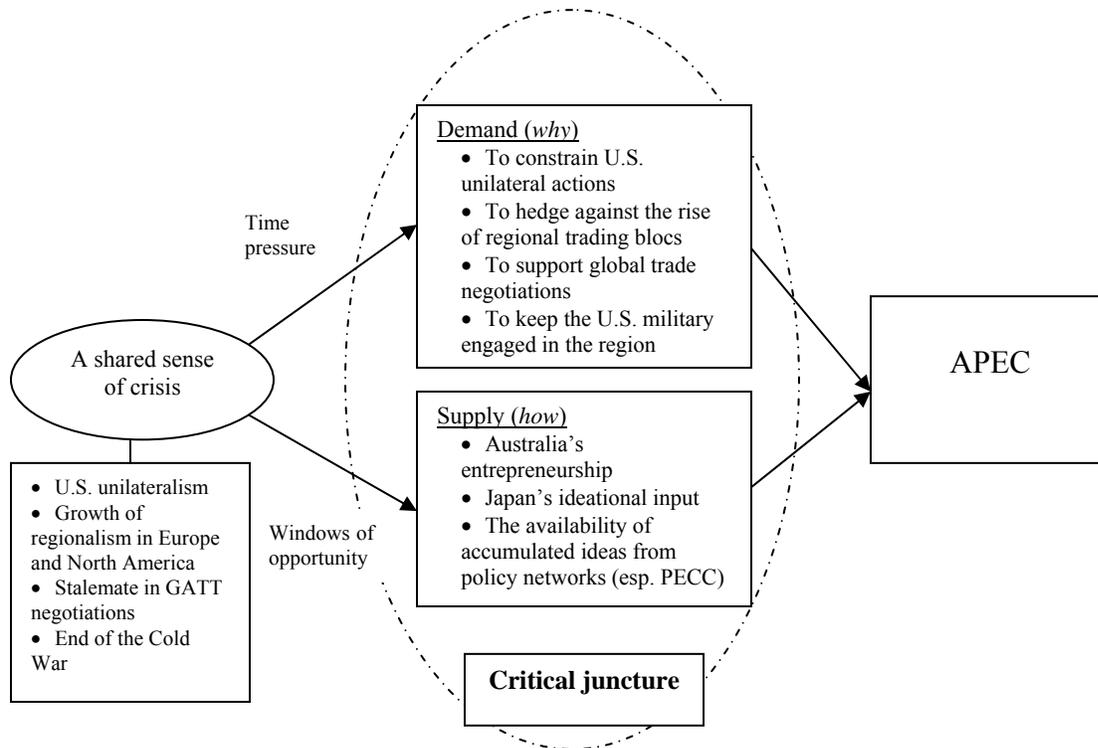
attitudes of the United States and ASEAN provided a political opportunity for Australia to take a new regionalist initiative. Tellingly, Australian diplomat Geoff Brennan has been quoted as saying “[i]t wasn’t just the idea; it was the timing of the idea.”<sup>197</sup>

### 4.3 CONCLUSION

This chapter has analyzed the formation of the first-ever region-wide intergovernmental forum in the form of APEC by highlighting the shift in preferences over regionalism, the provision of political leadership, and the triggering circumstances. Figure 4-2 summarizes the argument put forward in this chapter. The main arguments of this chapter are: 1) A shared sense of crisis served as a major trigger for inducing the urgent demand for a collective regionalist reaction; 2) This sense of crisis also provided a political opportunity for a non-great power like Australia to take a new initiative; and 3) The confluence of demand- and supply- conditions created the critical juncture that resulted in the creation of a new regional arrangement like APEC.

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<sup>197</sup> Cited in Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 60.



**Figure 4-2: Summary of the Argument for the Creation of APEC**

This chapter has highlighted the two aspects of regional institution-building in the case of APEC. The first stage of analysis addressed *why* APEC was created in the late 1980s. The empirical evidence shows that the existence of “negative demand” among ASEAN countries was the major obstacle for creating an Asia-Pacific intergovernmental arrangement until 1989. Therefore, ASEAN’s agreement to join the Asia-Pacific economic forum proved crucial for the successful launch of the Asia-Pacific regionalist project. While some ASEAN officials remained very skeptical of the Hawke initiative, ASEAN countries agreed to participate in the first Canberra meeting. This shift in the attitudes of the ASEAN governments was made possible for at least two reasons. First, the economic crisis of 1985–86 precipitated a change in the domestic balance of power among domestic actors in favor of liberal reformers. Furthermore, the adoption of export-led liberal economic policies led to a rapid economic growth experienced in most ASEAN countries, which eased the resistance against the creation of an Asia-Pacific regional economic forum. Second, the shift in most of the ASEAN countries’ economic policies in the 1980s led to a major change in the composition of their exports, which dramatically increased the

share of manufactured goods in total exports. These changes eased the level of resistance to the creation of a regional economic forum in the ASEAN countries.

In the late 1980s, the strongest demand for the creation of an Asia-Pacific regional institution came from Japan and Australia. Politically, they both shared an interest not only in increasing their bargaining leverage vis-à-vis the United States through a multilateral approach, but also in countering the growth of regionalism in Europe and North America. Economically, the growth of economic links with the Asia-Pacific region provided both countries with an economic logic to promote economic collaboration by reducing transaction costs and securing market access in the region. Ideationally, the concept of “Asia-Pacific” provided a solution to both Australia’s and Japan’s search for their own identity in the region, because both countries, for different reasons, felt that they were isolated from other countries in the region.

The most direct triggers that created the urgent demand for an Asia-Pacific regional institution came from a sense of crisis shared by many countries in the region with regard to the stalemate of GATT negotiations, the rise of inward-looking regionalism in Europe and North America, and the U.S. proclivity for unilateralism. This sense of urgency lowered the threshold for creating an Asia-Pacific economic institution, which provided a window of opportunity for policy entrepreneurs to take initiatives.

The second stage of analysis explored *how* APEC was created by stressing the importance of political leadership. During the preceding two decades before the formation of APEC in 1989, the activities by non-governmental policy networks such as PAFTAD, PBEC, and PECC promoted path-dependent processes of regional institution-building through an incremental institutional evolution. However, given the strong resistance against the creation of an Asia-Pacific intergovernmental arrangement among the ASEAN countries, no political leaders took the initiative to create an intergovernmental arrangement in the Asia-Pacific region. Consequently, the lack of political leadership was a major problem in the Asia-Pacific region until the late 1980s.

Although the bottom-up forces by non-governmental network activities provided a context conducive to creating APEC, the establishment of APEC did not directly follow a linear path. Encouraged by a more permissive condition and driven by its own political urgency to respond to the new challenges in the late 1980s, it was the Australian government that assumed the primary “costs of organizing” by proposing the APEC initiative and mobilizing support from

its potential members. Despite the initial U.S. opposition to the original Australian proposal that excluded the United States, the subsequent U.S. support for the revised version of Australian proposal that included the United States created a political space for Australia to undertake this initiative. Meanwhile, the Japanese government also played a supportive role in brokering compromises between different visions for the Asia-Pacific forum. Japan's inability to play a more explicit role and its willingness to let the Australian government take the lead is largely a function of the normative constraints on Tokyo due to its past military aggression. In summary, this chapter argued that the formation of APEC can be explained by a shared sense of crisis stemming from a set of extraregional developments that not only created an urgent demand for an Asia-Pacific regionalist mechanism, but also provided an opportunity for a non-great power to play a leadership role in meeting that demand.

## 5.0 THE INSTITUTIONAL FORM AND EVOLUTION OF APEC

Although the creation of APEC in 1989 signaled a major turning point in institutional development in the Asia-Pacific region, an area traditionally characterized by “institutional deficit,”<sup>1</sup> APEC remains far more “underinstitutionalized” than regional institutions in Europe and North America. Scholars of “comparative regionalisms” correctly characterize Asian regional institutions such as APEC with such modifiers as “weak,” “soft,” “informal,” “loose,” “underdeveloped,” and so forth.<sup>2</sup> Unlike the European Union (EU), there are no supranational institutions within APEC. In other words, there is no sovereignty pooling (or delegation of national sovereignty to a supranational entity) in APEC. Instead, it was deliberately designed as an intergovernmental consultative forum among member economies. In sharp contrast to the EU, Asian regional arrangements such as APEC are “geared to *sovereignty enhancement*” rather than sovereignty pooling.<sup>3</sup>

While APEC has evolved from an informal consultative dialogue among foreign and trade ministers into a multilayered forum involving leaders’ meetings, it remains ultimately an informal forum to discuss policy collaboration among members without any binding obligations. APEC’s *modus operandi* is characterized by consensus-based decision-making procedures and non-legalistic approaches that emphasize informality and agreements of a non-binding nature. APEC introduced the concept of “concerted unilateral action,” which means that the goals that APEC set up are followed on the basis of voluntary commitments of members. Another important principle that APEC adopted is the notion of “open regionalism,” which means that any trade concessions reached within APEC would be applied to outsiders as well. In other words, APEC does not discriminate against non-members.

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<sup>1</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 2.

<sup>2</sup> Young Jong Choi and James A. Caporaso, “Comparative Regional Integration,” in Walter Carlsnaes, Thomas Risse, and Beth Simmons, eds., *Handbook of International Relations* (London: Sage, 2002), 480-499; Katzenstein, “Introduction: Asian Regionalism in Comparative Perspective,” 1-44; Jeffrey A. Frankel and Miles Kahler, “Introduction,” in Jeffrey A. Frankel and Miles Kahler, eds., *Regionalism and Rivalry: Japan and the United States in Pacific Asia* (Chicago: University of Chicago Press, 1993), 4.

<sup>3</sup> Emphasis original. Higgott, “Ideas and Identity in the International Political Economy of Regionalism: The Asia-Pacific and Europe Compared,” 29.

Given these distinctive characteristics of APEC, this chapter analyzes the institutional design and evolution of APEC. Why did APEC take the weak institutional form that it took and why did it evolve in the way that it did? More specifically, why did APEC take non-legalistic approaches that avoid binding obligations? Why has APEC continued to avoid excessive institutionalization? Why did APEC adopt the principle of open regionalism, despite the fact that some member countries, especially the United States, were concerned about free-riding by outsiders like the EU and favored instead the principle of reciprocity? What accounts for the shift in priority among different issue areas? Why did APEC lose its momentum in the latter half of the 1990s? Specifically, how and why did APEC member economies agree on the 1994 Bogor declaration on trade liberalization? Subsequently, why did they fail to implement the Early Voluntary Sectoral Liberalization (EVSL) initiative in 1997 and 1998?

To answer these questions, this chapter proceeds as follows: The first section provides a brief overview of the historical evolution of APEC during the first decade since its inception. The second section analyzes the institutional form and evolution of APEC, first by investigating the institutional preferences of key APEC members and second by exploring interstate bargaining with regard to four dimensions of the institution: membership, organizational structure, external orientation, and issue areas. The third section focuses on APEC's trade liberalization efforts from the Bogor Declaration in 1994 to the setback of the EVSL in 1998 as a mini-case study. It illustrates how divergent preferences among members have affected interstate negotiations over trade liberalization. The last section evaluates alternative explanations for why APEC took the form that it took and why it evolved in the way it did.

It will be argued in this chapter that although there was a minimum level of convergence of state preferences in favor of a regionalist project at the birth of APEC, there continued to be differences among the APEC participants in terms of their institutional preferences over the forum's objectives, forms, and modalities. The diversity of institutional preferences among the APEC members is a major factor that explains the low level of institutionalization of APEC. The major dividing line lies between Anglo-American members, who desired to transform APEC into a rule-based negotiating mechanism for trade liberalization, and most Asian members, who preferred to keep APEC as an informal consultative forum for discussing economic issues and promoting economic and technical cooperation.

## 5.1 APEC'S FIRST DECADE

The following section provides a brief historical overview of how APEC has evolved during its first decade.<sup>4</sup> The history of APEC's institutional development during its first decade can be roughly divided into three phases. The first phase was from 1989 to 1992, during which time APEC ministerial meetings were regularized, the membership was expanded to the "three Chinas" (China, Taiwan, and Hong Kong), and a small secretariat was established. The second phase from 1993 to 1995 witnessed the holding of informal summit meetings and the prominence of the trade and investment liberalization agenda. The third phase from 1996 to 1998 saw the erosion of APEC's institutional credibility as a result of the setback of sectoral trade liberalization attempts and its failure to provide an effective mechanism to respond to the Asian financial crisis.

### 5.1.1 The First Phase: 1989–1992

On November 6–7, 1989, foreign and trade ministers from twelve regional economies gathered in Canberra to discuss how to advance economic cooperation in the Asia-Pacific region. At this inaugural APEC ministerial meeting, however, the participants were not able to reach an agreement on the issue of institutionalization. At that meeting, ministers maintained that "it was premature at this stage to decide upon any particular structure either for a Ministerial-level forum or its necessary support mechanism."<sup>5</sup> While they agreed to hold the second ministerial consultative meeting in Singapore in 1990 and the third in Korea in 1991, they deferred the decision with regard to whether to hold further meetings on a regular basis in the future.<sup>6</sup>

At the second Ministerial Meeting in Singapore in July 1990, the ministers restated the general principles adopted in Canberra. They also reaffirmed their commitment to the promotion of an open trading system and announced a separate APEC Declaration on the Uruguay Round.

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<sup>4</sup> For comparative purposes, the analysis is limited to the first decade after APEC's creation to compare the institutional evolution of APEC and the APT during approximately the same time periods.

<sup>5</sup> Joint Statement, APEC Ministerial Meeting, Canberra, 6-7 November 1989, in APEC, *Selected APEC Documents, 1989-1994*, 39.

<sup>6</sup> *Asahi Shimbun*, November 8, 1989, p. 1; See also, Yamakage, *ASEAN Pawaa: Ajia Taiheiyo no Chuukaku e [ASEAN Power: Putting ASEAN in the Core of the Asia-Pacific]*, 244-245.

To support the successful conclusion of the Uruguay Round, the ministers endorsed Canada's decision to convene a meeting of APEC ministers in September 1990 to assess and advance developments in the Uruguay Round.<sup>7</sup>

The third Ministerial Meeting in Seoul in November 1991 marked the first time that APEC began to gain wider attention from the international community.<sup>8</sup> This meeting realized the participation of China, Hong Kong, and Taiwan. As a result, APEC became the first international organization that successfully embraced the three Chinas. The admission of the three Chinese economies significantly increased the importance of APEC, which now accounted for half of the world's GDP and 40 percent of world trade.<sup>9</sup> At this meeting, the ministers also announced the Seoul Declaration, stipulating APEC's general principles, objectives, and mode of cooperation.<sup>10</sup> As discussed in detail below, at the fourth Ministerial Meeting in Bangkok in September 1992, ministers decided to set up a small secretariat in Singapore and also agreed to create the Eminent Persons' Group (EPG) to provide a vision for APEC.

### **5.1.2 The Second Phase: 1993–1996**

The second phase of APEC began in 1993 when the United States hosted the fourth Ministerial Meeting and the inaugural Economic Leaders' Meeting in Seattle. At the Ministerial Meeting held on November 17–19 in 1993, APEC ministers discussed a wide range of issues, including the report of the EPG, economic trends and issues, trade and investment issues, the APEC Work Program, participation issues, and organizational issues. Ministers welcomed the submission of the first EPG's report in October 1993. The EPG report identified three threats to the region's economic growth: the erosion of the multilateral global trading system; the growth of inward looking regionalism; and the risk of fragmentation within the Asia-Pacific region.

Following the ministerial meeting, President Clinton hosted the first APEC Economic Leaders' Meeting at Blake Island on November 20. The historic event signaled a major

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<sup>7</sup> APEC, *Selected APEC Documents, 1989-1994*, 57, 62.

<sup>8</sup> Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 73.

<sup>9</sup> John Hogg, *Australia and APEC: A Review of Asia Pacific Economic Cooperation* (Canberra: Australia Parliament, Senate Foreign Affairs, Defence and Trade Committee, 2000), 53.

<sup>10</sup> The contents of the Declaration will be discussed later.

breakthrough in attracting a wider attention from the international community.<sup>11</sup> At the inaugural informal summit, APEC leaders recognized “the emergence of a new voice for the Asia Pacific in world affairs,” pledged their commitment to bring the Uruguay Round to a successful conclusion, and provided a vision of “a community of Asia Pacific economies” on the basis of “openness and partnership.”<sup>12</sup> The leaders also confirmed their pledge to “continue to reduce trade and investment barriers” to promote regional and global trade and investment liberalization processes. To achieve these goals, the leaders put forward several concrete initiatives, including the convening of a finance ministers meeting, the establishment of the Pacific Business Forum, and the development of an investment code.<sup>13</sup>

Despite reservations among some Asian countries, the second APEC Economic Leaders’ Meeting held in Bogor, Indonesia, in November 1994 saw the announcement of an ambitious goal of achieving free and open trade investment by the year 2010 for industrialized economies and by the year 2020 for developing economies.<sup>14</sup> In the next APEC meetings in Osaka, the APEC leaders discussed the details of how to implement the goals set by the Bogor Declaration. The Japanese government proposed the concept of “Concerted Unilateral Action” (CUA), which would allow each member to proceed with the liberalization efforts without binding commitments. At the 1996 Leaders’ Meeting, the APEC leaders pledged to move “from vision to action.” The leaders adopted the Manila Action Plan for APEC, which identified “the first step of an evolutionary process of progressive and comprehensive trade and investment liberalization” to achieve the Bogor goals.<sup>15</sup>

### **5.1.3 The Third Phase: 1997–1999**

During this period, APEC encountered several serious challenges. The Vancouver APEC meetings were held in November 1997 in the midst of the Asian financial crisis, which started in July 1997. At Vancouver, APEC leaders confirmed the central role of the International

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<sup>11</sup> Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 79.

<sup>12</sup> “APEC Leaders Economic Vision Statement, Blake Island,” Seattle, November 20, 1993 in APEC, *Selected APEC Documents, 1989-1994*, 1.

<sup>13</sup> *Ibid.*, 4.

<sup>14</sup> *Ibid.*, 7.

<sup>15</sup> “APEC Economic Leaders’ Declaration: From Vision to Action,” Subic, Republic of the Philippines, November 25, 1996, APEC, *Selected APEC Documents, 1996* (Singapore: APEC Secretariat, 1997), 1-2.

Monetary Fund (IMF) on a global level and endorsed the Manila Framework (which was set up by central bankers and finance ministers of 14 of the 21 APEC members). The Manila Framework aimed to develop a regional economic monitoring and surveillance mechanism, but it primarily supported the centrality of the IMF in dealing with the crisis. As a result, APEC was sidelined in the management of the crisis. Many policy elites and observers criticized APEC for failing to provide any effective solutions for the crisis-affected countries.

The setback of the negotiations over the Early Voluntary Sectoral Liberalization (EVSL) initiative at the 1998 Kuala Lumpur meetings was another serious blow to APEC. The EVSL, strongly promoted by the United States, aimed at early trade liberalization in certain designated sectors. Consequently, by the late 1990s, APEC's trade liberalization lost its momentum. In short, APEC experienced an institutional crisis by the end of its first decade.

## **5.2 ANALYZING INSTITUTIONAL FORM AND EVOLUTION**

The following section analyzes the institutional form and evolution of APEC, first by investigating institutional preferences among key APEC members, and second by delving into the four dimensions of APEC's institutional features.

### **5.2.1 Governments' Institutional Preferences**

What kind of institutional designs did key APEC members prefer and why? What did they expect from APEC? This section explores the institutional preferences of key APEC members: Australia, Japan, the United States, and ASEAN members.

#### **5.2.1.1 Australia**

As the initiator of APEC, the Australian government was the most enthusiastic supporter of APEC during the Labor Party's rule headed by Prime Ministers Bob Hawke and Paul Keating from the inception of APEC until it was replaced by the conservative Coalition headed by Prime

Minister John Howard in 1996.<sup>16</sup> The previous chapter showed that Canberra's interest in APEC was primarily triggered by the fear of marginalization in the perceived fragmentation of the world economy into regional trading blocs none of which would naturally include Australia. Therefore, Australia's APEC initiative reflected its desire to be admitted as part of the Asian region to capitalize on rapidly expanding markets.

It is noteworthy that the original Hawke proposal for establishing a regular ministerial meeting did not envision the participation of the United States. Foreign and Trade Secretary Richard Woolcott explained that this provision was only intended to discourage the United States to take the lead, because the excessive U.S. involvement in the initiative would alienate ASEAN countries, thus preventing the proposal from getting off the ground.<sup>17</sup> However, many observers concluded that Hawke deliberately excluded the United States to use this new group as bargaining leverage vis-à-vis the United States – which Foreign Minister Gareth Evans later admitted.<sup>18</sup> At least initially, there were several strong motivations for Australia to exclude the United States. Not only was the United States a rival of Australia, particularly in the fields of agriculture and minerals, but the U.S. attempts to retaliate against protectionist European competitors often inadvertently worked against Australian agricultural exporters.<sup>19</sup> Moreover, without the U.S. presence, Australia would have been able to maximize its political influence within the proposed group. Whatever the real intentions behind the Hawke initiative were, however, Australia had no choice but to accept the U.S. membership in the face of strong U.S. opposition.

With regard to the participation of China, Australia strongly supported the idea from the beginning.<sup>20</sup> However, the Labor government opposed further addition of new members in APEC. Canberra was opposed to the participation of Latin American countries in APEC on the grounds that it would complicate decision-making processes of an institution which operates by

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<sup>16</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 114.

<sup>17</sup> This is based on Woolcott's account. See Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 62-63.

<sup>18</sup> See, for example, Cotton and Ravenhill, "Australia's 'Engagement with Asia'," 7-9. In his memoirs Hawke denied the suggestion that he envisioned a regional grouping that did not include the United States. However, as James Cotton and John Ravenhill suggest, this claim is doubtful, judging from his Seoul speech.

<sup>19</sup> Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 63.

<sup>20</sup> "Unspecific Pacific: Canberra's Asia-Pacific Proposal Gets Cautions Nod," *Far Eastern Economic Review*, May 11, 1989, 20.

consensus. By the same token, the Australian government opposed both Indian and Russian membership.<sup>21</sup>

In terms of APEC's institution-building, the Australian government favored further institutionalization.<sup>22</sup> The Hawke proposal had initially envisioned a regional institution modeled after the Organization for Economic Cooperation and Development (OECD).<sup>23</sup> Prime Minister Paul Keating, who succeeded Hawke in December 1991, was even more active than Hawke himself in advancing APEC's institutionalization.<sup>24</sup> In April 1992, Keating proposed regular heads-of-government meetings to provide a major boost to the APEC process – an idea that American President Bill Clinton acted upon subsequently.

With regard to external orientation of APEC in its relations with GATT, the original Hawke initiative was ambiguous.<sup>25</sup> Nevertheless, from the beginning, the Australian government saw APEC as a means to reach a successful conclusion of the Uruguay Round. Alternatively, it viewed APEC as an insurance regime to secure access to the dynamic economies in Asia in case the Uruguay Round failed. Moreover, as argued in the previous chapter, Australia's interest in proposing a regional forum was to an important degree driven by its growing concern about the perceived rise of regional blocs in which Australia would be excluded. Therefore, the Australian government was opposed to creating an inward-looking trading bloc, supporting instead the concept of "open regionalism" in principle.

In terms of issues to be covered in APEC, having pursued domestic economic liberalization policies, Australia's Labor Party advanced a trade and investment liberalization agenda in APEC. The Labor Government believed in the neoclassical economic argument that unilateral trade liberalization is beneficial for the country's economy.<sup>26</sup> In his Seoul speech, Hawke identified three tasks for the proposed institution: 1) to contribute to a successful conclusion of the Uruguay Round; 2) to discuss the obstacles to international trade in the region; and 3) to identify common economic interests and issues to enhance regional economic

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<sup>21</sup> Ravenhill, "Australia and APEC," 155.

<sup>22</sup> This is based on the 1993 assessment of William Bodde who was the first Executive Director of APEC Secretariat. Other countries which he listed as most enthusiastic about institution-building are the United States, Canada, New Zealand, Korea, and Singapore. See William Bodde, *View from the 19th Floor: Reflections of the First APEC Executive Director* (Singapore: ASEAN Economic Research Unit, Institute of Southeast Asian Studies, 1994), 6.

<sup>23</sup> Terada, "The Genesis of APEC: Australia-Japan Political Initiatives," 20.

<sup>24</sup> Ravenhill, "Australia and APEC," 158.

<sup>25</sup> *Ibid.*, 153.

<sup>26</sup> *Ibid.*, 155-156.

complementarities.<sup>27</sup> In short, the Australian government envisioned and pursued APEC as a regional institution in the area of liberalization with considerable safeguards against U.S. hegemony.<sup>28</sup>

### 5.2.1.2 Japan

As discussed in the previous chapter, Japan's MITI proposal envisioned an Asia-Pacific regional forum much closer in form to the actual institutional form that APEC took than the proposed Australian one, at least initially. MITI was interested more in "enlarging the pie" through economic growth and cooperation than simply liberalizing markets.<sup>29</sup> Therefore, Japan's preferred institutional design for APEC was a loose and informal consultative forum for promoting economic cooperation rather than a formal body involving trade negotiations for liberalization.

In terms of membership, unlike Australia, Japan insisted on the participation of the United States from the beginning. It is not surprising, given the former's important political and security relationship with the United States. Moreover, a significant part of Japan's interest in APEC stemmed from its desire to deal with the strained economic relations with the United States in a multilateral setting. In short, Japan's goals in APEC sought "to lock the United States into Asia, to blunt protectionist pressures in the United States, and to diffuse U.S. economic 'result-oriented' demands away from singling out Japan for bilateral bargaining."<sup>30</sup>

In terms of the organizational form, the Japanese government rejected the Australian vision for an Asia-Pacific OECD as being too rigid in favor of a less institutionalized form. To present Japan's preference for an informal regional forum, Ippei Yamazawa, a Japanese intellectual architect of APEC, coined the term "open economic association" (OEA).<sup>31</sup> According to him, an OEA is:

- open in that its structure and policies do not lead to discrimination against trade and investment with the rest of the world;
- economic in its primary policy focus; and

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<sup>27</sup> Ibid., 152.

<sup>28</sup> Davis B. Bobrow and Robert T. Kudrle, "Foreign Direct Investment in the Context of Regionalism: The Case of APEC," in Kenneth P. Thomas and Mary Ann Tétreault, eds., *Racing to Regionalize: Democracy, Capitalism, and Regional Political Economy* (Boulder, Colo.: Lynne Rienner, 1999), 67.

<sup>29</sup> Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 66.

<sup>30</sup> Bobrow and Kudrle, "Foreign Direct Investment in the Context of Regionalism: The Case of APEC," 65.

<sup>31</sup> Ippei Yamazawa, "On Pacific Economic Integration," *Economic Journal* 102, no. 415 (1992): 1528.

- a voluntary association in that its members do not cede sovereignty to any supranational regional institution.<sup>32</sup>

Japan's preference for an OEA rather than a treaty-based formal institutional integration matches ASEAN's institutional preferences. Japan consistently opposed any attempt to turn APEC into a more institutionalized organization or a discriminatory preferential trading arrangement. For example, Prime Minister Hosokawa Morihiro expressed Japan's preference for an informal and incremental approach to a more formal institution at the inaugural economic leaders' meeting in Seattle in 1993, stating that:

The Japanese government had no desire to see the regional forum [APEC] institutionalized or turned into a free trading area.... It is very important that we respect the interest of the developing countries in the Asia-Pacific region and heed their opinions and try to promote the activities of APEC step by step.<sup>33</sup>

At the Bogor APEC economic leaders' meeting in November 1994, Japanese Foreign Minister Tsutomu Hata expressed three principles with regard to the institutional development of APEC: "(1) it should become an area of relaxed discussions rather than negotiations, (2) it should be a group which is open to other nations, and (3) it should seek to implement a gradual reduction of tariff duties through discussions."<sup>34</sup>

The Japanese government repeatedly emphasized that APEC "is a loose forum for consultations and cooperation."<sup>35</sup> In his speech to journalists at the Osaka APEC meetings in November 1995, Foreign Minister Yohei Kono asserted that, given the political, economic, and social diversity among the APEC members, "it would not be practical to look for a legalistic framework imposing rights and obligations on all members in a uniform fashion."<sup>36</sup>

With regard to APEC's external orientation, Tokyo as an exporter on a global scale strongly endorsed the principle of open regionalism. This endorsement was based on Japan's objection to creating a discriminatory regional bloc that would further escalate the growth of inward-looking regionalism in Europe and North America, a trend that the Japanese government

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<sup>32</sup> Ippei Yamazawa, "APEC's New Development and Its Implications for Nonmember Developing Countries," *Developing Economies* 34, no. 2 (1996): 29.

<sup>33</sup> Cited in Yong Deng, "Japan in APEC: The Problematic Leadership Role," *Asian Survey* 37, no. 4 (1997): 357.

<sup>34</sup> Cited in *Ibid.*: 358.

<sup>35</sup> "Japan's Foreign Policy in the Asia-Pacific, and the Significance of APEC: Speech Given by Minister for Foreign Affairs Yohei Kono at the Kansai Press Club," November 15, 1995, APEC 1995 Osaka Official Information, Ministry of Foreign Affairs, [http://www.mofa.go.jp/policy/economy/apec/1995/yk\\_speech.html](http://www.mofa.go.jp/policy/economy/apec/1995/yk_speech.html)

<sup>36</sup> *Ibid.*

observed cautiously in the early 1990s. In preparing the draft Action Agenda for the Osaka APEC meetings in 1995, Kono highlighted the importance of the principles of WTO-consistency and non-discrimination. He stated that “Japan is strongly committed to maintaining and strengthening the multilateral free trading system, and strongly supports the development of APEC as a framework for open regional cooperation which is consistent with the WTO Agreement” and insisted that “non-discrimination within APEC should be ensured as a premise for non-discrimination vis-à-vis non-APEC economies.”<sup>37</sup>

Since APEC’s inception, Japan’s preferred functional objective of APEC has been the promotion of economic cooperation between developed and developing countries. The Japanese government viewed trade and investment liberalization and facilitation (TILF) and economic and technical cooperation (Ecotech) as “two wheels of the same axle” both indispensable for the growth of the Asia-Pacific economies.<sup>38</sup>

Tokyo’s particular enthusiasm for promoting a development cooperation agenda was demonstrated by its initiative for Partners for Progress (PFP) which Foreign Minister Yohei Kono initially proposed during the Ministerial Meeting in Jakarta in November 1994.<sup>39</sup> It was aimed at promoting economic and technical cooperation beyond studies and seminars by establishing a standing agency within APEC to administer projects.<sup>40</sup> Japan’s original PFP proposal, however, was not endorsed by APEC members because of opposition from some advanced countries. Nonetheless, it demonstrated Japan’s willingness to promote the Ecotech agenda as an essential part of APEC activities. Subsequently, during his speech in Osaka in 1995, Prime Minister Tomiichi Murayama announced that Japan would commit 10 billion yen over several years to the promotion of TILF.<sup>41</sup>

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<sup>37</sup> “Japan’s Position: Remarks by Minister Yohei Kono, Minister for Foreign Affairs of Japan,” APEC 1995 Osaka Official Information, Ministry of Foreign Affairs, [http://www.mofa.go.jp/policy/economy/apec/1995/j\\_pstion.html](http://www.mofa.go.jp/policy/economy/apec/1995/j_pstion.html)

<sup>38</sup> The Ministry of Foreign Affairs, *1996 Diplomatic Bluebook*, <http://www.mofa.go.jp/policy/other/bluebook/1996/1-b.html>

<sup>39</sup> The Ministry of Foreign Affairs, Partners for Progress (PFP), 15 November 1995, at <http://www.mofa.go.jp/policy/economy/apec/1995/briefing/br4.html>

<sup>40</sup> Ippei Yamazawa, "APEC's Economic and Technical Cooperation: Evolution and Tasks Ahead," in C. Fred Bergsten, ed., *Whither APEC? The Progress to Date and Agenda for the Future* (Washington, D.C.: Institute for International Economics, 1997), 138.

<sup>41</sup> *Ibid.*, 138.

### 5.2.1.3 The United States

As noted in the previous chapter, although the U.S. attitude toward APEC during the George H. W. Bush administration was mostly reserved, the U.S. government vehemently opposed the exclusion of the United States from a regional grouping as initially envisioned by Australia. As discussed in the next chapter, the U.S. government also opposed the proposal of Malaysian Prime Minister Mahathir for creating an East Asian Economic Grouping. The proposal aimed at creating an “Asia-only” grouping without the participation of Western powers including the United States. Instead, the U.S. government pressed for strengthening trans-Pacific regional cooperation in the form of APEC to capitalize on the dynamic Asian economies.

Once President Bill Clinton took an active interest in APEC when he came into office in 1993, the U.S. government put forward its own vision for APEC. In a series of speeches in July 1993, President Clinton called for the establishment of a “Pacific Community,” identifying APEC as providing the foundation for the proposed community.<sup>42</sup> The U.S. government viewed APEC as a channel to put pressure on Asian countries to open their markets. To this end, it preferred a more institutionalized approach with specific tangible goals, fixed deadlines, and binding commitments. In the words of then Undersecretary of State Joan Spero, the U.S. government sought to transform APEC “from a dialogue forum to an action-oriented, results-producing forum.”<sup>43</sup> Put succinctly, the United States envisioned a more formal body involving result-oriented negotiations with binding obligations rather than an informal consultative forum as originally conceived.

Moreover, the U.S. government attempted to use APEC in its extraregional foreign policy. In particular, the Clinton administration saw APEC as a means to increase bargaining leverage against the EU during the Uruguay Round of the GATT negotiations.<sup>44</sup> In terms of how liberalization should be implemented, the United States was not enthusiastic about the concept of open regionalism. Instead, the U.S. government maintained that any liberalization measures

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<sup>42</sup> Susumu Yamakage, "Japan's National Security and Asia-Pacific's Regional Institution in the Post-Cold War Era," in Peter J. Katzenstein and Takashi Shiraishi, eds., *Network Power: Japan and Asia* (Ithaca: Cornell University Press, 1997), 293.

<sup>43</sup> Testimony for Joan E. Spero, Under Secretary of State for Economic, Business, and Agricultural Affairs, House Committee on International Relations, Subcommittees on Asia and Pacific Affairs and International Economic Policy and Trade, July 18, 1995. Cited in Bobrow and Kudrle, "Foreign Direct Investment in the Context of Regionalism: The Case of APEC," 64.

<sup>44</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 93; Higgott, "ASEM and the Evolving Global Order," 30.

undertaken within APEC should be applied to non-APEC member states on the basis of reciprocity. This position stemmed mainly from U.S. concerns about European free riding.<sup>45</sup> Once the WTO was formed in 1995, the U.S. government desired to use APEC as a mechanism to expand and accelerate trade liberalization under the auspices of the WTO or to pursue trade liberalization agendas that were deeper and broader than those of the WTO (which came to be known as “WTO Plus”).

In terms of issue areas, the U.S. government clearly pressed for using APEC as a vehicle for trade and investment liberalization, until it encountered the debacle over U.S.-led Early Voluntary Sectoral Liberalization initiative which will be discussed later in this chapter. In contrast with its enthusiasm in trade and investment liberalization, the United States was not interested in minimizing the development gap among member economies. The U.S. government also desired to discuss political and security issues, a position strongly rejected by some members of APEC, such as China, which did not want to discuss security matters in the presence of Taipei leaders.<sup>46</sup>

#### 5.2.1.4 ASEAN

Although ASEAN was initially very reluctant to participate in the APEC process, the end of the Cold War and the subsequent uncertainty prompted ASEAN leaders to view APEC a useful vehicle to maintain continued access to export markets in the face of the rise of U.S. protectionism and the stalemate of the GATT trade negotiations. With the end of the Cold War, ASEAN lost somewhat its strategic importance to major powers. Consequently, ASEAN faced “the danger of being ignored by the key players.”<sup>47</sup> Moreover, ASEAN was worried about a diversion of foreign direct investment (FDI) away from ASEAN to newly opened Eastern Europe and China. Therefore, many ASEAN members started to view APEC as a means of keeping continued U.S. and Japanese economic attention.<sup>48</sup>

Although ASEAN’s agreement to participate in APEC signaled a watershed in its attitudes toward an Asia-Pacific regional framework, ASEAN continued to emphasize its

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<sup>45</sup> Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 95.

<sup>46</sup> Yamakage, "Japan's National Security and Asia-Pacific's Regional Institution in the Post-Cold War Era," 294.

<sup>47</sup> Mohamed Ariff, "APEC and ASEAN: Complementing or Competing?," in Siow Yue Chia, ed., *APEC: Challenges and Opportunities* (Singapore: ASEAN Economic Research Unit Institute of Southeast Asian Studies, 1994), 168-169.

<sup>48</sup> Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 67.

preference for informality and warned against excessive institutionalization of the new organization. Put simply, ASEAN's preferred institutional form has been based on the extension of ASEAN's norms and principles into the Asia-Pacific regionalist project.<sup>49</sup>

The previous chapter noted that the major reason for ASEAN's initial reluctance to participate in a wider regional form stemmed from the fact that the proposed Asia-Pacific grouping would involve major advanced countries. Many ASEAN countries feared that such an organization would be dominated by larger countries like the United States. Malaysia and Thailand expressed their reservations about the U.S. membership, while Singapore welcomed the participation of the United States and Canada.<sup>50</sup> Despite ASEAN's agreement to join the Asia-Pacific process, ASEAN members remained wary of the possibility that the United States would use APEC as "a tool for U.S. regional domination."<sup>51</sup> Malaysian Prime Minister Mahathir bin Mohamad was the most outspoken opponent of the participation of Western members in APEC in general and the dominant role of the United States in particular. As discussed in detail in Chapter 6, in December 1990 Mahathir called for the establishment of an East Asian Economic Group (EAEG), which was to be composed of only East Asian countries.

With regard to APEC's organizational structure, ASEAN resisted any attempt to turn APEC from an informal consultative forum, their preferred form, into a more formal negotiating body. To caution against the institutionalization of APEC, ASEAN members agreed on a list of principles for their participation in the APEC process at the ASEAN Joint Ministerial Meeting in Kuching, Malaysia, in February 1990. The so-called Kuching consensus identified the following principles:

- ASEAN's identity and cohesion should be preserved and its cooperative relations with its dialogue partners and with third countries should not be diluted in any enhanced APEC;
- An enhanced APEC should be based on the principles of equality, equity and mutual benefit, taking fully into account the differences in stages of economic development and socio-political systems among the countries in the region;

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<sup>49</sup> Acharya, "Ideas, Identity, and Institution-Building: From the 'ASEAN Way' to the 'Asia-Pacific Way?'," 319-346; Acharya, *Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order*, 63-70.

<sup>50</sup> Daniel Snider, "Pacific Rim Nations Strengthen Economic Ties," *Christian Science Monitor*, November 6, 1989, p. 10. See also, Kikuchi, *APEC: Ajia Taiheiyo*, 189.

<sup>51</sup> Helen E. S. Nesadurai, "APEC: A Tool for US Regional Domination?," *The Pacific Review* 9, no. 1 (1996): 31-57.

- APEC should not be directed towards the formation of an inward-looking economic or trading bloc but, instead, it should strengthen the open, multilateral economic and trading systems in the world;
- APEC should provide a consultative forum on economic issues and should not lead to the adoption of mandatory directives for any participant to undertake or implement;
- APEC should be aimed at strengthening the individual and collective capacity of participants for economic analysis and at facilitating more effective, mutual consultations to enable participants to identify more clearly and to promote their common interests and to project more vigorously those interests in the larger multilateral forums; and
- APEC should proceed gradually and pragmatically, especially in its institutionalization, without inhibiting further elaboration and future expansion.<sup>52</sup>

Furthermore, to prevent ASEAN from being diluted within APEC, the ASEAN members desired that ASEAN remain the core of the APEC process. Philippine Finance Minister Jesus Estanislao provided ASEAN's vision in the form of a "concentric circles" model, which saw different levels of cooperation – subregional (i.e. ASEAN), regional (i.e. APEC), and global processes (i.e. GATT) – as a multilayered process.<sup>53</sup> Endorsing this model at the ministerial meeting in Singapore in 1990, Singaporean Senior Minister Lee Kuan Yew spoke of the relationship between ASEAN and APEC as "two concentric circles of cooperation."<sup>54</sup>

The ASEAN members emphasize the importance of processes over structures in the APEC process.<sup>55</sup> ASEAN repeatedly cautioned against being too hasty in institutionalizing the APEC forum in favor of a gradual and incremental approach. Suhadi Mangkusuwondo, who was an Indonesian member of APEC's Eminent Persons Group discussed below, described the "Asian" approach as agreeing on principles first, then discussing the details later. This contrasts with the "American" approach which many in Asia considered too legalistic and too institutionalized. He argued that "[t]o start with legally binding commitments covering a wide range of issues scares many people in Asia."<sup>56</sup>

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<sup>52</sup> Hadi Soesastro, "ASEAN and APEC: Do Concentric Circles Work?," *The Pacific Review* 8, no. 3 (1995): 483-484.

<sup>53</sup> Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 67.

<sup>54</sup> *Ibid.*, 129.

<sup>55</sup> Soesastro, "ASEAN and APEC: Do Concentric Circles Work?," 484.

<sup>56</sup> *Ibid.*: 486.

Despite ASEAN's desire to present one voice at APEC, internal differences within the ASEAN members with regard to their institutional preferences over APEC gradually surfaced, especially when trade liberalization came to the center of APEC's agenda after 1993. At the two extremes have been Singapore and Malaysia.<sup>57</sup> Singapore has been most enthusiastic about strengthening the institutional structure of APEC and has consistently supported APEC's trade liberalization efforts. On the other hand, Malaysia has resisted any efforts toward APEC's institutionalization. For example, in protest against the U.S. initiative to hold a leaders' meeting, Malaysia's Prime Minister Mahathir boycotted APEC's inaugural leaders' meeting held in 1993. Indonesia had been among the least supportive of APEC's trade liberalization agenda but became more positive about APEC. When Indonesia hosted the leaders' meeting in 1994, the Indonesian government under President Suharto "took a more pro-active, more enthusiastic attitude towards APEC."<sup>58</sup>

In terms of external orientation of APEC, ASEAN supported the principle of open regionalism in opposition to the creation of a closed trading bloc. At APEC's initial stage, ASEAN supported the successful conclusion of the Uruguay Round of the GATT talks. In this respect, ASEAN began to view APEC as "a platform to advance ASEAN's interest in global multilateral trade negotiations."<sup>59</sup>

Not surprisingly, ASEAN's preferred agenda for APEC has been economic and technical cooperation rather than trade liberalization. As discussed below, many ASEAN states resisted attempts by many Western members of APEC to use APEC as a vehicle for promoting trade liberalization. Meanwhile, Singapore, which had already removed all tariffs on most products, was the only consistent supporter for APEC's push for trade liberalization. Thailand and the Philippines also showed sporadic interests in trade liberalization.<sup>60</sup>

At APEC's initial stage, ASEAN's interest in APEC was driven by its desire to use APEC as a vehicle to maintain continued access to export markets in the face of the rise of U.S. protectionism and the stalemate of the GATT trade negotiations and to attract attention from major economies like the United States and Japan. ASEAN was increasingly concerned about

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<sup>57</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 105-106; Bodde, *View from the 19th Floor: Reflections of the First APEC Executive Director*, 37; Yamakage, *ASEAN Pawaa: Ajia Taiheiyo no Chuukaku e [ASEAN Power: Putting ASEAN in the Core of the Asia-Pacific]*, 262-263.

<sup>58</sup> Bodde, *View from the 19th Floor: Reflections of the First APEC Executive Director*, 37.

<sup>59</sup> Acharya, *The Quest for Identity: International Relations of Southeast Asia*, 152.

<sup>60</sup> Ravenhill, "Institutional Evolution at the Trans-Regional Level: APEC and the Promotion of Liberalization," 238.

the prospect of diversion of foreign direct investment (FDI) away from Southeast Asia to newly opened Eastern Europe and China.<sup>61</sup> For example, Lee Hsien Loong, Minister for Trade and Industry, maintained:

At a time when Eastern Europe is attracting more attention from the developed countries, APEC will provide an extra incentive for the U.S., Japan, and the other major regional economies to strengthen their ties with ASEAN.<sup>62</sup>

However, despite the initial worries, not only did the U.S. market remain open to Asian exports, but the Uruguay Round of the GATT negotiations were successfully completed by 1994. Because of these subsequent developments after APEC's birth, by the mid-1990s the initial external challenges that had driven the participation of the Southeast Asian countries in APEC had become marginal.<sup>63</sup> This weakened ASEAN's interest in APEC as a way to maintain market access.

### **5.2.1.5 China**

Until the early 1990s, China had been mostly skeptical about multilateral approaches. Since the adoption of the Open Door Policy in 1978, China has gradually opened its economy and has been increasingly integrated into the world economy. Yet, in principle, Beijing continued to prefer an "independent" foreign policy, which was officially adopted in 1982. In dealing with regional affairs, China generally preferred bilateral approaches because Beijing could take advantage of the greater leverage that it enjoyed over many countries in the region, especially ASEAN members.<sup>64</sup> Chinese skepticism about regionalism was based on their belief that regional forums would be dominated by major powers like the United States at the expense of its own interests. This "fear of inclusion" – "the fear that China would be included on terms set by other regional players" – was gradually outweighed by the "fear of exclusion."

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<sup>61</sup> Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 67; Acharya, *The Quest for Identity: International Relations of Southeast Asia*, 152.

<sup>62</sup> Text of speech by Lee Hsien Loong, Minister for Trade and Industries, Singapore at the Indonesia forum in Jakarta on July 11, 1990, p. 9, available at <http://stars.nhb.gov.sg/stars/public/>

<sup>63</sup> Helen E. S. Nesadurai, "Asia-Pacific Approaches to Regional Governance: The Globalization-Domestic Politics Nexus," in Kanishka Jayasuriya, ed., *Asian Regional Governance: Crisis and Change* (London and New York: Routledge, 2004), 154.

<sup>64</sup> Alice D. Ba, "China and ASEAN: Renavigating Relations for a 21-st Century Asia," *Asian Survey* 43, no. 4 (2003): 632-633; Akio Takahara, "Japan and China: New Regionalism and the Emerging East Asian Order," in Hugo Dobson and Glenn D. Hook, eds., *Japan and Britain in the Contemporary World: Responses to Common Issues* (New York, NY: Routledge, 2003), 98.

Notwithstanding China's continuing reservations over regionalism throughout the 1980s, the period from the mid-1980s to the early 1990s witnessed a growing recognition among Chinese policy elites that the opportunity cost of China staying out of regional economic groupings would be high.<sup>65</sup>

The Tiananmen incident of June 1989 and the international reaction to that event was a major setback for China's integration into the world community. In response to the post-Tiananmen diplomatic isolation and the end of the Cold War, China turned to regionalism.<sup>66</sup> In the early 1990s, Chinese leaders "realized their country would wield more influence as a participant than as a nonparticipant."<sup>67</sup> In 1991, China was accepted as a member in APEC. When APEC had its inaugural informal leader's meeting in 1993, Chinese President Jiang Zemin took a personal interest in APEC.<sup>68</sup> China's decision to join APEC reflected not only its fear of exclusion, but also its desire to use it as an opportunity to make a complete return to the international stage in the aftermath of the Tiananmen incident.

In terms of organizational form, China preferred a loose consultative form of regional arrangement with a gradualist and consensus-based approach. At the Seattle leaders' meeting, Jiang Zemin stated that "APEC should be an open, flexible and pragmatic forum for economic cooperation and a consultation mechanism rather than a closed, institutionalized economic bloc."<sup>69</sup> In his speech, he identified four principles for economic cooperation during the Seattle meeting: "mutual respect, equality and mutual benefit, opening up to each other, as well as common prosperity."<sup>70</sup> At the next APEC informal summit meeting in November 1994, the Chinese government put forward the following five principles: (1) mutual respect and consultative consensus; (2) gradual progress and stable development; (3) opening to each other and non-discrimination; (4) comprehensive cooperation and mutual benefit; (5) reducing the development gap and common prosperity.<sup>71</sup>

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<sup>65</sup> Thomas G. Moore and Dixia Yang, "China, APEC and Economic Regionalism in the Asia-Pacific," *Journal of East Asian Affairs* 13, no. 2 (1999): 366.

<sup>66</sup> Gilbert Rozman, *Northeast Asia's Stunted Regionalism: Bilateral Distrust in the Shadow of Globalization* (Cambridge, UK ; New York: Cambridge University Press, 2004), 91.

<sup>67</sup> Moore and Yang, "China, APEC and Economic Regionalism in the Asia-Pacific," 383.

<sup>68</sup> Takahara, "Japan and China: New Regionalism and the Emerging East Asian Order," 97.

<sup>69</sup> Cited in Camilleri, *Regionalism in the New Asia-Pacific Order*, 141.

<sup>70</sup> Yunling Zhang, "China and APEC," in Vinod K. Aggarwal and Charles E. Morrison, eds., *Asia-Pacific Crossroads: Regime Creation and the Future of APEC* (New York: St. Martin's Press, 1998), 222.

<sup>71</sup> *Ibid.*

In terms of issue areas, like other Asian countries, China stressed the importance of economic and technical cooperation.<sup>72</sup> Also, China rejected dealing with political and security issues within the APEC framework.<sup>73</sup> In short, China's institutional preference over APEC had a close resemblance with that of ASEAN countries.

## 5.2.2 Four Dimensions of Institution

The following section analyzes the institutional form and evolution of APEC in four dimensions: membership, organizational structure, external orientation, and issue areas. In doing so, it examines why APEC evolved in the way it did by exploring how different institutional preferences among key members played out in each dimension.

### 5.2.2.1 Membership

Since its inception, APEC's membership has expanded from 12 to 21 within the first eight years of its existence (See Table 5-1). The following pages first outline a brief history of APEC membership and then explore an important debate between the advocates of widening the grouping by inviting new members and the proponents of deepening cooperation within the existing APEC members.

**Table 5-1: Year in which Member Economies Joined APEC**

	Member Economies
1989	Australia, Brunei Darussalam, Canada, Indonesia, Japan, Republic of Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, United States
1991	People's Republic of China, Chinese Taipei, Hong Kong
1993	Mexico, Papua New Guinea
1994	Chile
1998	Peru, Russia, Vietnam

The issue of membership was extremely controversial from the beginning when APEC was formed in 1989. When the Hawke proposal was announced, the question of which countries were to be invited to this newly proposed forum was probably more contentious than what agendas were to be discussed at the inaugural meeting. The previous chapter illustrated that

<sup>72</sup> Camilleri, *Regionalism in the New Asia-Pacific Order*, 161.

<sup>73</sup> Zhang, "China and APEC," 223.

Southeast Asian developing countries were particularly concerned about joining a regional forum which would involve the major advanced countries. The issue of U.S. participation was most controversial in discussion of who would participate in the inaugural Asia-Pacific regional forum. As noted earlier, the initial Hawke proposal failed to list the United States as a member of the proposed grouping. The Japanese government had proposed a similar regional forum that envisioned the United States as an indispensable member. Japan's interest lied in embedding the United States in a regional, multilateral forum rather than creating a regional forum that would exclude the United States. Therefore, the Japanese government took pains to convince skeptical ASEAN countries about the U.S. participation. Meanwhile, the U.S. government strongly opposed being excluded from the proposed regional arrangement, which left the Australian government no choice but to invite the United States. At the inaugural APEC ministerial meeting held in November 1989, twelve countries gathered in Canberra, including Australia, Canada, Japan, New Zealand, South Korea, the United States, and the six member countries of ASEAN (Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand).

However, conspicuously absent from the Canberra meeting were the "Three Chinas," namely, the People's Republic of China, Taiwan, and Hong Kong.<sup>74</sup> While some countries like the United States and Australia were enthusiastic about the participation of three Chinas as soon as possible, many ASEAN countries were reluctant about the early inclusion of these economies.<sup>75</sup> At that time, three ASEAN countries, Indonesia, Singapore, and Brunei, still did not have diplomatic relations with Beijing, although each has established ties subsequently. At the Canberra meeting, Tokyo wanted to defer the China question until later, although it supported the eventual inclusion.<sup>76</sup> The Americans agreed to defer the issue, because they were afraid that the focus on the issue of Chinese membership "could divert APEC from getting off the ground."<sup>77</sup> Consequently, the subsequent senior officials' meeting was given the task of reaching agreement on how to incorporate the "three Chinas." Despite the initial divergent preferences among APEC members, the participation of the "Three Chinas" was realized at the

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<sup>74</sup> Norman Kempster and Sam Jameson, "12 Pacific Rim Nations Back Free Trade Commerce: A Conference Marks the First Step in a Program to Improve Cooperation. But China, Taiwan and Hong Kong Aren't Included," *Los Angeles Times*, November 8, 1989, p. 2.

<sup>75</sup> Satoshi Isaka, "ASEAN Reasserts Its Regional Influence," *Japan Economic Journal*, November 18, 1989, p. 5.

<sup>76</sup> Jacqueline Rees, "First Step Taken: Historic Meeting Gets Regional Economic Forum Started," *Far Eastern Economic Review*, November 16, 1989, p. 10.

<sup>77</sup> State Department counselor Robert Zoellik, cited in Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 65.

third ministerial meeting in Seoul in November 1991 through the brokerage of South Korea under the leadership of Assistant Minister of Foreign Affairs Lee See-Young.<sup>78</sup>

At the same meeting, a general rule about membership was also reached and endorsed in the Seoul Declaration, which stipulated that “[p]articipation in APEC will be open, in principle, to those economies in the Asia-Pacific region which: (a) have strong economic linkages in the Asia-Pacific region; and (b) accept the objectives and principles of APEC as embodied in this Declaration.”<sup>79</sup> Like other issues in APEC, decisions on future membership were to be made on the basis of a consensus among APEC members. At the next ministerial meeting in Bangkok in 1992, APEC ministers reaffirmed the criteria for APEC membership set forth in the Seoul Declaration in the previous year and “expressed the view that APEC was entering a phase when consolidation and effectiveness should be the primary consideration, and that decisions on further participation required careful consideration in regard to the mutual benefits to both APEC and prospective participants.”<sup>80</sup> In 1993, Mexico and Papua New Guinea were admitted, and the ministers decided to admit Chile the following year. However, at the 1993 ministerial meeting, the ministers “agreed to defer consideration of additional members for three years.”<sup>81</sup>

By the end of the first moratorium, more than ten candidates expressed their interest in participating in APEC. The leading candidates were believed to be Russia, India, Mongolia, Peru, Vietnam, Ecuador, Colombia, Laos, and Panama.<sup>82</sup> Russia had formally announced its interest in APEC’s membership in March 1995. However, Australia opposed the participation of Russia on the grounds that Russia was more oriented toward Europe rather than Asia Pacific. For example, Andrew Elek pointed out that Russia’s trade with Europe was larger than that with APEC economies.<sup>83</sup> Critics thus argued that Russia did not meet at least one of the APEC membership criteria mentioned above, which states that members should “have strong economic linkages in the Asia-Pacific region.”<sup>84</sup> On the other hand, other APEC members, including

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<sup>78</sup> Ibid., 73-75.

<sup>79</sup> Seoul APEC Declaration, Seoul, November 14, 1991. See APEC, *Selected APEC Documents, 1989-1994*, 73.

<sup>80</sup> Joint Statement, APEC Ministerial Meeting, Bangkok, September 10-11, 1992. See Ibid., 85.

<sup>81</sup> Joint Statement, APEC Ministerial Meeting, Seattle, November 17-19, 1993. See Ibid., 98.

<sup>82</sup> Yuen Pau Woo, "A Review of APEC Membership and Issues Surrounding the Admission of New Members," Paper presented at the Paper prepared for the APEC Study Center Consortium Meeting, Vina del Mar, Chile, May 2004, 4. Available at: [http://www.asiapacific.ca/about/apec/apec\\_membership2004.pdf](http://www.asiapacific.ca/about/apec/apec_membership2004.pdf)

<sup>83</sup> Hogg, *Australia and APEC: A Review of Asia Pacific Economic Cooperation*, 54.

<sup>84</sup> For pros and cons of the debate with regard to Russia’s membership, see Anna V. Shkuropat, "Assessing Russia’s Entry into APEC," Paper presented at the Paper prepared for APEC Study Center Consortium 1999 Conference,

Japan and China, supported Russia's entry into APEC, but their support was motivated more by political reasons than economic rationale. In their views, Russia's participation in APEC would help them to improve their respective relationship with Russia. Moscow's interest in APEC was also driven by political motives rather than the expected economic benefits from participating in APEC. Specifically, Moscow wanted to demonstrate its commitment to the Asia-Pacific region as a Pacific power in the hope of increasing its political status in the region. Similarly, Vietnam aspired to be an APEC member as a part of wider strategy of ending its former isolation.<sup>85</sup> ASEAN supported the admission of Vietnam, which had joined the Association in 1995.<sup>86</sup> Japan also supported the participation of Vietnam and Peru.<sup>87</sup>

At the 1997 ministerial meeting, the ministers agreed to admit three of these applicants – Russia, Vietnam, and Peru – the following year. However, at the same meeting, the ministers also agreed upon a ten-year moratorium on APEC membership.<sup>88</sup> The second membership moratorium indicated APEC members' recognition that the enlargement of APEC's membership has complicated APEC's consensual decision-making and made it extremely difficult to pursue its stated goals and reach any substantial agreement. This has been at the heart of the debate between advocates for enlargement and their opponents, an issue that I turn to below.

### *“Deepening” versus “Widening”*

Like any organization, APEC has faced a classic dilemma between “deepening” and “widening.”<sup>89</sup> On the one hand, the more economies that join APEC and thus commit themselves to trade liberalization and other goals of APEC, the better. On the other hand, APEC operates on the basis of consensus. Therefore, if more economies are involved in APEC, it will become more difficult to reach consensus on the goals and modalities of the forum.<sup>90</sup>

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Auckland, New Zealand May 31-June 2, 1999. Available at:

<http://www2.auckland.ac.nz/apec/papers/Shkuropat.html>

<sup>85</sup> Camilleri, *Regionalism in the New Asia-Pacific Order*, 140.

<sup>86</sup> Woo, "A Review of APEC Membership and Issues Surrounding the Admission of New Members," 4.

<sup>87</sup> *Ibid.*, 5.

<sup>88</sup> Camilleri, *Regionalism in the New Asia-Pacific Order*, 139.

<sup>89</sup> In this section, “widening” refers to the expansion of membership, while “deepening” refers to increasing the level of cooperation among the same members. However, there exists a similar distinction between “deepening” and “widening” in terms of issue coverage. In this case, “widening” refers to the expansion of issue coverage, while “deepening” refers to promoting the level of cooperation on issues that members already agreed to deal with within the institution. This issue will be discussed in the later section.

<sup>90</sup> Nicole Gallant and Richard Stubbs, "APEC's Dilemmas: Institution-Building Around the Pacific Rim," *Pacific Affairs* 70, no. 2 (1997): 207-208.

Some members, especially Australia and the United States, have expressed their reservations about admitting new members on the grounds that the expansion of the group would make APEC’s liberalization goals more difficult to achieve.<sup>91</sup> In particular, Australian Prime Minister Keating strongly opposed the expansion of the grouping. In his memoir, he explains his opposition to the expansion of APEC’s membership by writing: “if APEC got too big, or its membership became more diffuse – for example, by drawing in Latin America – we could not achieve what we wanted to do strategically.”<sup>92</sup> On the other hand, Malaysia has enthusiastically supported the expansion of APEC’s membership. China also has been generally supportive of increasing the membership of APEC, as exemplified by its support for the inclusion of Peru and Russia.<sup>93</sup> (For a summary of some members’ preferences with regard to APEC’s membership, see Table 5-2).

**Table 5-2: Representative Members' Preferences on APEC's Enlargement**

<b>Enlargement</b>	<b>No Enlargement</b>
Malaysia, China, (Japan)	Australia, the U.S.

It is noteworthy that Malaysia, which has been the least enthusiastic member of APEC, has also been the most enthusiastic advocate of enlarging APEC’s membership. In fact, many observers commented that Malaysia’s support for the enlargement of APEC stemmed from its interest in deliberately weakening the grouping.<sup>94</sup> Sharing this observation, Keating criticized Malaysia’s lobbying for the admission of new members as “an attempt to make APEC ineffective before it had really begun.”<sup>95</sup> Similarly, some commentators believed that Japan’s support for Russian membership in APEC was to some extent driven by its desire to complicate the grouping’s trade liberalization agenda by further enhancing the diversity of APEC, especially at a time when the Early Voluntary Sectoral Liberalization initiative was at the center of APEC’s agendas.<sup>96</sup> In short, decisions on the admission of new members have become highly politicized.

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<sup>91</sup> Woo, "A Review of APEC Membership and Issues Surrounding the Admission of New Members," 4. However, the U.S. was enthusiastic about the participation of Mexico. *Asahi Shimbun*, July 8, 1993, p. 11.

<sup>92</sup> Paul Keating, *Engagement: Australia Faces the Asia-Pacific* (Sydney: Macmillan, 2000), 93.

<sup>93</sup> Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 142.

<sup>94</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 32; Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 142.

<sup>95</sup> Keating, *Engagement: Australia Faces the Asia-Pacific*, 94.

<sup>96</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 101.

### 5.2.2.2 Organizational Structure

From the outset, APEC has emphasized the informal nature of the forum. In 1989, APEC started as a consultative forum among foreign and trade ministers from member economies. Various sectoral ministerial meetings have also been later added in the following areas: education, energy, environment and sustainable development, finance, human resource development, regional science and technology cooperation, small and medium enterprise, telecommunications and information industry, trade, transportation, women's affairs, and tourism. As noted earlier, beginning in 1993, economic leaders' meetings have been held annually. APEC currently operates at three levels: Leaders' Meetings, Ministerial Meetings, and Senior Officials' Meetings (SOM). It has four committees, eleven sub-committees, SOM special task groups, and eleven working groups. The APEC host economy is responsible for chairing the Ministerial and Economic Leaders' Meetings. APEC adopted an informal practice of alternating the chairmanship between an ASEAN and a non-ASEAN member every two years – a practice which lasted until the Brunei meeting in 2000. Since then the rotation of ASEAN chairmanship of APEC has been once every three years.<sup>97</sup>

APEC operates by consensus reached among APEC members through open dialogue and consultation. It has often been recognized that APEC focuses on the *process* of interactions rather than structure or substance.<sup>98</sup> APEC's agreements are not based on legally binding commitments; APEC's decisions are implemented through the unilateral actions of members, subject only to peer pressure.

As we have already seen, the institutional development of APEC can be divided into three phases. The first phase between 1989 and 1992 was characterized by ASEAN's vigorous efforts to prevent the institutionalization of APEC. The inaugural Canberra meeting emphasized the principle that APEC operates through "open dialogue and consensus" and "cooperation should be based on non-formal consultative exchanges of views among Asia Pacific economies."<sup>99</sup> Similarly, at the second Ministerial Meeting in 1990, the ministers confirmed that "APEC is a non-formal forum for consultations among high-level representatives of economies"

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<sup>97</sup> In 1998, ASEAN ministers agreed to change the rotation of ASEAN chairmanship of APEC from once every two years to once every three years. See "Joint Press Statement: The 30<sup>th</sup> ASEAN Economic Ministers Meeting (AEM), Makati City, Philippines, October 7-8, 1998, available at <http://www.aseansec.org/717.htm>

<sup>98</sup> Acharya, "Ideas, Identity, and Institution-Building: From the 'ASEAN Way' to the 'Asia-Pacific Way'?", 329.

<sup>99</sup> Chairman's Summary Statement, APEC Ministerial Meeting Canberra, 6-7 November 1989, in APEC, *Selected APEC Documents, 1989-1994*, 46.

in the Asia Pacific region.<sup>100</sup> The 1991 Seoul Declaration identifies APEC's mode of operation, stipulating that cooperation would be based on:

- (a) the principle of mutual benefit, taking into account the differences in the stages of economic development and in the socio-political systems, and giving due consideration to the needs of developing economies; and
- (b) a commitment to open dialogue and consensus-building, with equal respect for the views of all participants.<sup>101</sup>

Although some countries desired to adopt the 1991 Seoul Declaration as the APEC Charter, this desire was not realized because of ASEAN's opposition. ASEAN also resisted stipulating the establishment of a secretariat and budget that were eventually removed from the final text.<sup>102</sup> In particular, Indonesian foreign minister Ali Alatas warned against the institutionalization of APEC, including the establishment of an APEC secretariat, and argued that if such a secretariat were deemed necessary, APEC could utilize the ASEAN secretariat in Jakarta.<sup>103</sup> ASEAN also opposed the Australian proposal for establishing an Eminent Persons Group (EPG) of experts.<sup>104</sup> Nonetheless, the ministers recognized the need to consider "the possibility of establishing a mechanism on a permanent basis to provide support and coordination for APEC activities at various levels; ways to finance APEC activities, including a procedure for apportionment of expenses; and other organizational matters."<sup>105</sup> The adoption of the Seoul Declaration was the first comprehensive statement of APEC's mission.

### *Secretariat*

Some APEC members, such as Australia and the U.S., had envisioned the creation of a permanent secretariat since the inception of APEC.<sup>106</sup> Meanwhile, many Asian countries had opposed it as a move toward APEC's institutionalization. However, once Thailand, as the host economy of the 1992 APEC meeting, expressed an interest in establishing the APEC secretariat in Bangkok, other countries like Singapore, Indonesia, and South Korea also called for bringing

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<sup>100</sup> Ibid., 61.

<sup>101</sup> Seoul APEC Declaration, Seoul, November 14, 1991 in Ibid., 73.

<sup>102</sup> Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 77.

<sup>103</sup> Ibid., 67, 140.

<sup>104</sup> Ibid., 77.

<sup>105</sup> Joint Statement, APEC Ministerial Meeting, Seoul, 12-14 November 1991, in APEC, *Selected APEC Documents, 1989-1994*, 70.

<sup>106</sup> Satoshi Isaka, "ASEAN Reasserts its Regional Influence at Meeting of New Economic Organization," *The Japan Economic Journal*, November 18, 1989, p. 5.

it to their capitals. Although most members agreed that the secretariat should be established in an ASEAN member capital, the competition between Singapore and Bangkok was stalled. Through the brokerage of senior officials, who collected opinions of member governments, at the 1992 ministerial meeting in Bangkok, ministers agreed to establish the secretariat in Singapore.<sup>107</sup> At Bangkok, ministers also endorsed the recommendation of senior officials that “The APEC Secretariat should be small in size, simple in structure, and flexible enough to meet APEC’s needs.”<sup>108</sup>

Accordingly, a small secretariat was established in Singapore in February 1993. It is headed by an Executive Director from the current APEC host economy and a Deputy Executive Director from the next host economy. The Secretariat operates as “a support mechanism to facilitate and coordinate APEC activities, provide logistical and technical services as well as administer APEC financial affairs under the direction of the APEC Senior Officials’ Meeting (APEC SOM).”<sup>109</sup> It is staffed by only twenty-two program directors, who seconded from APEC Member Economies, with an additional 27 staff employed directly by the Secretariat to fulfill specialist and support functions.<sup>110</sup>

The establishment of the permanent secretariat in Singapore marked the first step in APEC’s institutional development. However, the role of the secretariat remains extremely limited to that of “a service organ to keep records, provide logistics, and serve as a central clearinghouse in a still highly decentralized institution.” Moreover, the constant rotation of officials makes the development of a sense of organizational identity or institutional memory extremely difficult.<sup>111</sup> The main part of institutional work remains in the hands of various ministries at the national level, especially that of the incoming host economy.<sup>112</sup>

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<sup>107</sup> Susumu Yamagami, *Ajia Taiheiyo chiki no jidai - Aipekku setsuritu no keii to tenbo [The Age of the Asia-Pacific Region - The History of APEC's Establishment and its Prospect]* (Tokyo: Daiichihoki, 1994), 31-34; Yamakage, *ASEAN Pawaa: Ajia Taiheiyo no Chuukaku e [ASEAN Power: Putting ASEAN in the Core of the Asia-Pacific]*, 259-260.

<sup>108</sup> “Future Steps of APEC, Report of the APEC Senior Officials to the Fourth APEC Ministerial Meeting,” Bangkok, 11 September 1992. Cited in Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 139.

<sup>109</sup> Bangkok Declaration on Asia on Asia-Pacific Economic Cooperation (APEC) Institutional Arrangements, Bangkok, 10 September 1992, in APEC, *Selected APEC Documents, 1989-1994*, 88.

<sup>110</sup> APEC website, [http://www.apec.org/content/apec/about\\_apec/apec\\_secretariat.html](http://www.apec.org/content/apec/about_apec/apec_secretariat.html)

<sup>111</sup> Aggarwal and Morrison, “APEC as an International Institution,” 315.

<sup>112</sup> *Ibid.*, 314.

### *Budget*

At the Bangkok APEC ministerial meeting in September 1992, ministers agreed to establish the APEC Central Fund to cover APEC administrative and operational costs with the upper limit of US\$2 million. They agreed that APEC members make small annual contributions to the Fund on a proportional basis.<sup>113</sup> At the subsequent Senior Officials' Meeting, senior officials agreed on the formula for members' contribution to the APEC Central Fund with a maximum of 18% provided by the United States and Japan.<sup>114</sup> APEC's annual central budget has grown from US\$2 million in 1993 to US\$3.38 million in 1999. These funds are used to fund the APEC Secretariat in Singapore and various APEC projects. Since 1997 Japan has provided the additional funds called the APEC TILF Special Fund (between US\$2.7 and 4.2 million each year) to support APEC's trade and investment liberalization and facilitation goals.<sup>115</sup> However, the size of the budget is considerably lower than that of other regional organizations.

### *Leaders' Meetings*

The elevation of APEC meetings to the economic leaders' level heralded the beginning of the second phase of APEC's institutional evolution. As mentioned earlier, the original idea for leaders' meetings came from Australian Prime Minister Keating. During his foreign policy speech in April 1992, he proposed establishing regular heads-of-government meetings in every two or three years. He wrote letters to the leaders of the three key countries whose support he considered crucial: American President George H. W. Bush, Japanese Prime Minister Kiichi Miyazawa, and Indonesian President Suharto. The initial response from the U.S. president was a non-committal one.<sup>116</sup> Miyazawa offered tentative support for Keating's idea. However, it was not until July 1993 that the Japanese government fully endorsed it. The initial Japanese hesitation stemmed from their concerns about a politically sensitive problem associated with the attendance of China, Taiwan, and Hong Kong. Moreover, Japan was worried about the

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<sup>113</sup> Joint Statement, APEC Ministerial Meeting, Bangkok, 10-11 September 1992. See APEC, *Selected APEC Documents, 1989-1994*, 84.

<sup>114</sup> APEC, "Summary Report of the Asia-Pacific Economic Cooperation Budget and Administrative Committee Meeting, Singapore, 8-9 March 1995, Annex 8. Available at [http://www.apec.org/apec/documents\\_reports/budget\\_management\\_committee/past\\_meetings.html](http://www.apec.org/apec/documents_reports/budget_management_committee/past_meetings.html)

<sup>115</sup> APEC Website, <http://www.apec.org/apec/tools/faqs.html>

<sup>116</sup> Keating, *Engagement: Australia Faces the Asia-Pacific*, 82.

possibility of ASEAN's boycotting the leader's meeting.<sup>117</sup> Suharto also initially reacted to the proposal cautiously.<sup>118</sup> Subsequently, Keating wrote to the leaders of the other APEC members. Meanwhile, when Foreign Minister Gareth Evans sounded out ASEAN members about the proposal at a meeting in August 1992, he received generally encouraging responses.<sup>119</sup> Despite the initial cautious attitudes of some governments, the Keating proposal began to receive a moderate support.

A major boost to the proposal, however, came from the newly-elected President Clinton who took an active interest in Keating's proposal when Keating personally wrote to him. Although the Bush administration had offered quiet support for the idea of leader's meetings, it was President Clinton who acted upon the idea and took the initiative to hold an informal leaders' meeting in the incoming APEC meeting to be hosted by the United States that year. To accommodate the politically sensitive issue of sovereignty associated with the participation of the Three Chinas, the name had been changed from a "heads-of-government" to an "APEC leaders' economic meeting."<sup>120</sup> With the exception of Malaysian Prime Minister Mahathir, Clinton received general support for the holding of the inaugural leader's meeting at Seattle. On November 20, 1993, President Clinton successfully invited the leaders of the APEC member economies except Mahathir to participate in an informal economic leaders' meeting immediately after the regular meetings of foreign and trade ministers.

Fred Bergsten commented that the "leaders in Seattle began the process of converting APEC from a purely consultative body into a substantive international institution."<sup>121</sup> This move toward institutionalization led primarily by the United States worried many ASEAN members. For example, Rafidah Aziz, the Malaysian Minister for Trade and Industry stated in March 1994 that "APEC is slowly turning out to be what it wasn't supposed to be, meaning that APEC was constituted as a loose consultative form."<sup>122</sup> Despite concerns among some ASEAN countries about APEC's institutional development, leaders' meetings became a regular part of the APEC

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<sup>117</sup> Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 193-194.

<sup>118</sup> Camilleri, *Regionalism in the New Asia-Pacific Order*, 143.

<sup>119</sup> Keating, *Engagement: Australia Faces the Asia-Pacific*, 83.

<sup>120</sup> *Ibid.*, 87-91.

<sup>121</sup> C. Fred Bergsten, "APEC and World Trade: A Force for Worldwide Liberalization," *Foreign Affairs* 73, no. 3 (1994): 21.

<sup>122</sup> Cited in Soesastro, "ASEAN and APEC: Do Concentric Circles Work?," 483.

process when President Suharto of Indonesia as APEC host in 1994 invited the leaders to meet again that year.

The direct involvement of leaders in the APEC process since 1993 has strongly influenced the direction and pace of APEC's institutional development. While this had the positive effect of providing successive leaders a strong incentive to mark their accomplishments, the rotation of chairmanship also revealed its weakness because APEC's member economies "are vastly different in size and also have different degree of interest in and commitment to the APEC process."<sup>123</sup>

### *Nongovernmental Actors*

The second phase of APEC's institutional development has also witnessed growing input from nongovernmental actors. At the 1992 Ministerial meeting in Bangkok, ministers agreed to set up an Eminent Persons Group (EPG) "to enunciate a vision for trade in the Asia-Pacific region to the year 2000, identify constraints and issues which should be considered by APEC, and report initially to the next Ministerial Meeting in the United States in 1993."<sup>124</sup> Chaired by Fred Bergsten, the EPG was composed mostly of economists, who have been deeply involved in the activities of non-governmental organizations, including PAFTAD and PECC.

The first EPG report, submitted in October 1993, recommended that APEC work toward the creation of "a true Asia Pacific Economic Community."<sup>125</sup> To this end, it recommended "a modest institutionalization of APEC."<sup>126</sup> Other EPG recommendations included the establishment of a target date and timetable for the achievement of free trade in the region, the adoption of a voluntary APEC investment code, and the establishment of an effective settlement mechanism. The second EPG report, submitted in August 1994, provided more specific recommendations to achieve the long-term vision proposed in the first report. Most importantly, this report recommended that APEC adopt the goal of completing the liberalization process by the year 2020. In response to criticism from some Asian countries, the second EPG report

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<sup>123</sup> Aggarwal and Morrison, "APEC as an International Institution," 315.

<sup>124</sup> Joint Statement, APEC Ministerial Meeting, Bangkok, 10-11 September 1992, in APEC, *Selected APEC Documents, 1989-1994*, 79-80.

<sup>125</sup> APEC Eminent Persons Group, *A Vision for APEC: Towards an Asia Pacific Economic Community: Report of the Eminent Persons Group to APEC Ministers* (Singapore: APEC Secretariat, 1993).

<sup>126</sup> *Ibid.*

dropped the term “community,” which may suggest the image of the EC type of community.<sup>127</sup> It also emphasized such principles as “mutual benefits,” “mutual respect and egalitarianism,” “pragmatism,” “consensus,” and “open regionalism.”<sup>128</sup> Yet some ASEAN officials remained skeptical of the EPG, considering that the vision of the EPG reflected that of advanced countries. At the ASEAN economic ministerial meeting in September 1994, ASEAN economic ministers called for the dissolution of the EPG.<sup>129</sup> The EPG was disbanded after it submitted its third and final report in August 1995.

### *Business Communities*

At the first Leaders’ Meeting in 1993, the leaders agreed to establish a Pacific Business Forum (PBF) “to identify issues APEC should address to facilitate regional trade and investment and encourage the further development of business networks throughout the region.”<sup>130</sup> In 1995, the Leaders agreed to establish the APEC Business Advisory Council (ABAC) as a permanent business advisory body, replacing the PBF. The ABAC became a major institutional link between APEC and the business community. To stimulate the business community’s interest in APEC, the 1996 leader’s meeting in Manila put forward the slogan “APEC Means Business.”

### *Institutionalization*

As illustrated above, by the mid-1990s, the divergent institutional preferences among member economies with regard to institutionalization became the center of contention within APEC. On the one hand, Anglo-American members of APEC, including the United States, Canada, Australia, and New Zealand, favored strengthening the institutional structure of APEC, including the adoption of legally binding obligations and tangible goals with fixed deadlines. On the other hand, most Asian members resisted the institutionalization of APEC in favor of an informal and loose structure.<sup>131</sup> These countries preferred a gradual and incremental approach to institutional evolution.

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<sup>127</sup> Ipeei Yamazawa, *Ajia Taiheiyo Keizai Nyumon [Introduction to Asia-Pacific Economy]* (Tokyo: Toyo Keizai Shinposha, 2001), 70.

<sup>128</sup> APEC Eminent Persons Group, *Achieving the APEC Vision: Free and Open Trade in the Asia Pacific: Second Report of the Eminent Persons Group* (Singapore: APEC Secretariat, 1994).

<sup>129</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 129.

<sup>130</sup> APEC, *Selected APEC Documents, 1989-1994*, 3.

<sup>131</sup> Stubbs, "ASEAN Plus Three: Emerging East Asian Regionalism?," 447.

Malaysian Prime Minister Mahathir was the most outspoken critic of U.S.-led attempts to transform APEC into a more institutionalized organization for the negotiation of trade liberalization. China also has attempted to “obstruct U.S.-led efforts to transform the forum into a more formal rules-making organization.”<sup>132</sup> The Japanese government was also opposed to making APEC a site of negotiation for trade liberalization. Japanese Foreign Minister Yohei Kono described what he calls the “Asia-Pacific Way” to proceeding with the liberalization process within APEC as follows: “APEC members decide upon common principles and guidelines within the Action Agenda beforehand, then follow these while pushing forward with voluntary liberalization in a concerted way and taking collective actions within APEC as a whole.”<sup>133</sup> Moreover, he also emphasized the principles of flexibility and voluntarism with regard to not only the pace but also the modalities of trade liberalization and facilitation.<sup>134</sup> Table 5-4 summarizes the divergent preferences among key APEC members over APEC’s institutionalization.

**Table 5-3: Representative Members' Preferences on APEC’s Institutionalization**

Drivers*	Brakemen*
The United States, Canada, Australia, New Zealand, Singapore	Most ASEAN members (especially Malaysia), China, Japan

*Sources:* William Bodde, *Views from the 19<sup>th</sup> Floor: Reflections of the First APEC Executive Director* (Singapore: ASEAN Economic Research Unit, Institute of Southeast Asian Studies, 1994), p. 37; Nicole Gallant and Richard Stubbs, “APEC’s Dilemma: Institution-Building Around the Pacific Rim,” *Pacific Affairs* (1997), pp. 212; and supplementary data.

*Note:* \*The metaphors "drivers" and "brakemen" are taken from Fran Schimmelfennig, “The Community Trap: Liberal Norms, Rhetorical Action, and the Eastern Enlargement of the European Union,” *International Organization* (2001), pp. 47-80.

### 5.2.2.3 External Orientation

Since its inception, APEC members have emphasized the outward-looking nature of the forum and the principle of “open regionalism.” APEC was not designed to create a discriminatory trading bloc, and it supported the promotion of an open multilateral trading system. During its first years, APEC members repeated their support for an early successful

<sup>132</sup> Moore and Yang, "China, APEC and Economic Regionalism in the Asia-Pacific," 363.

<sup>133</sup> “Japan's Foreign Policy in the Asia-Pacific, and the Significance of APEC: Speech Given by Minister for Foreign Affairs Yohei Kono at the Kansai Press Club,” November 15, 1995, APEC 1995 Osaka Official Information, Ministry of Foreign Affairs, [http://www.mofa.go.jp/policy/economy/apec/1995/yk\\_speech.html](http://www.mofa.go.jp/policy/economy/apec/1995/yk_speech.html)

<sup>134</sup> “Japan’s Position: Remarks by Minister Yohei Kono, Minister for Foreign Affairs of Japan,” APEC 1995 Osaka Official Information, Ministry of Foreign Affairs, [http://www.mofa.go.jp/policy/economy/apec/1995/j\\_pstion.html](http://www.mofa.go.jp/policy/economy/apec/1995/j_pstion.html)

conclusion of the Uruguay Round of the GATT negotiations until it was concluded in 1994. To confirm APEC's consistency with the global multilateral setting, the 1991 Seoul Declaration identified the objectives of APEC as follows:

- a) to sustain the growth and development of the region for the common good of its peoples and, in this way, to *contribute to the growth and development of the world economy*;
- b) to enhance the positive gains; both for the region and the world economy, resulting from increasing economic interdependence, including by encouraging the flow of goods, services, capital and technology;
- c) to *develop and strengthen the open multilateral trading system* in the interest of Asia-Pacific and all other economies;
- d) to reduce barriers to trade in goods and services and investment among participants *in a manner consistent with GATT principles*, where applicable, and without detriment to other economies.<sup>135</sup>

The principle of open regionalism is at the heart of APEC's activities. The concept was first coined in 1981 by the Pacific Basin Cooperation Study Group (PBCSG) – a Japan study group composed of Japanese bureaucrats, businesspeople, and academics.<sup>136</sup> This notion was primarily endorsed and promoted by the activities of the transnational policy networks, such as PBEC, PAFTA, and PECC. While APEC officially endorsed the principle of open regionalism in its Seoul APEC Declaration in 1991, the concept was an important guiding principle for APEC from its inception in 1989.<sup>137</sup>

According to some experts, the principle of open regionalism refers to “an approach to regional economic cooperation which seeks to promote economic integration among participants without discrimination against other economies.”<sup>138</sup> The principle of non-discrimination endorsed in the concept of open regionalism in APEC goes beyond the traditional notion of free trade areas because the benefits of trade and investment liberalization will be applied “not only among APEC economies but also between APEC and non-APEC economies.”<sup>139</sup> Open regionalism stands in sharp contrast to a closed discriminatory form of regionalism, which policy elites in the Asia-Pacific region perceived as emerging in Europe and North America in the late

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<sup>135</sup> Emphasis added; Seoul APEC Declaration, Seoul, November 14, 1991, in APEC, *Selected APEC Documents, 1989-1994*, 72.

<sup>136</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 140.

<sup>137</sup> Peter Drysdale, Andrew Elek, and Hadi Soesastro, "Open Regionalism: The Nature of Asia Pacific Integration," in Peter Drysdale and David Vines, eds., *Europe, East Asia, and APEC: A Shared Global Agenda?* (Cambridge: Cambridge University Press, 1998), 105.

<sup>138</sup> *Ibid.*, 103.

<sup>139</sup> The Osaka Action Agenda, APEC, *Selected APEC Documents, 1995* (Singapore: APEC Secretariat, 1995), 5.

1980s and early 1990s. For those government officials who came to share a sense of crisis in the global liberal trade system, the principle of open regionalism provided a means to counter the growing protectionist tendency in other parts of the world. In fact, these policy makers viewed APEC as a regionalist alternative to the global multilateralism which had encountered major problems.

Why did APEC adopt the principle of open regionalism? APEC members were divided over the interpretation and implementation of the notion. On the one hand, many Asian countries insisted that any trade concessions reached within APEC should be applied to non-APEC members on a Most Favored Nation (MFN) basis. On the other hand, the United States has been most skeptical about liberalization on an unconditional MFN basis. It was particularly concerned about the problem of free-riding by European economies. Therefore, the U.S. government pressed for the principle of reciprocity.<sup>140</sup> However, the U.S. efforts to adopt reciprocity failed to gain support from other APEC members.

Experts point out three main reasons why APEC has avoided discriminatory trade arrangements. First, it was considered “impracticable to undertake regional trade liberalization by means of a conventional discriminatory free trade area of the kind sanctioned by the GATT/WTO.” Second, “the trading interests of East Asian and the Pacific economies extend beyond APEC, including to Europe.” Third, “trade discrimination involves the unnecessary costs of trade diversion, complicated in the Asia Pacific region by the likelihood of high associated political costs both within and outside of the region.”<sup>141</sup>

#### **5.2.2.4 Issue Areas**

The scope of APEC’s activities has expanded enormously from trade and investment liberalization and facilitation to include education, energy initiatives, environmental protection, human resources development, finance, transportation, science and technology cooperation, and tourism. During the first three formative years, APEC focused on trade facilitation and economic and technical cooperation, while pursuing a trade liberalization agenda indirectly through its efforts to support the successful conclusion of the Uruguay Round of the GATT

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<sup>140</sup> Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 95.

<sup>141</sup> Drysdale, Elek, and Soesastro, "Open Regionalism: The Nature of Asia Pacific Integration," 107.

negotiations.<sup>142</sup> Although there was general agreement that APEC should focus on economic issues of common interest, no formal agendas were set prior to the establishment of APEC. The responsibilities for the agenda-setting for the annual APEC meeting are primarily handled by the rotating APEC host for that particular year, which prepares and coordinates the workshops and meetings at various policy levels.<sup>143</sup>

The first APEC ministerial meeting covered four agenda items: (1) world and regional economic developments; (2) global trade liberalization – the role of the Asia Pacific region; (3) regional cooperation in specific areas; and (4) future steps for the Asia Pacific economic cooperation.<sup>144</sup> At the inaugural meeting, the ministers agreed on the basic functions of APEC. According to the Chairman's summary statement,

- The objective of enhanced Asia Pacific Economic Cooperation is to sustain the growth and development of the region, and in this way, to contribute to the growth and development of the world economy;
- Cooperation should focus on those *economic* areas where there is scope to advance common interest and achieve mutual benefits (emphasis added).<sup>145</sup>

At the second Ministerial Meeting in Singapore in July 1990, the ministers formally endorsed the seven working project, which had already begun, as concrete areas for closer cooperation in APEC. The seven projects included: 1) Review of Trade and Investment Data; 2) Trade Promotion: Programs and Mechanisms for Cooperation; 3) Expansion of Investment and Technology Transfer in the Asia Pacific Region; 4) Asia Pacific Multilateral Human Resource Development Initiative; 5) Regional Energy Cooperation; 6) Marine Resource Conservation: Problem of Marine Pollution in the APEC Region; and 7) Telecommunications.

The Seoul APEC meeting in November 1991 led to the first comprehensive statement on the issue-areas covered by APEC. The Seoul APEC Declaration identified the scope of activity for APEC, including:

- Exchange of information and consultation on policies and developments relevant to the common efforts of APEC economies to sustain growth, promote adjustment and reduce economic disparities;
- Development of strategies to reduce impediments to the flow of goods and services and investment world-wide and within the region;

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<sup>142</sup> Camilleri, *Regionalism in the New Asia-Pacific Order*, 147.

<sup>143</sup> Gallant and Stubbs, "APEC's Dilemmas: Institution-Building Around the Pacific Rim," 213.

<sup>144</sup> Joint Statement, First APEC Ministerial Meeting, Canberra, 6-7 November 1989. See APEC, *Selected APEC Documents, 1989-1994*, 38.

<sup>145</sup> Chairman's Summary Statement, see *Ibid.*, 46.

- Promotion of regional trade, investment, financial resource flows, human resources development, technology transfer, industrial cooperation and infrastructure development;
- Cooperation in specific sectors such as energy, environment, fisheries, tourism, transportation and telecommunications.<sup>146</sup>

At the same meeting, the ministers also established three additional work projects in the areas of fisheries, transformation, and tourism, now totaling ten work projects.

During the second phase of APEC from 1993 to 1996, APEC put trade and investment liberalization at the center of its agendas. In 1993, the first EPG report recommended that APEC pursue “free trade in the Asia Pacific” through global and regional trade liberalization.<sup>147</sup> Yet the major driving force behind this move was the U.S. government. Many Asian nations felt that the United States “hijacked” the APEC process at the 1993 Seattle meeting by putting the trade liberalization agenda at the center.<sup>148</sup> At the second Economic Leaders’ Meeting held in Bogor, Indonesia, in November 1994, the APEC leaders announced the so-called Bogor Declaration, which included the following pledge:

We further agree to announce our commitment to complete the achievement of our goals of free and open trade and investment in the Asia-Pacific no later than the year 2020. The pace of implementation will take into account different levels of economic development among APEC economies, with the industrialized economies achieving the goals of free and open trade and investment no later than the year 2010 and developing economies no later than the year 2020.<sup>149</sup>

This move to set up the time-specific goals for trade liberalization was largely driven by the United States and Australia.<sup>150</sup> Yet, reflecting reservations among some APEC members, the declaration did not specify any concrete measures about how to achieve the stated goals. In particular, Malaysia viewed the APEC’s move to put trade liberalization at the center of its activities as “a betrayal of APEC’s original purpose.”<sup>151</sup>

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<sup>146</sup> Seoul APEC Declaration, Seoul 14 November 1991, see *Ibid.*, 72.

<sup>147</sup> APEC Eminent Persons Group, *A Vision for APEC: Towards an Asia Pacific Economic Community: Report of the Eminent Persons Group to APEC Ministers*.

<sup>148</sup> Dennis J. Ortblad, "The U.S. and Japan in APEC: Arena for Leadership in Asia and the Pacific," *Asia-Pacific Issues* 28 (1996): 1.

<sup>149</sup> APEC, *Selected APEC Documents, 1989-1994*, 6.

<sup>150</sup> Higgott and Stubbs, "Competing Conceptions of Economic Regionalism: APEC versus EAEC in the Asia Pacific," 521.

<sup>151</sup> Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, 155; Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 92.

As a host of APEC in 1994, Indonesia articulated the need to add what President Suharto named development cooperation as another pillar of APEC's activities. Some members, especially the United States, even resisted the terminology of "development cooperation."<sup>152</sup> Therefore, in preparing the 1995 APEC Summit in Osaka, Japanese officials suggested a more modest term "economic and technical cooperation" (Ecotech), which was officially adopted in the Osaka Action Agenda. Consequently, the 1995 Osaka Action Agenda identified the so-called "three pillars" of APEC: trade and investment liberalization, trade and liberalization facilitation (currently known as "business facilitation"), and economic and technical cooperation (Ecotech). Trade and investment liberalization "reduces and eventually eliminates tariffs and non-tariff barriers to trade and investment," while facilitation "focuses on reducing the costs of business transactions, improving access to trade information and aligning policy and business strategies to facilitate growth, and free and open trade."<sup>153</sup> Ecotech is designed to "develop more effectively the human and natural resources of the Asia-Pacific region so as to attain sustainable growth and equitable development of APEC economies, while reducing economic disparities among them, and improving the economic and social well-being of [the] people."<sup>154</sup>

By the mid-1990s, APEC members were increasingly divided over the relative importance of the three pillars. On the one hand, Anglo-American economies, including the United States, Canada, Australia, and New Zealand, pushed for giving priority to trade and investment liberalization. On the other hand, many Asian members (except for Hong Kong and Singapore) preferred to keep APEC's focus on trade facilitation and economic and technical cooperation. The promotion of the trade liberalization agenda by the Western members of APEC encountered resistance from many of the Asian members. Conversely, many Western countries were not that enthusiastic about the goal of narrowing economic disparities among the APEC members, because they were unwilling to commit to the resource transfers to assist the poorer economies.<sup>155</sup> When Japan proposed Partners for Progress (PFP), APEC's developing economies supported it. However, some advanced countries, particularly the United States and

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<sup>152</sup> Yamazawa, "APEC's Economic and Technical Cooperation: Evolution and Tasks Ahead," 138; Yamazawa, *Ajia Taiheiyo Keizai Nyumon [Introduction to Asia-Pacific Economy]*, 142-143.

<sup>153</sup> APEC website, [http://www.apec.org/content/apec/about\\_apec/scope\\_of\\_work.html](http://www.apec.org/content/apec/about_apec/scope_of_work.html)

<sup>154</sup> APEC, *Selected APEC Documents, 1989-1994*, 7.

<sup>155</sup> John Ravenhill, "Mission Creep or Mission Impossible? APEC and Security," in Amitav Acharya and Evelyn Goh, eds., *Reassessing Security Cooperation in the Asia-Pacific: Competition, Congruence, and Transformation* (Cambridge, Mass.: MIT Press, 2006), 135-154.

New Zealand, expressed skepticism about Japan's initiative out of concerns about additional funding and resistance to establishing a standing agency with personnel.<sup>156</sup> In particular, some US officials thought that the PFP proposal would divert the focus of APEC activity from its main task of trade and investment liberalization.<sup>157</sup> US Ambassador to APEC Sandra Kristoff maintained that "the APEC forum should not function in a 'North-South manner' as a body to disburse official development assistance (ODA) and other funds – a job that is already done by other institutions such as the Asian Development Bank (ADB)."<sup>158</sup> Eventually, Japan's original PFP proposal was watered down to an initiative which focused on promoting technical cooperation in the following three areas of trade and investment liberalization and facilitation (TILF): standards and conformity, intellectual property rights, and competition policy.<sup>159</sup>

It has been emphasized that APEC is not a donor organization. The nature of cooperation promoted by APEC is different from foreign aid, which transfers funds from donors to clients. Instead, Ecotech in APEC is designed to promote a wider scope of cooperation by exchanging information and sharing knowledge and technical expertise for the benefit of all Asia Pacific economies.<sup>160</sup> With the agreement not to undertake projects that require large external capital infusions, such as construction of major infrastructure, Ecotech activities focus on technical cooperation with small-scale budgets.<sup>161</sup> According to Yamazawa, a typical Ecotech activity was a "pet project" proposed and coordinated by an APEC member, financed mainly by the proponent, and partly supported by APEC's Central Fund.<sup>162</sup>

The section of economic and technical cooperation of the Osaka Action Agenda in 1995 stipulated that "APEC economies will pursue economic and technical cooperation in order to attain sustainable growth and equitable development in the Asia-Pacific region, while reducing economic disparities among APEC economies and improving the economic and social well-

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<sup>156</sup> Yamazawa, "APEC's Economic and Technical Cooperation: Evolution and Tasks Ahead," 138; Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 99.

<sup>157</sup> Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 99, 194-195.

<sup>158</sup> Kohei Murayama, "Kristoff Cool to Japan's Regional Cooperation Plan," *Japan Economic Newswire*, February 24, 1995.

<sup>159</sup> Yamazawa, "APEC's Economic and Technical Cooperation: Evolution and Tasks Ahead," 138.

<sup>160</sup> Andrew Elek and Hadi Soesastro, "Ecotech at the Heart of APEC: Capacity-Building in the Asia Pacific," in Ipeei Yamazawa, ed., *Asia Pacific Economic Cooperation (APEC): Challenges and Tasks for the Twenty-First Century* (London and New York: Routledge, 2000), 222.

<sup>161</sup> Ipeei Yamazawa, "Asia-Pacific Regionalism and Japan's Strategy," *Japan Review of International Affairs* 15, no. 3 (2001): 217.

<sup>162</sup> Yamazawa, "APEC's Economic and Technical Cooperation: Evolution and Tasks Ahead," 143.

being of all our people.”<sup>163</sup> The Osaka Action Agenda identified thirteen areas that Ecotech seeks to promote: human resources development; industrial science and technology; small and medium enterprises, economic infrastructure; energy; transportation; telecommunications and information; tourism; trade and investment data; trade promotion; marine resource conservation; fisheries; and agricultural technology.<sup>164</sup>

During the third phase from 1997 to 1999, the trade liberalization agenda as APEC’s central goal apparently lost much of the momentum, especially with the stalemate of the Early Voluntary Sectoral Liberalization initiative put forward at the 1997 Vancouver meeting – a topic that I turn to in the following min-case study. Meanwhile, the Ecotech agenda began to receive some attention in the aftermath of the Asian financial crisis.<sup>165</sup>

### 5.3 MINI-CASE STUDY: FROM BOGOR TO THE EVSL

As mentioned above, the APEC leaders agreed upon a timetable for achieving free trade in the Bogor Declaration in 1994. At the APEC’s Economic Leaders’ Meeting held in Vancouver in November 1997, the leaders launched the Early Voluntary Sectoral Liberalization (EVSL) initiative, which aimed at liberalization in the fifteen sectors that they identified before the timeframe set by the Bogor Declaration.<sup>166</sup> However, the EVSL was stalled when Japan refused to participate in the fishery and forestry sectors in the 1998 final package.<sup>167</sup> In the end, APEC members gave up on pursuing the initiative and instead referred it to the World Trade Organization (WTO).

The Bogor Declaration represents APEC’s most ambitious statement of its commitment to trade and investment liberalization. However, the liberalization agenda lost its momentum as the EVSL initiative proved unsuccessful in the late 1990s. How did the conclusion of the Bogor

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<sup>163</sup> APEC, *Selected APEC Documents, 1995*, 26.

<sup>164</sup> *Ibid.*, 27-38.

<sup>165</sup> Hogg, *Australia and APEC: A Review of Asia Pacific Economic Cooperation*, 111, 159.

<sup>166</sup> The fifteen sectors include: environmental goods and services, energy, fish and fish products, food, toys, natural and synthetic rubber, forest products, fertilizers, gems and jewelry, automotive, oilseeds and oilseed products, medical equipment and instruments, chemicals, and telecommunications mutual recognition arrangements (MRA). See APEC, *Selected APEC Documents, 1997* (Singapore: APEC Secretariat, 1998), 21-22.

<sup>167</sup> Munakata, *Transforming East Asia: The Evolution of Regional Economic Integration*, 87.

Declaration in 1994 become possible in the first place? What explains the failed attempt to pursue trade liberalization through the EVSL initiative in the late 1990s? The following mini-case study highlights divergent preferences among key APEC members and reveals how the differences affected interstate bargaining with regard to APEC's trade liberalization efforts.

As mentioned earlier, the trade liberalization agenda was primarily driven by Western members of APEC members, particularly the United States and Australia. Meanwhile, the establishment of the Eminent Persons Group (EPG) and its recommendation provided an impetus for the push for trade liberalization.<sup>168</sup> The 1993 EPG report recommended that APEC set a timetable for the "achievement of free trade" in the Asia-Pacific region.<sup>169</sup> Specifically, the 1994 EPG report set the year 2020 to complete that goal.<sup>170</sup> At the Bogor APEC leaders' meeting in November 1994, the leaders adopted the goal of trade liberalization in the region by 2010 for advanced economies and by 2020 for developing economies.

Given the fact that Indonesia had been the most reluctant about trade liberalization, it was surprising that the ambitious trade liberalization goal was reached under Indonesian chairmanship. While the United States and Australia provided a significant push for this agreement, Indonesia's President Suharto displayed his leadership in energetically seeking support from other reluctant ASEAN countries. The two-tier timetable was to take into consideration different stages of development among APEC member economies. However, some countries remained concerned about the Bogor goals. In particular, Malaysia's Prime Minister Mahathir expressed his reservations by stating that the Bogor target dates are "indicative dates and non-binding."<sup>171</sup> Some other countries, including China, Thailand, the Philippines, and Japan, also showed their hesitation about setting a timeframe for the trade liberalization goal.<sup>172</sup> Despite the reservations of these countries, Suharto spearheaded the effort to reach the decision on the basis of a "broad consensus."<sup>173</sup>

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<sup>168</sup> Rapkin, "The United States, Japan, and the Power to Block: The APEC and AMF Cases," 384.

<sup>169</sup> APEC Eminent Persons Group, *A Vision for APEC: Towards an Asia Pacific Economic Community: Report of the Eminent Persons Group to APEC Ministers*.

<sup>170</sup> APEC Eminent Persons Group, *Achieving the APEC Vision: Free and Open Trade in the Asia Pacific: Second Report of the Eminent Persons Group*.

<sup>171</sup> Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 92.

<sup>172</sup> Yu, "Explaining the Emergence of New East Asian Regionalism: Beyond Power and Interest-Based Approaches," 270.

<sup>173</sup> Soesastro, "ASEAN and APEC: Do Concentric Circles Work?," 490.

Despite the Bogor's remarkable announcement, the declaration lacked any detail with regard to concrete measures to achieve the proposed goals. The discussion of implementation was deferred to future meetings. Moreover, disagreements about the interpretations of the agreement surfaced. Several leaders, including Pual Keating and Goh Chok Tong, spoke of the non-binding nature of the agreement. Skeptics questioned the effectiveness of an agreement that is not legally binding.<sup>174</sup>

In preparing the draft Action Agenda for the next Osaka APEC meetings in November 1995, several issues gave rise to considerable controversy. Among them, the most hotly debated were the following three issues: 1) How comprehensive should the APEC liberalization and facilitation process be?; 2) How should each APEC member economy implement the liberalization and facilitation?; and 3) Should the liberalization measures undertaken within APEC be applied to non-APEC members?<sup>175</sup> As the chair of APEC that year, the Japanese government took great pains to reach a consensus on these issues, while Tokyo attempted to push for its preferred modalities. On the issue of comprehensiveness, the United States asserted that all sectors should be covered in the APEC liberalization process, while some Asian countries, such as Japan and Korea, maintained that certain sensitive sectors such as agriculture should be excluded.<sup>176</sup> The Japanese government insisted on the principle of flexibility. In the end, both principles of comprehensiveness and flexibility were included in the final draft of the Osaka Action Agenda (OAA). These mutually contradictory principles led to further controversy, confusion, and the slowdown of the APEC liberalization process as shown especially in the case of the subsequent Early Voluntary Sectoral Liberalization negotiation.

On the issue of measures for the implementation of APEC liberalization, the Japanese government pressed for what came to be known as "Concerted Unilateral Action (CUA)." MITI's senior official for APEC, Hidehiro Konno, described APEC's new type of liberalization process as "voluntary yet concerted liberalization on a peer pressure basis."<sup>177</sup> Foreign Minister Yohei Kono expressed Japan's position, stating that "we have adopted the approach of concerting members' voluntary efforts on the basis of mutual trust ... APEC liberalization and

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<sup>174</sup> Ibid.: 489.

<sup>175</sup> This observation is based on Press Secretary of the Japanese Ministry of Foreign Affairs, Hiroshi Hashimoto. See Hogg, *Australia and APEC: A Review of Asia Pacific Economic Cooperation*, 22.

<sup>176</sup> Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 101.

<sup>177</sup> Cited in Ibid., 96. According to Yoichi Funabashi, the term "concerted unilateral action" was coined by Hong Kong Trade Secretary Tony Miller.

facilitation should be implemented not by an excessively negotiation-like framework.”<sup>178</sup> On the other hand, the U.S. government opposed the concept of concerted unilateral action, arguing that APEC would not be able to achieve comparability among each member’s efforts in the liberalization process.<sup>179</sup> In the end, the principle of comparability was included in the final OAA, despite opposition from some countries, such as Malaysia and Thailand.<sup>180</sup>

The last issue concerned whether the APEC liberalization measures should be applied to non-APEC members on a non-discriminatory or reciprocal basis. The United States, concerned about European free riding, insisted on the principle of reciprocity, arguing that any liberalization measures undertaken through APEC should be applied to non-APEC member states only on a reciprocal basis. Other members, especially China, pressed for unconditional MFN status.<sup>181</sup> The final OAA draft adopted the principle of non-discrimination. The OAA established the following nine “general principles” for the implementation of the Bogor Declaration:

#### 1. COMPREHENSIVENESS

The APEC liberalization and facilitation process will be comprehensive, addressing all impediments to achieving the long-term goals of free and open trade and investment.

#### 2. WTO-CONSISTENCY

The liberalization and facilitation measures undertaken in the context of the APEC Action Agenda will be WTO-consistent.

#### 3. COMPARABILITY

APEC economies will endeavor to ensure the overall compatibility of their trade and investment liberalization and facilitation, taking into account the general level of liberalization and facilitation already achieved by each APEC economy.

#### 4. NON-DISCRIMINATION

APEC economies will apply or endeavor to apply the principle of non-discrimination between and among them in the process of liberalization and facilitation of trade and investment. The outcome of trade and investment liberalization in the Asia-Pacific region will be the actual reduction of barriers not only among APEC economies but also between APEC economies and non-APEC economies.

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<sup>178</sup> “Japan’s Position: Remarks by Minister Yohei Kono, Minister for Foreign Affairs of Japan,” APEC 1995 Osaka Official Information, Ministry of Foreign Affairs, [http://www.mofa.go.jp/policy/economy/apec/1995/j\\_pstion.html](http://www.mofa.go.jp/policy/economy/apec/1995/j_pstion.html)

<sup>179</sup> Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 96.

<sup>180</sup> *Ibid.*, 97-98.

<sup>181</sup> *Ibid.*, 95.

## 5. TRANSPARENCY

Each APEC economy will ensure transparency of its respective laws, regulations and administrative procedures which affect the flow of goods, services and capital among APEC economies in order to create and maintain an open and predictable trade and investment environment in the Asia-Pacific region.

## 6. STANDSTILL

Each APEC economy will endeavor to refrain from using measures which would have the effect of increasing levels of protection, thereby ensuring a steady and progressive trade and investment liberalization and facilitation process.

## 7. SIMULTANEOUS START, CONTINUOUS PROCESS AND DIFFERENTIATED TIMETABLES

APEC economies will begin simultaneously and without delay the process of liberalization, facilitation and cooperation with each member economy contributing continuously and significantly to achieve the long-term goal of free and open trade and investment.

## 8. FLEXIBILITY

Considering the different levels of economic development among the APEC economies and diverse circumstances in each economy, flexibility will be available in dealing with issue arising from such circumstances in the liberalization and facilitation process.

## 9. COOPERATION

Economic and technical cooperation contributing to liberalization and facilitation will be actively pursued.<sup>182</sup>

As can be seen in these statements, the principles adopted in the Osaka Action Agenda contained a high degree of ambiguities and contradictory statements, reflecting the divergent differences among the APEC members over the trade liberalization agenda.

At the APEC Economic Leader's Meeting held in Subic Bay in November 1996, APEC leaders instructed their ministers to "identify where early voluntary liberalization would have a positive impact on trade, investment, and economic growth in the individual APEC economies as well as in the region."<sup>183</sup> Accordingly, following the Trade Ministers' Meeting held in Montreal in May 1997, most APEC economies submitted proposals with their nominations. The nominations naturally reflected the diverse interests of the nominating economies. Many developing countries nominated primary products such as fruits, vegetables, and wood products, while Japan nominated eight sectors, including film, pharmaceuticals, transportation equipment,

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<sup>182</sup> APEC, *Selected APEC Documents, 1995*, 5-6.

<sup>183</sup> APEC, *Selected APEC Documents, 1996*, 2.

investment regulations, gum products, fertilizer, and environmental equipment.<sup>184</sup> As the host of APEC that year, Canada took great pains to prevent APEC from losing the momentum of liberalization agendas. After a series of negotiations, senior officials agreed to identify fifteen sectors for EVSL and submitted their recommendation to their ministers. Endorsing the fifteen, the ministers identified nine of them as priority sectors scheduled for immediate implementation and the remaining six for further development of schedules. At Vancouver in November 1997, APEC leaders endorsed the ministers' recommendations. The Vancouver APEC Economic Leader's Declaration stated:

APEC's liberalization proceeds on a voluntary basis, propelled by commitments taken at the highest level... We endorse the agreement of our Ministers that action should be taken with respect to early voluntary liberalization in 15 sectors, with nine to be advanced throughout 1998 with a view to implementation beginning in 1999. We find this package to be mutually beneficial and to represent a balance of interests.<sup>185</sup>

However, the nine sectors designated as priority sectors did not reflect the preferences of each APEC economy equally. As Table 5-4 shows, seven out of the nine priority sectors were among the sectors nominated by the United States, while the final list hardly reflected Japan's nominations. The U.S. government was clearly the driving force behind the EVSL initiative and pressed for including its preferred sectors in the final list.<sup>186</sup> Meanwhile, the Japanese government had "unofficially expressed its objection to liberalizing the agriculture and forestry sectors under EVSL."<sup>187</sup> Tokyo was unhappy about the exclusion of transformation equipment from the list. Also, the sectors were chosen mainly on the basis of exporters' interests rather than on the basis of importers' interests.<sup>188</sup> Therefore, the list was likely to draw resistance from domestic producers.

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<sup>184</sup> Ellis S. Krauss, "The United States and Japan in APEC's EVSL Negotiations: Regional Multilateralism and Trade," *Beyond Bilateralism: U.S.-Japan Relations in the New Asia-Pacific* (Stanford, Cal.: Stanford University Press, 2004), 275-276.

<sup>185</sup> APEC, *Selected APEC Documents, 1997*, 2.

<sup>186</sup> Krauss, "The United States and Japan in APEC's EVSL Negotiations: Regional Multilateralism and Trade," 275-276.

<sup>187</sup> Tatsushi Ogita, "Japan: The Structure of Complete Objection," in Jiro Okamoto, ed., *Trade Liberalization and APEC* (London: Routledge, 2004), 93.

<sup>188</sup> Ippei Yamazawa and Shujiro Urata, "Trade and Investment Liberalisation and Facilitation," in Ippei Yamazawa, ed., *Asia Pacific Economic Cooperation (APEC): Challenges and Tasks for the Twenty-First Century* (London: Routledge, 2000), 88.

**Table 5-4: Designated Sectors for Early Voluntary Liberalization**

<i>Sectors</i>	<i>Objectives</i>	<i>Nominating economies</i>
Environmental goods and services*	Tariffs, NTMs, Services, Ecotech	Canada, Japan, C. Taipei, US
Chemicals*	Tariffs, NTMs, S&C, Customs, Investment	Australia, HKC, Singapore, US
Medical equipment*	Tariffs, NTMs, Ecotech	Singapore, US
Energy equipment and services*	Tariffs, NTMs, Services	Australia, Thailand, US
Telecommunications*	S&C	US
Toys*	Tariffs, NTMs	China, HKC, Singapore, US
Automotive products	S&C, Customs, Ecotech	US
Food	Tariffs, NTMs, Subsidy, S&C, Ecotech	Australia, Canada, NZ, Thailand
Fisheries*	Tariffs, NTMs, Ecotech	Brunei, Canada, Indonesia, NX, Thailand
Oilseeds and oilseed products	Tariffs, NTMs, Ecotech	Canada, Malaysia, US
Gems and jewelry*	Tariffs, NTMs	Thailand, C. Taipei
Civil craft	Tariffs	Canada
Forest products*	Tariffs, S&C	Canada, Indonesia, NZ, US
Natural and synthetic rubber	Tariffs, NTMs, Ecotech	Japan, Thailand

*Notes:* S&C = Standard and Conformance, Customs = Customs Procedures, Ecotech = Economic and technical cooperation, NTM = Non-tariff measures, HKC = Hong Kong China, C. Taipei = Chinese Taipei, NZ = New Zealand, \* = nine priority sectors

*Source:* Ippei Yamazawa and Shujiro Urata, "Trade and Investment Liberalization and Facilitation," in Ippei Yamazawa, ed., *Asia Pacific Economic Cooperation (APEC): Challenges and Tasks for the Twenty-First Century* (London: Routledge, 2000), p. 89.

During the negotiations to prepare a concrete implementation plan of the EVSL for the ministerial and leaders' meetings in Kuala Lumpur in 1998, the split between the United States and Japan came to the fore. The U.S. government insisted on including all of these nine sectors as a complete package.<sup>189</sup> On the other hand, the Japanese government refused to accept the EVSL as a total package, insisting on the principals of "voluntarism" and "flexibility." Before accepting the 1997 Vancouver agreement, the Japanese government had expressed its reservations about liberalizing several sensitive sectors, including but not limited to forestry and fishery sectors.<sup>190</sup> At Vancouver, Tokyo grudgingly accepted signing onto the Declaration only on the principle of voluntarism.<sup>191</sup> The Joint Statement of Ministers at Vancouver clearly stated:

<sup>189</sup> Krauss, "The United States and Japan in APEC's EVSL Negotiations: Regional Multilateralism and Trade," 273.

<sup>190</sup> Rapkin, "The United States, Japan, and the Power to Block: The APEC and AMF Cases," 393.

<sup>191</sup> The Canadian hosts and the Australians persuaded the Japanese delegates not to opt out of these sectors, suggesting that they could invoke voluntarism later. See Munakata, *Transforming East Asia: The Evolution of Regional Economic Integration*, 87.

“Recognizing the need for a balanced and mutually beneficial package, and recalling that the process of early liberalization is conducted *on the basis of the APEC principle of voluntarism*, whereby each economy *remains free to determine the sectoral initiatives in which it will participate...*” (emphasis added)<sup>192</sup>

Therefore, the Japanese negotiators interpreted the word “voluntary” attached in the initiative literally, as stated in the ministerial joint statement. However, Japanese officials only later found that their interpretation was not shared by their American counterparts, who assumed the EVSL only as a total package proposal with a fixed timeframe. U.S. officials maintained that the EVSL would be meaningful only as a total package. The U.S. position was also supported by Canada, Australia, New Zealand, Singapore, and Hong Kong.<sup>193</sup> While the United States was willing to allow some flexibility for developing countries, it refused to apply similar flexibility to Japan as a developed country.<sup>194</sup>

Japan was not the only country which showed reservations about undertaking the EVSL in some of the designated sectors. Initially, other Asian countries, such as China, Korea, and Taiwan, also resisted tariff and non-tariff measures (NTM) liberalization in the agricultural and fishing sectors. Yet, even these countries made some concessions, while Japan refused to do so. Therefore, by June 1998, Japan found itself increasingly isolated, as Southeast Asian countries joined U.S. pressure on Japan to liberalize its fish and forestry sectors.<sup>195</sup> However, APEC’s developing countries’ support for EVSL gradually waned in favor of the Japanese position. For example, a Chinese delegate stated that China would participate in all the nine priority sectors only “partially” and “conditionally” “on the basis of voluntarism.”<sup>196</sup> Meanwhile, Mexico and Chile had opted out of the program completely. As the Kuala Lumpur ministerial meeting approached, the tension between American and Japanese delegates intensified as they continued to press for their own positions.

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<sup>192</sup> APEC, *Selected APEC Documents, 1997*, 22.

<sup>193</sup> Michael Wesley, "APEC's Mid-Life Crisis? The Rise and Fall of Early Voluntary Sectoral Liberalization," *Pacific Affairs* 74, no. 2 (2001): 196.

<sup>194</sup> Krauss, "The United States and Japan in APEC's EVSL Negotiations: Regional Multilateralism and Trade," 279; Rapkin, "The United States, Japan, and the Power to Block: The APEC and AMF Cases," 392.

<sup>195</sup> Krauss, "The United States and Japan in APEC's EVSL Negotiations: Regional Multilateralism and Trade," 281-282; Rapkin, "The United States, Japan, and the Power to Block: The APEC and AMF Cases," 393.

<sup>196</sup> Rapkin, "The United States, Japan, and the Power to Block: The APEC and AMF Cases," 393.

By the ministerial meeting in Kuala Lumpur in November 1998, China, Indonesia, Thailand, and Malaysia also joined Japan in not supporting the EVSL program.<sup>197</sup> Failing to reach a consensus on the implementation plan for the EVSL, APEC ministers decided to forward the tariff portion of the EVSL initiative to the WTO. The failure of the EVSL initiative can be explained by Japan's effective use of its "blocking power" to prevent the U.S.-led initiative.<sup>198</sup> As Ellis Krauss points out, the EVSL initiative generally reflected American preferences.<sup>199</sup> This preference was not shared by many Asian members of APEC. Therefore, in the face of strong "negative supply" in blocking the U.S. initiative, the United States did not have the capability to exercise its structural leadership. In short, the preceding discussion of the negotiations on the trade liberalization agenda—from the Bogor Declaration in 1994 to the setback of the EVSL initiative in 1998—illustrates how different institutional preferences with regard to APEC's agendas and modality (demand-side conditions) translated into a major obstacle on the supply side, leading to the stalemate of the EVSL.

#### 5.4 EXPLAINING INSTITUTIONAL FORM AND EVOLUTION

What explains the initial institutional form that APEC took and its subsequent institutional evolution? The ensuing section first summarizes empirical findings and then evaluates different theoretical expectations. In accordance with the preceding discussions, APEC's institutional evolution is divided into the following three phases: phase I (1989–1992), phase II (1993–1996), and phase III (1997–1999).

APEC's first phase saw ASEAN's active efforts to convince other APEC members to adopt the so-called ASEAN Way as APEC's *modus operandi*. Since ASEAN's opposition had been a major obstacle for the formation of an Asia-Pacific intergovernmental economic institution in the previous decades, the Australian and Japanese governments took great pains to ensure the participation of reluctant ASEAN members by incorporating ASEAN's preferences

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<sup>197</sup> Hogg, *Australia and APEC: A Review of Asia Pacific Economic Cooperation*, 75; Rapkin, "The United States, Japan, and the Power to Block: The APEC and AMF Cases," 394.

<sup>198</sup> Rapkin, "The United States, Japan, and the Power to Block: The APEC and AMF Cases," 381-394.

<sup>199</sup> Krauss, "The United States and Japan in APEC's EVSL Negotiations: Regional Multilateralism and Trade," 275.

for informal and non-legalistic approaches. To give special credit to ASEAN's experience, the first Joint Statement of the APEC Ministerial Meeting in Canberra stated that the APEC ministers recognized "the significant role ASEAN institutional mechanisms can continue to play in supporting the present effort to broaden and strengthen regional economic cooperation."<sup>200</sup> Furthermore, APEC adopted consensus-based decision-making procedures, a practice exercised by ASEAN. This enabled "coalitions at different stages of internationalization, and with different institutions, to protect their domestic political prerogatives and resources."<sup>201</sup>

Moreover, APEC installed an informal practice of alternating APEC's chair between ASEAN and non-ASEAN members.<sup>202</sup> Since the APEC chair and the chairing member economy take the primary responsibility for preparing, coordinating, and managing the APEC meetings, it has a privileged position in shaping the agenda and influencing the course of APEC's development. Therefore, ASEAN was given an opportunity to take advantage of the position as chair every other year.

Yet ASEAN was not the only organization that influenced the initial institutional form of APEC. The activities of preexisting nongovernmental forums such as PAFTAD and PECC in the preceding decades also had an important impact on shaping APEC's institutional form. First, the experiences of these groups demonstrated that nongovernmental actors, including private firms and the academic community, could make substantial contributions to the regionalist project by facilitating the exchanges of ideas and information. Second, these nongovernmental bodies developed many practices, norms, and principles that were later adopted by APEC. For example, these nongovernmental bodies played a crucial role in developing and spreading the concept of "open regionalism" that was later endorsed by APEC. PECC also pioneered the practice of operating through the rotation of meetings among its member economies and by the principle of consensus, which was followed by APEC. By taking an inclusive approach to the issue of membership, PECC served to "defuse many of the divisions which had until now posed major conceptual and practical obstacles to innovation."<sup>203</sup> PECC expanded its membership to

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<sup>200</sup> Joint Statement, APEC Ministerial Meeting, Canberra, 6-7 November 1989, in APEC, *Selected APEC Documents, 1989-1994*, 38.

<sup>201</sup> Etel Solingen, "East Asian Regional Institutions: Characteristics, Sources, Distinctiveness," in T. J. Pempel, ed., *Remapping East Asia: The Construction of a Region* (Ithaca: Cornell University Press, 2005), 45.

<sup>202</sup> As mentioned earlier, this practice continued until the 2000 Brunei meeting. Since then, the rotation of ASEAN chairmanship of APEC has been changed to once every three years.

<sup>203</sup> Camilleri, *Regionalism in the New Asia-Pacific Order*, 78.

many Pacific Latin American countries and the Pacific island nations, involving both developed and developing countries.<sup>204</sup> Moreover, PECC made the participation of the so-called three Chinas possible in 1986 by incorporating each economy, rather than the state, which provided a formula for admitting three separate Chinese economies in APEC.<sup>205</sup> In short, Hugh Patrick quoted one commentator saying “the fingerprints of PAFTAD are all over PECC and APEC.”<sup>206</sup>

In summary, the initial form that APEC took drew heavily on the practices of preexisting institutions, such as ASEAN and PECC. ASEAN members successfully managed to incorporate their institutional preferences within APEC during APEC’s early years. To use Paul Evans’s metaphor, ASEAN played a pivotal role both as an “accelerator” and a “brake.”<sup>207</sup> ASEAN served as an accelerator in the sense that ASEAN’s eventual acceptance to join the Asia-Pacific forum allowed the APEC initiative to move forward. Yet, given the consensus-based decision-making, ASEAN members were relatively successful in putting the brakes on the rapid institutionalization of the APEC process, as represented by their initial objection to the creation of a permanent APEC secretariat and the EPG. Consequently, APEC’s initial form resembled closely that of ASEAN itself—an argument proposed by proponents of ASEAN-centered explanations reviewed in Chapter 2. Meanwhile, APEC also benefited greatly from the long-term activities of nongovernmental bodies.

The second phase of APEC witnessed pro-active attempts by the U.S. government to transform APEC into a more formal institution for promoting trade and investment liberalization within the Asia-Pacific region. U.S. President Clinton played a crucial role in initiating leaders’ meetings when the U.S. hosted APEC in 1993. Yet this raised concerns among some ASEAN officials about APEC’s excessive institutionalization. Moreover, the shift in APEC’s focus toward the trade and investment liberalization agenda alarmed many Asian members of APEC. Consequently, serious disagreements over APEC’s objectives and modalities came to the fore.

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<sup>204</sup> During its first decade, PECC expanded to include twenty national committees. Those committees represent the following economies: Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Peru, the Philippines, Russia, Singapore, Chinese Taipei, Thailand, the United States, and the Pacific Island nations.

<sup>205</sup> Camilleri, *Regionalism in the New Asia-Pacific Order*, 78.

<sup>206</sup> Patrick, "From PAFTAD to APEC: Economists Networks and Public Policymaking," 14.

<sup>207</sup> Paul M. Evans, "Economic and Security Dimension of the Emerging Order in the Asia Pacific," in David Wurfel and Bruce Burton, eds., *Southeast Asia in the New World Order* (New York: St. Martin's Press, 1996), 13.

**Table 5-5: Action on EPG Recommendations**

EPG I	
Change name to Asia-Pacific Economic Community	Rejected
Adopt commitment and timetable for regional trade liberalization by 1996	Adopted 1994
Commencement of Trade and Investment Facilitation	
Adoption of Asia Pacific Investment Code	Implemented
Adoption of dispute settlement mechanism	Adopted 1995
Introduce regular meetings of finance ministers	Rejected
Mutual recognition of production standards and testing	Adopted 1994
Staff Secretariat with permanent officials	Under negotiation
	Not implemented
EPG II	
Recognition that trade liberalization may be conditional (negotiated) or unconditional (unilateral)	Not disputed
Aim to complete liberalization by 2020	Agreed 1994
Adopt a safeguard mechanism more rigorous and more comprehensive than WTO's	Rejected
EPG III	
Implement Uruguay Round commitments within half of agreed WTO period	Rejected
Address anti-dumping policies	Rejected
Introduce Asia Pacific Technology Fund	Rejected
Strengthening and application of Non-Binding Investment Principles	Not implemented

*Source:* Adapted from John Ravenhill, *APEC and the Construction of Pacific Rim Regionalism* (Cambridge: Cambridge University Press, 2001), 128.

This period also saw new impetus from the EPG, an APEC-appointed nongovernmental group, which submitted three reports to the APEC leaders from 1993 to 1995. The most significant achievement of the EPG was to put trade liberalization at the center of APEC's agenda. Many ASEAN officials saw the EPG as representing the interests of advanced Western countries at the expenses of developing countries. Despite its contributions to APEC's trade liberalization efforts, the EPG soon saw its own limitations. For example, the EPG's recommendation for the establishment of a dispute settlement mechanism was never accepted. The second EPG report modified the language from a "dispute settlement mechanism" to a "dispute mediation service." According to the report, a Dispute Mediation Service (DMS) "would provide assistance in resolving (and thus, over time, perhaps avoiding) economic disputes among its members."<sup>208</sup> The final report in 1995 again called for the creation of an

<sup>208</sup> APEC Eminent Persons Group, *Achieving the APEC Vision: Free and Open Trade in the Asia Pacific: Second Report of the Eminent Persons Group*, 23-24.

APEC DMS. Meanwhile, it also endorsed the centrality of WTO dispute settlement procedures to resolve trade disputes.<sup>209</sup> The EPG's proposal for an APEC DMS failed to gain support from APEC members.

In short, the EPG made modest but significant contributions to APEC's institutional development. Although the EPG reports reflected the interests of Western members, especially the United States, the involvement of nongovernmental actors did provide innovative policy ideas. According to former senior U.S. official Richard Baker, the EPG recommendations, especially the timetable for achieving free trade in the Asia-Pacific region, were "probably more ambitious than any position that the Clinton administration's policymakers in this field would have formulated or been able to sell on their own at that time."<sup>210</sup> However, as demonstrated by the failure to persuade APEC leaders to adopt an APEC DMS, governments were the gatekeepers of regionalist projects. Table 5-5 summarizes the main recommendations of the EPG and the APEC decisions on them.

Although the Australian and Japanese governments were the main architects of APEC, the United States, with a strong push from the EPG, became the primary mover of APEC during this period. This period saw important institutional changes, such as the inauguration of leaders' meetings and the promotion of the trade and investment liberalization agenda to the top of APEC's activities. Consequently, APEC's institutional trajectory departed from the preferences of ASEAN. However, Western-style legalistic approaches were effectively rejected by most Asian members of APEC in favor of non-legalistic and flexible approaches.

The third phase of APEC did not see any significant changes in APEC's institutional form. Instead, it saw the persistence of the contestation of norms and principles. Many Asian members of APEC successfully blocked the U.S.-sponsored EVSL initiative by insisting on the principles of flexibility and voluntarism. As a result of the failure of the EVSL initiative, APEC's trade liberalization agenda was sidelined. Having briefly summarized APEC's institutional evolution in its first decade, the remainder of this section considers the relevance of the four theoretical perspectives for explaining APEC's institutional form and evolution: neorealism, rational institutionalism, sociological institutionalism, and historical institutionalism.

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<sup>209</sup> APEC Eminent Persons Group, *Implementing the APEC Vision: Third Report of the Eminent Persons Group* (Singapore: APEC Secretariat, 1995), 12. See also Kahler, "Legalization as Strategy: The Asia-Pacific Case," 566-567.

<sup>210</sup> Baker, "The United States and APEC Regime Building," 175.

Which perspective best explains the institutional form and evolution of APEC? First, neorealist perspectives provided mixed results. The initial institutional form that APEC took did not follow the neorealist expectation that multilateral institutions would be based on the preferences and norms of the dominant power—in this case, the United States. On the contrary, APEC members paid disproportionate attention to the preferences of much weaker ASEAN members. Neorealist perspectives failed to explain the disproportionate influence of ASEAN, relative to its capabilities, during its early years. However, the subsequent institutional development of APEC during its second phase gave modest support for neorealist perspectives, in that many of APEC’s institutional milestones, such as the creation of the EPG and the elevation of APEC’s ministerial meetings to the heads-of-government level, have been primarily driven by Western governments, especially the United States and Australia (see Table 5-6). Furthermore, Western governments succeeded in putting the trade and liberalization agenda at the top of APEC’s activities during its second phase.

**Table 5-6: Major Institutional Milestones of APEC**

Year	Events	Proposer(s)/Driver(s)*
1989	APEC ministerial meeting	Australia
1992	Agreement to establish a permanent secretariat in Singapore	Australia, the U.S.
1992	Agreement to establish the EPG	Australia
1993	Establishment of economic leaders' meeting	Australia, the U.S.**
1994	Agreement to complete liberalization by 2020	EPG II, the U.S.
1998	Failure of EVSL	The U.S.

\* The origins of some of the proposals are not entirely clear.

\*\* The idea of economic leaders' meeting came from Australian Prime Minister Paul Keating, but U.S. President Bill Clinton acted upon the idea.

In this respect, the U.S.-led institutional development of APEC during this period seemed to come close to the expectation of hegemonic stability theory. However, closer scrutiny revealed that the U.S. hegemon was not able to adopt a more legalistic approach to APEC’s trade liberalization agenda. Furthermore, the U.S. failed to have APEC apply the principle of reciprocity to members’ trade liberalization commitments. Instead, APEC endorsed the principles of flexibility and voluntarism that many Asian countries favored. In effect, APEC’s Asian members used these principles as a defense against the “Western-style” rule-based

negotiation approach involving binding commitments.<sup>211</sup> Consequently, the relative success of the United States in guiding APEC's agenda-setting did not fully allow the U.S. government to pursue its own interests in APEC. Although the U.S. role in APEC was enhanced during the second phase in APEC's evolution, the United States found itself more constrained than its dominant material capability would suggest.

Second, rational institutionalist perspectives provided poor predictions. It is clear from the preceding discussions that, in contrast to the rational institutionalist expectation, APEC is not designed to maximize its institutional efficiency or effectiveness. The adoption of consensus-based decision-making procedures and the emphasis on informal consultations, for example, not only increased the *inefficiency* of negotiations, but also made any agreements among members extremely difficult.

Third, sociological institutionalists emphasize the influence of prevailing norms. However, APEC is characterized by the contestation of different norms and ideas.<sup>212</sup> Therefore, the real question for sociological institutionalists is which norms matters, or more importantly, whose norms matters.<sup>213</sup> The major division exists between "Western" and Asian members of APEC. Some scholars point out that APEC "represents a key site of contestation between 'Asian' and 'Western' governments keen on implementing their own, potentially incommensurate, visions for APEC."<sup>214</sup> With regard to APEC's modalities of cooperation, Asian preferences for non-legalistic approaches prevailed over Western preferences for a more legalistic and rule-based approach. However, sociological institutionalism is not well equipped to address why this is the case.

Many scholars argue that there exist "Asian" approaches to regional cooperation that are distinct from "Western-style" approaches. According to them, an "Asian way" emphasizes the principles of informality, consensus, non-interference, and avoidance of legalistic approaches.<sup>215</sup> The argument for the existence of "Asian" norms or an "Asian" way is often associated with

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<sup>211</sup> Aggarwal and Morrison, "APEC as an International Institution," 304.

<sup>212</sup> See also Mark Beeson, "The Political Rationalities of Regionalism: APEC and the EU in Comparative Perspective," *The Pacific Review* 11, no. 3 (1998): 327.

<sup>213</sup> For theoretical discussions on these issues, see Jeffrey W. Legro, "Which Norms Matter? Revisiting the 'Failure' of Internationalism," *International Organization* 51, no. 1 (1997): 31-63; Amitav Acharya, "How Ideas Spread: Whose Norms Matter? Norm Localization and Institutional Change in Asian Regionalism," *International Organization* 58, no. 2 (2004): 239-275.

<sup>214</sup> Beeson, "The Political Rationalities of Regionalism: APEC and the EU in Comparative Perspective," 324.

<sup>215</sup> Kahler, "Legalization as Strategy: The Asia-Pacific Case," 560.

broader assertions of “Asian values.” However, as Miles Kahler shows, the choice against legalistic approaches is not uniformly observed among Asian countries’ approaches; many Asian countries are willing to bring interstate disputes to the WTO dispute-settlement procedures.<sup>216</sup>

Fourth, like sociological institutionalists, historical institutionalists take into account the impact of norms and ideas. However, they highlight the temporal dimension in the evolution of norms and ideas. In this view, historical institutionalists place the sequence of institution-building at the center of analysis; they stress the impact of preexisting institutions on the subsequent formation of other institutions. Unlike sociological institutionalists, who emphasize the impact of norms through the “logic of appropriateness,” historical institutionalists suggest that actors can be strategic, but the range of options is circumscribed by historically available choices.<sup>217</sup> In this view, actors may use norms for a more instrumental purpose. For example, APEC’s Asian members’ insistence on such principles as consensus, voluntarism, and flexibility can be viewed as their strategic attempt to defend their interests against the imposition of norms and principles preferred by Western members.<sup>218</sup> This chapter showed that, consistent with the historical institutionalist argument, the initial institutional form that APEC took was greatly shaped by the preceding experiments in the activities of ASEAN and PECC.

## 5.5 CONCLUSION

This chapter has investigated the institutional form and development of APEC. The analysis focused on two dimensions of regional institution-building: 1) the variation of institutional preferences (demand-side); and 2) the rise and fall of political leadership (supply-side). As the previous chapter suggested, the agreement to create APEC in 1989 was a watershed event in the history of Asia-Pacific institution-building. There soon surfaced, however, significant differences among member economies in terms of institutional preferences. The most serious points of contention among APEC members are which issues APEC should focus on and how

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<sup>216</sup> Ibid.: 549-571.

<sup>217</sup> Hall and Taylor, "Political Science and the Three New Institutionalisms," 956.

<sup>218</sup> Miles Kahler argues that the many Asian members’ choice against legalized institutions in APEC is both “strategic” and “instrumental” rather than their cultural preferences. See Kahler, "Legalization as Strategy: The Asia-Pacific Case."

cooperation with APEC should be pursued. The persistence of divergent preferences proved a major obstacle to APEC's institutional development.

On the one hand, Anglo-American members pressed for transforming APEC into a rule-based negotiation site for trade liberalization with binding commitments and fixed timelines. On the other hand, Asian members of APEC desired to keep APEC as an informal consultative forum for promoting economic and technical cooperation. They prefer non-legalistic approaches to cooperation, without specific and binding obligations. They emphasize the importance of consensus and flexibility to take into account the different stages of economic development among APEC members. Divergent preferences among APEC members were only exaggerated by APEC member's different reactions to the Asian financial crisis of 1997 and 1998 and APEC's inability to provide any effective mechanism to manage the crisis.

Given the differences in institutional preferences among APEC members, how has APEC evolved in the way that it did in its first decade? The analysis of interstate negotiations highlighted the importance of political leadership in proposing initiatives and mobilizing support. For example, given the previous U.S. government's passive attitude toward APEC, President Clinton's active interest in APEC and his leadership was crucial for convening the inaugural leaders' meeting. APEC's Western members, through U.S. leadership with strong support from the EPG, also succeeded in putting the trade liberalization agenda at the top of APEC's activities during its second phase of development from 1993 to 1996. Yet the role played by Indonesia's President Suharto in concluding the Bogor Declaration cannot be ignored. Without his leadership, it would be difficult to explain Indonesia's role in shepherding the establishment of deadlines for trade liberalization.<sup>219</sup>

The weakness of political leadership in the later 1990s became a major obstacle to APEC's activities. Furthermore, the dissolution of the EPG after its submission of the third report in 1995 meant the loss of an important source of innovative ideas. As John Ravenhill observes, "the correlation between the lack of supply of leadership to APEC since 1998 and the growth of bilateralism is surely no coincidence."<sup>220</sup> In fact, the pace and direction of the

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<sup>219</sup> Ravenhill, "Institutional Evolution at the Trans-Regional Level: APEC and the Promotion of Liberalization," 237.

<sup>220</sup> John Ravenhill, "The New Bilateralism in the Asia Pacific," *Third World Quarterly* 24, no. 2 (2003): 312.

institutional development of APEC has been strongly influenced by the “shift in venue of leadership from one member economy to another.”<sup>221</sup>

However, this chapter also showed that the absence of blocking power (“negative supply”) was as important a factor as the presence of positive leadership in moving an initiative forward. Despite the success of U.S.-led efforts for setting trade liberalization as APEC’s dominant agenda in the early 1990s, APEC’s trade liberalization efforts encountered a serious challenge when the U.S.-led EVSL initiative failed in the face of resistance from Asian members, as examined in the mini-case study. In fact, Asian governments effectively blocked the U.S. attempt to transform APEC into a rule-based negotiating body involving binding obligations. Consequently, the actual U.S. maneuver to pursue trade liberalization through APEC was extremely circumscribed.

In summary, the slow progress in APEC’s institutional evolution can be explained by both demand and supply conditions. On the demand side, the wide variation in terms of institutional preferences has been a major obstacle to the institutional development of APEC. On the supply side, the absence of leadership or the existence of effective blocking power has been a major problem.

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<sup>221</sup> Aggarwal and Morrison, "APEC as an International Institution," 315.

## 6.0 CONSTRUCTING EAST ASIAN REGIONALISM

One of the key origins of the idea behind a regional group comprising only of East Asian countries can be traced to the Malaysian Prime Minister Mahathir Mohamad's announcement in December 1990 of a proposal for creating an East Asian Economic Group (EAEG). His proposal for creating an East Asian grouping, comprising Northeast Asia and Southeast Asia, however, failed to materialize. Nevertheless, beginning in 1997, ASEAN has successfully invited leaders from three Northeast Asian countries – namely China, Japan, and South Korea – to its informal summit meeting. This newly formed East Asian regional grouping, which came to be known as the ASEAN Plus Three (APT), started to gain wider attention, while APEC was losing its momentum in the second half of the 1990s.

What explains the emergence of East Asian regionalism in the form of APT in the late 1990s despite the failed attempt to create an East Asian grouping in the early 1990s? Why did the ASEAN states, which were very reluctant to become involved in a broader regional framework until the late 1980s, become proactive in seeking closer engagement with external powers in Northeast Asia? Why did Asian governments decide to create a new consultative forum on an *East Asian* basis, despite the existence of an *Asia-Pacific* institutional framework in the form of APEC? Why did the previously reluctant governments in Northeast Asia, particularly Japan, decide to get involved in an “Asians-only” gathering? How did ASEAN countries succeed in bringing the three Northeast Asian countries together to the ASEAN-led regional forums?

For some analysts, the formation of East Asian regionalism can be seen as the result of growing regional interdependence between Northeast and Southeast Asian economies. For others, it represents the manifestation of an emerging East Asian identity. Still others stress the shift in the configuration of power relations either at the global level or within the East Asian region as the main factor that led to the creation of East Asian regionalism. Certainly these

factors provided long-term reasons for the APT process. However, this chapter suggests that the Asian financial crisis of 1997 and 1998 served as the most significant catalyst for triggering an urgent demand for a new East Asian regional mechanism and provided a political opportunity for the emergence of East Asian regionalism.

This chapter consists of two main parts. The first part explores why the EAEG proposal failed to get off the ground by investigating state preferences concerning regionalism among key governments in East Asia, including ASEAN members, Japan, and China, and one external actor, the United States. The second part analyzes the formation of the APT by investigating the shift in state preferences concerning regionalism among the key governments and the actual political process by which the APT came into being. Most importantly, it will be shown below that the Asian financial crisis made regional actors recognize the inadequacy of the global institutional arrangement to protect their interests as well as the insufficiency of the existing regional arrangements to deal with extraregional challenges. The impact of the crisis led to the rapid growth of demand for creating a new East Asian regional mechanism. Consequently, the crisis provided an opportunity for the development of a new regional arrangement on an East Asian basis. The last section summarizes why and how the APT process was successfully launched.

## **6.1 THE FAILURE OF THE EAEG PROPOSAL**

Against the backdrop of the perceived potential collapse of the Uruguay Round of the GATT negotiations because of the breakdown of talks in Brussels in December 1990, Prime Minister Mahathir publicly announced his proposal for the EAEG during Chinese Prime Minister Li Peng's visit to Kuala Lumpur during the same month. The proposed members included the ASEAN countries, Japan, South Korea, China, Taiwan, Hong Kong, the three Indochinese states (Cambodia, Laos, and Vietnam), and Myanmar.<sup>1</sup> The central feature of Mahathir's proposed

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<sup>1</sup> It is unknown whether North Korea was included in his proposal. Although most news reports did not include North Korea as a proposed member, some commentators have suggested the possibility. See, for example, Hadi Soesastro, *The East Asian Economic Group (EAEG) Proposal and East Asian Concepts of the Pacific Basin* (Jakarta: Centre for Strategic and International Studies, 1991), 9.

grouping is that it excluded four Western members of APEC, namely, the United States, Canada, Australia, and New Zealand.

Although Mahathir originally envisioned a trade bloc formed by these countries, he soon modified the idea and presented the EAEG as a consultative group largely due to the negative connotation of the term “bloc.” However, the EAEG proposal did not gain much support either within or outside the ASEAN members. Subsequently, at the ASEAN Economic Minister’s Meeting in Kuala Lumpur in late 1991, through a suggestion from Indonesia, the proposed grouping’s name was changed to the East Asian Economic Caucus (EAEC) to downplay the image that it would serve as a trading bloc.<sup>2</sup> Modifying his earlier concept, Mahathir emphasized that the EAEC would be a loose, consultative forum for East Asian nations to discuss economic cooperation and that it would not be a closed trading bloc.

Similar to the creation of APEC, the direct catalyst for the EAEG proposal was the then stalled Uruguay Round and the rise of inward-looking regionalism in North America and Europe. Like APEC, the Malaysian proposal for the EAEG/EAEC was presented as a measure to “counter the threat of protectionism and regionalism in world trade.”<sup>3</sup> However, whereas APEC attempted to support the global liberal trading order by promoting the principle of open regionalism, the EAEG was motivated more by the desire to counter the influence of the United States and Europe.<sup>4</sup> Mahathir was well known for his outspoken criticism against Western powers. For example, Mahathir stated during his speech in March 1991 that “the countries of Europe and America have a reputation for economic arm twisting” by using such issues as human rights, democratic practices, and environmental protection as excuses.<sup>5</sup> For Mahathir, the chief purpose of the EAEG/EAEC proposal was “to provide a strong voice for the East Asian countries in trade negotiations with the rest of the world, particularly the EC [European

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<sup>2</sup> Stephen Leong, "The East Asian Economic Caucus (EAEC): 'Formalized' Regionalism Being Denied," in Björn Hettne, Andrés Inotai, and Osvaldo Sunkel, eds., *National Perspectives on the New Regionalism in the North* (London: Macmillan, 2000), 60; Lim Kian Tick, "Competing Regionalism: APEC and EAEG, 1989-1990," in Andrew T. H. Tan and J. D. Kenneth Boutin, eds., *Non-Traditional Security Issues in Southeast Asia* (Singapore: Select Publishing, 2001), 54.

<sup>3</sup> This is taken from words by Lim Keng Yaik, who was Mahathir’s primary industries minister. Cited in Michael Vatikiotis et al., “Building Blocs: Japan Negative about Leading Asian Economic Pact,” *Far Eastern Economic Review*, January 31, 1991, p. 32.

<sup>4</sup> APEC was also partly motivated by the desire to constrain U.S. influence. However, APEC sought to do so by institutionally binding it in a multilateral setting, rather than excluding it from the group and countering it.

<sup>5</sup> Mahathir’s speech at the International Conference on “the ASEAN Countries and the World Economy: Challenge of Change,” Bali, Indonesia, March 4, 1991, available at <http://www.pmo.gov.my>

Community] and NAFTA [North American Free Trade Agreement].”<sup>6</sup> This stemmed from Mahathir’s frustration that the voices of developing countries like Malaysia or even of groups like ASEAN had not been respected.<sup>7</sup>

The Malaysian internal policy document stipulated the following five reasons for creating the EAEG/EAEC:

- (1) the need to provide the push to continue the Uruguay Round negotiations and in this circumstance, there is the necessity of having leverage in the negotiations, particularly in the areas of common concern to the region such as anti-dumping and countervailing actions, safeguards and investment issues;
- (2) the need for a stronger, cohesive voice in other trade matters;
- (3) the increasing tendency to set up trade groupings which will continue if the Uruguay Round was to eventually succeed and thus the need for a counterweight to that;
- (4) to ease off the pressures by OECD countries on ASEAN to move towards premature membership in that organization, and affinity with Japan within an economic group could help in easing off that pressure;
- (5) and, to meet the challenge of political-economic changes in Europe and the Americas which could divert immensely investment away from the ASEAN region.<sup>8</sup>

In a series of speeches, Mahathir stressed the importance of enhancing the political bargaining leverage of the East Asian countries vis-à-vis extraregional actors. For example, in his speech at the Meeting of ASEAN Economic Ministers on July 10, 1991, Mahathir maintained that “if ASEAN is to have a bigger say in trade negotiations internationally, then it must work together with the East Asian countries.”<sup>9</sup> At the ASEAN Ministerial Meeting on July 19, 1991, he remarked that the EAEG would “provide ASEAN and other East Asian countries the leverage and a platform to act in concert and speak with one voice with regard to any trade problems or trade-related issues that affect us directly or indirectly.”<sup>10</sup> Similarly, the Malaysian International

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<sup>6</sup> Mahathir to the foreign correspondents, October 14, 1992, available at <http://www.pmo.gov.my>

<sup>7</sup> Ibid.

<sup>8</sup> Soesastro, *The East Asian Economic Group (EAEG) Proposal and East Asian Concepts of the Pacific Basin*, 8.

<sup>9</sup> Mahathir’s speech at the Meeting of ASEAN Economic Ministers, Kuala Lumpur, Malaysia, July 10, 1991, available at <http://www.pmo.gov.my>

<sup>10</sup> Mahathir’s speech at the Opening Ceremony of the 24<sup>th</sup> ASEAN Ministerial Meeting, Kuala Lumpur, Malaysia, July 19, 1991, available at <http://www.pmo.gov.my>

Trade and Industry, Minister Rafidah Aziz, talked of the “leveraging” the negotiating position of the East Asian countries in GATT negotiations.<sup>11</sup>

As Glenn Hook summarizes, Mahathir’s proposal can be viewed as “a short-term defensive reaction to the threat of economic damage from regionalist projects in Europe and the Americas, on the one hand, and the failure of the Uruguay Round to address issues of central concern to the developing countries, on the other.”<sup>12</sup> In that sense, the major trigger for the APEC initiative and the EAEG proposal stemmed from the same set of developments in the extraregional environment. However, whereas APEC deliberately avoided creating an exclusive form of regionalism, the EAEG initiative, at least initially, envisioned a trade bloc. To the extent that it focused on the importance of enhancing a “countervailing power” vis-à-vis North America and the EC,<sup>13</sup> Mahathir’s idea reflected more closely the neorealist view of regionalism which emphasizes a “balancing” function. From this perspective, the EAEG/EAEC proposal can be viewed as an example of so-called “counter-regionalism.”<sup>14</sup>

Another reasoning behind Mahathir’s proposal was Japan’s growing economic influence in Southeast Asia. Therefore, as can be seen in the policy document cited above, his proposal stressed the importance of Japan’s active role in the proposed grouping. Ultimately, Mahathir hoped that Japan would be a leader in the proposed group. This view was consistent with Mahathir’s policy of the “Look East” policy he had promoted since the early 1980s. This policy aimed to promote economic growth by learning from the Japanese model of economic development.

However, as discussed in more detail below, the EAEG/EAEC proposal not only failed to garner solid support within the ASEAN countries, but also elicited strong opposition from the United States. In response, Mahathir attempted to clarify his proposal on many occasions, emphasizing that it should not be a trade bloc. For example, at the ASEAN Ministerial Meeting held in Kuala Lumpur in July 1991, he remarked that “the EAEG is not a trade bloc but the

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<sup>11</sup> Anthony Rowley, “Kingpin and Crown: Japan is Warming to Bloc Idea,” *Far Eastern Economic Review*, July 25, 1991, p. 56.

<sup>12</sup> Glenn D. Hook, “The East Asian Economic Caucus: A Case of Reactive Subregionalism?,” in Glenn D. Hook and Ian Kearns, eds., *Subregionalism and World Order* (New York: St. Martin’s Press, 1999), 226.

<sup>13</sup> *Nikkei Shimbun*, April 23, 1991, p. 20.

<sup>14</sup> Naoko Munakata, “Whither East Asian Economic Integration?,” *RIETI Discussion Paper Series* 02-E-007 (2002): 9.

concept is that of a loose consultative forum comprising countries in East Asia.”<sup>15</sup> Noordin Sopiee, who was a close advisor to Mahathir and Director-General of the Institute of Strategic International Studies in Malaysia, also laid out the following eight principles on the EAEC initiative as an agreement among the ASEAN countries:

1. The EAEC must be an example of outward-looking, open regionalism.
2. The EAEC must be consistent with GATT; the EAEC must be a coalition for the success of the Uruguay Round and for such an open global trading system.
3. The EAEC should aspire to be an example of North-South relations, showing what can be done when developed and developing countries are involved in a common enterprise for mutual prosperity.
4. The EAEC should focus on a wide field. Where enormous opportunities for regional economic cooperation between the countries of East Asia exist, they should not focus only on trade.
5. Where trade is concerned, the EAEC should not be trade-diverting and should not create barriers to third country imports.
6. The EAEC process should contribute to a sense of security and well-being for all the participating countries. There should be no movement towards economic domination.
7. The EAEC is not a competitor to APEC in the same way that APEC is not a competitor or an attempt to undermine GATT. APEC should be strengthened.
8. The EAEC should not be a competitor to ASEAN and of course should not undermine ASEAN.<sup>16</sup>

While emphasizing the EAEC’s compatibility with the existing institutional frameworks – regional and global alike – Mahathir expressed his desire to create a mechanism to reduce the region’s vulnerability to external forces. In short, he suggested that the history of East Asia should be “made in East Asia, for East Asia, and by East Asians.”<sup>17</sup>

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<sup>15</sup> Mahathir’s speech at the Opening Ceremony of the 24<sup>th</sup> ASEAN Ministerial Meeting, Kuala Lumpur, Malaysia, July 19, 1991, available at <http://www.pmo.gov.my>

<sup>16</sup> “EAEC – A Voice for the East,” *The Straits Times*, June 15, 1992, p. 28.

<sup>17</sup> Mahathir’s speech at the Asia Society Conference on “Asia and the Changing World Order,” Tokyo, Japan, May 13, 1993, available at <http://www.pmo.gov.my>

## **6.1.2 State Preferences Concerning Regionalism**

The following pages examine the preferences of key countries in the East Asian region, including the ASEAN countries, Japan, and China, and one external actor, the United States, with regard to regionalism in the early 1990s. Although clearly located outside the East Asian region, the United States is included in the investigation, because, as discussed below, the U.S. attitude toward regional arrangements in East Asia has had a significant impact on the attitudes of East Asian countries and whether regionalist projects can be successfully launched. After outlining the preferences of the relevant actors, we turn to an analysis of how these different preferences were played out in the interstate negotiations with regard to the EAEG/EAEC proposal.

### **6.1.2.1 ASEAN**

Although ASEAN was generally hesitant about a broader regional institution until the end of the 1980s, ASEAN leaders began to appreciate the benefits of broader multilateral mechanisms in the 1990s. The previous chapter revealed that despite their earlier hesitation, once the APEC process started, many ASEAN members initially developed an interest in APEC as a way to ensure export markets in the face of U.S. protectionism and the perceived potential breakdown of the GATT trade negotiations. ASEAN's interest in broader regional arrangements was driven by the uncertainty following the end of the Cold War and its anxiety about becoming an irrelevant actor in global processes.

However, some ASEAN members remained skeptical about APEC. In particular, Malaysia had reservations about APEC because the Malaysian government perceived that APEC was dominated by Western members at the expense of ASEAN's interests. It was against this backdrop that Mahathir proposed the EAEG. For him, the EAEG thus represented "a counterproposal to APEC."<sup>18</sup>

Yet, his vision of creating a purely East Asian grouping did not gain immediate support from other ASEAN countries, with the exception of initial support from Singapore. Singapore was the first ASEAN country to express its support for Mahathir's proposal. In January 1991,

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<sup>18</sup> Hook, "Japan and the Construction of Asia-Pacific," 194.

Prime Minister Goh Chok Tong lent his support for the proposal, with the caveat that it should be consistent with GATT, would not establish trade barriers, and would be supplementary to APEC.<sup>19</sup> However, other ASEAN countries were more reserved. Thailand reacted cautiously to Mahathir's call by maintaining that the proposal needed more discussion.<sup>20</sup> Thailand was apparently more in favor of strengthening intra-ASEAN economic cooperation and enhancing its relations with non-ASEAN countries within the APEC framework.<sup>21</sup> The Philippines also reacted coolly to the EAEG initiative. For example, Philippine Trade Minister Peter Garrucho mentioned that he was "very skeptical" about any regional arrangement that might harm Manila's relations with its trading partners.<sup>22</sup> Indonesia was most strongly opposed to Mahathir's proposal, partly because President Suharto was upset by Mahathir's failure to consult with him about the proposal in advance.<sup>23</sup>

Meanwhile, in June 1991, Prime Minister of Thailand, Anand Panyarachun, officially proposed the idea of an ASEAN free trade area. The initial Thai proposal was opposed by Indonesia and the Philippines out of their concerns about the speedy elimination of tariff and non-tariff barriers. However, at the Singapore ASEAN Summit in January 1992, the ASEAN leaders signed on an ASEAN Free Trade Area (AFTA) agreement, which incorporated an Indonesian proposal for a Common Effective Preferential Tariff (CEPT) scheme.<sup>24</sup> As this decision revealed, the first post-Cold War summit led to ASEAN's consensus that ASEAN members needed to redefine the importance of ASEAN as an organization by strengthening intra-ASEAN economic cooperation through its own regional cooperative scheme. This reflected ASEAN's "search for a new rationale" for the existence of the organization in the post-Cold War and the post-Cambodia conflict era.<sup>25</sup>

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<sup>19</sup> Michael Vatikiotis et al., "Building Blocs: Japan Negative About Leading Asian Economic Pact," *Far Eastern Economic Review*, January 31, 1991, p. 33.

<sup>20</sup> Michael Vatikiotis et al., "Building Blocs: Japan Negative About Leading Asian Economic Pact," *Far Eastern Economic Review*, January 31, 1991, p. 33.

<sup>21</sup> Linda Low, "The East Asian Economic Grouping," *The Pacific Review* 4, no. 4 (1991): 376.

<sup>22</sup> Michael Vatikiotis et al., "Building Blocs: Japan Negative About Leading Asian Economic Pact," *Far Eastern Economic Review*, January 31, 1991, p. 33.

<sup>23</sup> Michael Vatikiotis, "Fear of the Fortress: No ASEAN Consensus on Mahathir Plan," *Far Eastern Economic Review*, July 25, 1991, p. 54.

<sup>24</sup> Under the CEPT scheme, it was agreed that tariffs on targeted products would be cut to 0-5%. For the most sophisticated analysis of AFTA, see Nesadurai, *Globalisation, Domestic Politics and Regionalism: The ASEAN Free Trade Area*.

<sup>25</sup> John Ravenhill, "Economic Cooperation in Southeast Asia: Changing Incentives," *Asian Survey* 35, no. 9 (1995): 853-854.

With regard to the EAEC, the Singapore Declaration merely stated: “ASEAN recognizes that consultations on issues of common concern among East Asian economies, as and when the need arises, could contribute to expanding cooperation among the region’s economies, and the promotion of an open and free global trading system”<sup>26</sup> Despite the lack of ASEAN’s consensus on the EAEC initiative, by the mid-1990s, most ASEAN countries came to realize that ASEAN needed to strengthen its relations with extra-ASEAN countries through regional multilateral channels. It is against this backdrop that ASEAN became proactive in establishing multiple layers of broader regional arrangements, such as the ASEAN Regional Forum (ARF), the Asia-Europe Meeting (ASEM), and ASEAN+3, all of which will be discussed in greater detail below. ASEAN’s new activism marked a sharp change to its earlier preference for maintaining a certain level of regional autonomy independent of the influence of major external powers. In the 1990s, ASEAN leaders started to view regional cooperative schemes as a means to “ensure continued participation” in the global economy.<sup>27</sup> Given ASEAN’s dependence on external export markets and foreign direct investment, ASEAN’s new activism around promoting closer engagement with external powers made economic sense. However, ASEAN’s preference for regionalist approaches was driven by its political motive to engage with stronger states through a network of multilateral frameworks, which ASEAN hoped would dilute the influence of the great powers while allowing ASEAN members to present themselves as a united front.

#### **6.1.2.2 Japan**

Despite Mahathir’s call for Japan’s active leadership in the proposed grouping, Japanese reaction to his proposal was lukewarm. Japan was particularly uncomfortable about the fact that the EAEG left out the United States, Canada, and Australia.<sup>28</sup> Japan’s lack of support for the EAEG/EAEC proposal was not only because of strong U.S. opposition or Tokyo’s desire to avoid alienating its most important ally. Japan clearly opposed the creation of any trade bloc as originally envisioned by Mahathir’s proposal on the grounds that it would accelerate

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<sup>26</sup> Singapore Declaration of 1992 Singapore, January 28, 1992, see <http://www.aseansec.org/5120.htm>

<sup>27</sup> Bowles, "ASEAN, AFTA, and the 'New Regionalism'," 225.

<sup>28</sup> Low, "The East Asian Economic Grouping," 376.

protectionism.<sup>29</sup> Moreover, having played an important role alongside Australia in the creation of APEC in 1989, Japan preferred to promote “Asia-Pacific” region-building in the form of APEC rather than advancing an “East Asian” regional grouping.<sup>30</sup> For example, in 1993, Prime Minister Kiichi Miyazawa called for “the maintenance of the US presence and the promotion of a system of open economic co-operation in Asia-Pacific, and expressed support for APEC over EAEC.”<sup>31</sup> In 1994, the newly elected Prime Minister Tomiichi Murayama also emphasized Japan’s active participation in APEC and the ASEAN Regional Forum as well as Japan’s endorsement of “open regionalism.”<sup>32</sup> Tokyo’s preference for an Asia-Pacific grouping over a narrow East Asian regional group was also supported by the Japanese public. In a public poll conducted in 1993, only 5 percent of Japanese respondents supported an “Asia only” option, while 61 percent supported an Asia-Pacific one.<sup>33</sup>

As discussed in Chapter 4, Tokyo’s preference for an Asian-Pacific form of regional cooperation goes back to the mid-1960s. Since then Japan has been central to the development of the Asian-Pacific concept. In the post-war era, Japan has deliberately avoided associating itself with East Asian concepts, which would remind its neighboring countries of Japan’s earlier infamous concept of the “Greater East Asian Co-Prosperty Sphere.”<sup>34</sup> Tokyo’s hesitation to support an East Asian regionalist idea stems in part from its concern that Japan’s involvement in such a scheme would rekindle memories of the Pacific War and generate Asian resistance, as Japanese regionalist proposals in the previous decades had encountered criticism from other Asian countries. Moreover, given the political and economic importance to Japan of both sides of the Pacific Rim, Japan’s preference for an Asia-Pacific regional arrangement rather than an East Asian one is not surprising.

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<sup>29</sup> “Li Peng is Supportive of East Asia Market Idea,” *Japan Economic Newswire*, December 13, 1990.

<sup>30</sup> Takashi Terada, “Constructing an ‘East Asian’ Concept and Growing Regional Identity: From EAEC to ASEAN+3,” *The Pacific Review* 16, no. 2 (2003): 257.

<sup>31</sup> Hook, “Japan and the Construction of Asia-Pacific,” 195.

<sup>32</sup> *Ibid.*, 196.

<sup>33</sup> Bobrow and Boyer, *Defensive Internationalism: Providing Public Goods in an Uncertain World*, 120.

<sup>34</sup> Terada, “Constructing an ‘East Asian’ Concept,” 258.

### 6.1.2.3 China

China was the first non-ASEAN country to express its support for the EAEG/EAEC proposal.<sup>35</sup> When Mahathir first put forward the EAEG proposal, Prime Minister Li Peng responded cautiously to Mahathir's proposal by stating that it would require further discussion, while lending support for the idea only in principle.<sup>36</sup> The Chinese official maintained that "[w]hile China believes that such cooperation would be useful, it should be developed in a looser forum (than a trade bloc)."<sup>37</sup> Despite its initial cautious attitude, China subsequently expressed its support for the proposal, although the Chinese government opposed the inclusion of Hong Kong and Taiwan in the proposed grouping. In June 1991, China extended its full support when President Yang Shangkun commented that the EAEC initiative was "of positive significance to the increasing economic cooperation in East Asia."<sup>38</sup>

When China was invited to attend the ASEAN Ministerial Meeting as an observer for the first time in July 1991, Foreign Minister Qian Qichen remarked: "The idea [of the EAEG] is fitting as it is about economic cooperation and seeking common interest and stance on world issues. As mentioned by the Prime Minister [Mahathir], it is not a trade bloc and it is not an exclusive group."<sup>39</sup> On another occasion Qian offered implicit support for the EAEC by stating: "The Asian region could have many forms of cooperation within it."<sup>40</sup> Further, he maintained: "East Asian countries were justified to have their own proposal (EAEC) as the countries were located in the same region."<sup>41</sup>

### 6.1.2.4 The United States

Not surprisingly, the United States reacted to Mahathir's proposal most strongly among the other countries. The George H. W. Bush administration vehemently opposed the EAEG proposal on the grounds that it would damage a trans-Pacific linkage. In favor of strengthening the already existing trans-Pacific link in the form of APEC, the basic stance of the U.S. was that the U.S. government would not accept any regional arrangement in Asia that would exclude the

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<sup>35</sup> Leong, "The East Asian Economic Caucus (EAEC): 'Formalized' Regionalism Being Denied," 62.

<sup>36</sup> "Li Peng is Supportive of East Asia Market Idea," *Japan Economic Newswire*, December 13, 1990.

<sup>37</sup> Cited in Leong, "The East Asian Economic Caucus (EAEC): 'Formalized' Regionalism Being Denied," 62.

<sup>38</sup> Cited in *Ibid.*

<sup>39</sup> Cited in *Ibid.*

<sup>40</sup> Higgott and Stubbs, "Competing Conceptions of Economic Regionalism: APEC versus EAEC in the Asia Pacific," 529.

<sup>41</sup> Cited in Leong, "The East Asian Economic Caucus (EAEC): 'Formalized' Regionalism Being Denied," 63.

United States.<sup>42</sup> For example, Vice-President Dan Quayle spoke of U.S. interest in staying involved and engaged in Asia, while arguing that any arrangement that excludes the U.S. would be counterproductive.<sup>43</sup> The U.S. government was concerned that the United States would be excluded from the part of the world consisting of the most dynamic economies with the fastest growth rate. Furthermore, it was perceived that the EAEG would allow Japan to dominate the region economically and politically. Given the growing trade deficit with many East Asian countries and its domestic economic recession, there was a growing “Asia-phobia” in some circles in Washington, driven in particular by “Japan-phobia.”<sup>44</sup>

Secretary of State James Baker warned against the EAEG idea, maintaining that it would “draw a line down the Pacific.”<sup>45</sup> The U.S. Ambassador to Japan, Michael H. Armacost, also condemned the EAEG proposal by maintaining that “the formation of a smaller group, which excluded the United States, could only diminish APEC.”<sup>46</sup> Assistant Secretary of State, Richard Solomon maintained that “GATT-compatible regionalism, such as the ASEAN Free Trade Area, strengthens efforts to sustain and expand a global free trade regime. Closed, exclusionary grouping, however, would be very costly for trading partners on both sides of the Pacific.”<sup>47</sup> In short, the EAEG/EAEC was unacceptable from the American perspective. For the United States, its preference was to strengthen trans-Pacific economic relations through APEC.

### **6.1.3 Interstate Negotiations on the EAEG/EAEC**

As noted above, the EAEG/EAEC proposal immediately elicited strong opposition from the United States. On many occasions, U.S. officials not only criticized the proposal, but also exerted considerable pressure on many of the proposed member countries not to support the EAEG/EAEC proposal. Japan and South Korea in particular received much of this pressure. Immediately before his visit to Japan in November 1991, Secretary of State Baker sent a letter to

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<sup>42</sup> As discussed in Chapter 5, the U.S. government previously opposed the original APEC proposal put forward by Australian Prime Minister Bob Hawke that apparently did not include the United States.

<sup>43</sup> “The Disappointed Idealist,” *Far Eastern Economic Review*, July 25, 1991, p. 54.

<sup>44</sup> *Ibid.*

<sup>45</sup> *Mainichi Shimbun*, November 29, 1991, p. 3. See also Munakata, *Transforming East Asia: The Evolution of Regional Economic Integration*, 74.

<sup>46</sup> Cited in “Asian Trade: Bigger, Maybe Not Better,” *The Economist*, March 9, 1991, p. 36.

<sup>47</sup> Cited in Eero Palmujoki, *Regionalism and Globalism in Southeast Asia* (New York: Palgrave, 2001), 86.

the then Japanese Minister of Foreign Affairs, Michio Watanabe, in which he warned that the EAEC idea would “divide the Pacific region in half.”<sup>48</sup> At the APEC meeting in Seoul, Baker told South Korean Foreign Minister Lee Sang Ok that “it was Americans, not Malaysians, who had shed their blood for Korea” during the Korean War, when the latter suggested the possibility that his country might support Mahathir’s proposal.<sup>49</sup> In his memoir, Baker recalls, “I took a moderate line on his [Mahathir’s] idea [of the EAEG] in public. In private, I did my best to kill it.”<sup>50</sup> In the face of firm opposition from the United States, both Japan and South Korea were not able to afford risking their bilateral relations with the United States.

Thus, the Japanese government deliberately took a noncommittal stance. When Malaysia asked for Japan’s support for the EAEG/EAEC proposal, Japanese officials only answered that it was “considering” the proposal.<sup>51</sup> During Mahathir’s visit to Tokyo in December 1991, Japanese Prime Minister Kiichi Miyazawa avoided talking about the EAEC.<sup>52</sup> The deliberate ambivalence in Tokyo’s attitude was seen by many observers as Japan’s strategic attempt to use the EAEG as a diplomatic card in order to enhance its bargaining leverage vis-à-vis the United States.<sup>53</sup>

In the face of strong U.S. efforts to block the EAEC initiative, Mahathir responded strongly. In his speech at the United Nations in September 1991, he remarked:

In East Asia we are told that we may not call ourselves East Asians as Europeans call themselves Europeans and Americans call themselves Americans. We are told that we must call ourselves Pacific people and align ourselves with people who are only partly Pacific, but more American, Atlantic and European. We may not have an identity that is not permitted, nor may we work together on the basis of that identity.<sup>54</sup>

He continued to accuse the United States of setting a double standard in forming the North American Free Trade Agreement (NAFTA) while obstructing a similar attempt in Asia.

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<sup>48</sup> Shim Jae Hoon and Robert Delfs, “Block Politics: APEC Meeting Clouded by Fears of Regionalism,” *Far Eastern Economic Review*, November 28, 1991, p. 26.

<sup>49</sup> James A. Baker and Thomas M. DeFrank, *The Politics of Diplomacy: Revolution, War, and Peace, 1989-1992* (New York: Putnam, 1995), 610-611.

<sup>50</sup> *Ibid.*, 610.

<sup>51</sup> Munakata, *Transforming East Asia: The Evolution of Regional Economic Integration*, 75.

<sup>52</sup> Verena Blechinger, “Flirting with Regionalism: Japan’s Foreign Policy Elites and the East Asian Economic Caucus,” in Verena Blechinger and Jochen Legewie, eds., *Facing Asia - Japan’s Role in the Political and Economic Dynamism of Regional Cooperation* (Munich, Germany: Iudicium, 2000), 68.

<sup>53</sup> *Mainichi Shimbun*, May 4, 1991, p. 9; *Nikkei Shimbun*, April 29, 1991, p. 3.

<sup>54</sup> Mahathir’s speech at the Plenary of the Forty-Sixth Session of the United Nations General Assembly, New York City, September 24, 1991, available at <http://www.pmo.gov.my>

Mahathir went so far as to mention that such a double standard might be based on “racist bias.”<sup>55</sup> In response, some criticized the EAEC as “a caucus without Caucasians.”<sup>56</sup>

While the EAEC did not gain support outside ASEAN countries, even within ASEAN, the member states were divided over the EAEG/EAEC proposal. A major difference emerged with regard to the format of the EAEC, especially between Malaysia and Indonesia. Malaysia favored establishing the EAEC independent of APEC, apparently to avoid influence from non-Asian members of APEC, such as the United States. On the other hand, Indonesia insisted on incorporating the EAEC under the APEC framework in order to avoid projecting the EAEC as an exclusive group. Since Mahathir and Suharto were unable to reach an agreement, the Singapore Foreign Minister, Wong Kan Seng, proposed a compromise formula at the ASEAN Ministerial Meeting in July 1993. At this meeting, ASEAN ministers finally agreed to situate the EAEC as “a caucus within APEC.”<sup>57</sup> Subsequently, from 1994 to 1996, ASEAN foreign ministers met with their counterparts from Japan, South Korea, and China to hold informal discussions at the annual ASEAN Ministerial Meeting (AMM). However, the EAEC concept itself did not take shape.

#### **6.1.4 Explaining the Failure to Launch the EAEG/EAEC Proposal**

Why did the EAEG/EAEC proposal fail to get off the ground in the early 1990s? The first major obstacle was firm U.S. opposition, which effectively blocked the EAEG/EAEC initiative; by exercising its influence on its allies, especially Japan and South Korea, the U.S. convinced them not to support the proposal (an example of “negative supply”). Second, the lack of Japanese support for the proposed East Asian grouping was a crucial factor in preventing its realization.<sup>58</sup> Third, the ASEAN countries were also divided over the Malaysian proposal.

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<sup>55</sup> Mahathir remarked: “We are perplexed to find that this objective to have a voice in international affairs is being opposed openly and covertly by the very country which preach[es] free trade. It is even more surprising that there should be such opposition when NAFTA itself is being formed on the principle of the right of free association of independent countries. Can it be that what is right and proper for the rich and the powerful is not right or proper for the poor? One is tempted to suspect racist bias behind this stand.” See Mahathir’s speech at the Plenary of the Forty-Sixth Session of the United Nations General Assembly, New York City, September 24, 1991, available at <http://www.pmo.gov.my>

<sup>56</sup> Anthony Rowley, “Slowly Off the Trade Blocs,” *Far Eastern Economic Review*, June 18, 1992, p. 45.

<sup>57</sup> Michael Vatikiotis, “Singapore Solution,” *Far Eastern Economic Review*, August 5, 1993, p. 11.

<sup>58</sup> Terada, “Constructing an “East Asian” Concept,” 257.

In addition to these three main reasons, Mahathir made at least two strategic mistakes in launching the EAEG/EAEC initiative. First, the fact that Mahathir put forward his proposal to the Chinese Prime Minister Li Peng without discussing it with other ASEAN members and building consensus within ASEAN damaged the initiative's potential. In particular, President Suharto of Indonesia, who acknowledged himself as the leader of ASEAN, was offended by Mahathir's failure to consult with him.<sup>59</sup> Consequently, as many commentators point out, the EAEG/EAEC proposal became entangled in the rivalry between Mahathir and Suharto and their aspirations to lead ASEAN and, more broadly, the world's developing countries.<sup>60</sup> Second, Mahathir's confrontational style, with its explicitly anti-Western rhetoric, enhanced U.S. concerns about his proposal and the implications of excluding the United States. For example, Baker wrote in his memoir that "Mahathir was not seen as particularly pro-American and was considered likely to cause mischief if crossed."<sup>61</sup>

In summary, the EAEG/EAEC proposal did not materialize for the following three reasons: 1) strong U.S. opposition toward an exclusive grouping; 2) the lack of Japanese support for an "East Asia-only" grouping; 3) the lack of support among other ASEAN members; and 4) mistakes in Mahathir's strategy.

## 6.2 THE FORMATION OF ASEAN+3

Despite the failure to launch an East Asian regional grouping in the early 1990s, ASEAN has nevertheless successfully invited the leaders from three Northeast Asian countries, namely, Japan, South Korea and China to attend annual informal summits in the form of ASEAN+3 since 1997. What accounts for the emergence of East Asian regionalism in the form of ASEAN+3 in the late 1990s?

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<sup>59</sup> Michael Vatikiotis, "The Morning AFTA: ASEAN Takes Tentative Step towards Free-Trade Area," *Far Eastern Economic Review*, October 24, 1991, pp. 64-65.

<sup>60</sup> Rapkin, "Leadership and Cooperative Institutions in the Asia-Pacific," 121-122.

<sup>61</sup> Baker and DeFrank, *The Politics of Diplomacy: Revolution, War, and Peace, 1989-1992*, 610. According to Munakata's interview, a former U.S. State Department official mentioned that "Washington might have reacted differently (if not positively) had it been a proposal from some other country." See Munakata, *Transforming East Asia: The Evolution of Regional Economic Integration*, 75.

Like the analysis of APEC in Chapter 4, the first section that follows explores the demand-side question of *why* the APT was created, while the second section addresses the supply-side question of *how* the APT came into being.

### **6.2.1 Why Cooperate on an East Asian Basis?**

Despite the lack of support for an East Asian Economic Grouping in the early 1990s, why did key actors in East Asia come to support the APT framework in the late 1990s? The following section assesses the configuration of state preferences with regard to East Asian regionalism among the relevant countries, including ASEAN, Japan, China, and the United States. It will be shown that ASEAN has shown a growing interest in seeking a closer engagement with Northeast Asian countries, while Japan, China, and the United States also became gradually receptive to the creation of an East Asian grouping.

#### **6.2.1.1 ASEAN**

In sharp contrast with ASEAN's earlier resistance which persisted until the end of the 1980s, by the mid-1990s, ASEAN has become supportive of broader regionalist projects, such as APEC, the ARF, and ASEM. Despite its earlier hesitation, ASEAN found its own interest in the APEC process. The establishment of the ARF in 1994 reflected ASEAN's desire to create an institutional mechanism to deal with major powers in the region in a multilateral setting. The creation of the ASEM process was driven by ASEAN's aspirations to strengthen its relations with European countries. It was against this backdrop that ASEAN countries also reached out to Northeast Asian countries in order to establish a regular political channel with them. Before the onset of the Asian financial crisis, many ASEAN countries had recognized the need to strengthen their ties with Northeast Asian countries for at least three reasons.

First, although many ASEAN leaders responded with a cautious attitude toward Mahathir's call in the early 1990s to create an East Asian economic grouping, these leaders gradually began to recognize that ASEAN had no choice but to engage the Northeast Asian powers if ASEAN's voice is to be heard in the global economy. With that recognition, ASEAN started to develop its relationship with external non-ASEAN members by expanding its Post-Ministerial Conference (PMC) full dialogue partnership to Korea in 1991 and China in 1996. As

Alice Ba observers, “[t]here was growing consensus throughout the 1990s that ASEAN must cultivate closer relations and institutional linkages with Northeast Asian economies if it were to respond adequately to new challenges or to have any leverage in a global economy dominated by much larger economies.”<sup>62</sup>

The second long-term motivation behind the formation of the APT stems from internal conflicts within APEC.<sup>63</sup> As demonstrated in the previous chapter, by the mid-1990s, APEC members came to be highly divided between the Anglo-American economies, including the U.S., Canada, Australia, and New Zealand, and many of Asian economies, especially China and Malaysia.<sup>64</sup> In particular, the U.S.-led attempt to use APEC as a vehicle to negotiate for greater trade and investment liberalization, alienated many Asian members who preferred to keep APEC an informal consultative forum for promoting economic and technical cooperation. The Osaka APEC meetings witnessed the embryonic form of an “Asian coalition” that collectively prevented the transformation of APEC into a rule-based negotiation body for trade and investment liberalization with clear deadlines and binding obligations, a model favored by the United States.<sup>65</sup> Consequently, in the eyes of many observers, the division within APEC, with Anglo-American states on the one side and Asian states on the other, contributed to the formation of Asian coalitions that stood against those whom they perceived as common opponents, and thus creating at least a limited sense of common identity among East Asian states.<sup>66</sup>

The different attitudes toward APEC among member economies can be attributed not only to the different levels of economic development among its members, but also to a deeper division with regard to the different forms of capitalism that the different economies embraced. East Asian countries adopted a distinct form of capitalism that is quite different from either European or North American forms of capitalism. Stubbs argues that:

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<sup>62</sup> Ba, "China and ASEAN: Renavigating Relations for a 21-st Century Asia," 629.

<sup>63</sup> Douglas Webber, "Two Funerals and a Wedding? The Ups and Downs of Regionalism in East Asia and Asia-Pacific after the Asian Crisis," *The Pacific Review* 14, no. 3 (2001): 357.

<sup>64</sup> Stubbs, "ASEAN Plus Three: Emerging East Asian Regionalism?," 447.

<sup>65</sup> Sunhyuk Kim and Yong Wook Lee, "New Asian Regionalism and the United States: Constructing Regional Identity and Interest in the Politics of Inclusion and Exclusion," *Pacific Focus* 19, no. 2 (2004): 214-216; Rapkin, "The United States, Japan, and the Power to Block: The APEC and AMF Cases," 384-389.

<sup>66</sup> Webber, "Two Funerals and a Wedding?," 357. See also Rüländ, "APEC, ASEAN, and EAEC - A Tale of Two Cultures of Cooperation," 47.

This East Asian form of capitalism, which is increasingly found in the APT countries, is rooted in business networks – both Japanese and ethnic Chinese networks – and is characterized by strong state-business links. It emphasizes production rather than consumption, and results rather than ideology, and tends to place a premium on market share as opposed to short term profits. East Asian capitalism is also based more on social obligation and social trust than on the rule of law.<sup>67</sup>

In this view, East Asian regionalism makes more sense than Asia-Pacific regionalism. APEC contained the seeds of internal conflict which were to reveal themselves only later were only to be discovered, instead of being reconciled. Indeed, APEC proved to be “a key site of contestation between ‘Asian’ and ‘Western governments keen on implementing their own, potentially incommensurate, visions for APEC.”<sup>68</sup> The formation of the APT can be viewed as an attempt to defend a distinctly East Asian form of capitalism, which was especially important in the aftermath of the Asian financial crisis and Western responses to it.

The third long-term motivation behind ASEAN’s initiative for the APT stemmed from their concerns over the rise of China. A rapidly increasing Chinese power has continued to pose a serious challenge for other countries in Asia and especially small ASEAN states. Since “containment” did not present an attractive or feasible option for Asian countries, Asian leaders came to recognize that they had no choice but to engage with China. Therefore, they sought regional institutions to constrain Chinese behavior in a multilateral setting. Within a regional institution, ASEAN leaders wanted to pursue a balance-of-power policy between Japan and China as a counterweight against each.<sup>69</sup> Moreover, ASEAN countries increasingly perceived the growing Chinese economic power as a challenge. In particular, ASEAN leaders believe that the Chinese have been attracting increasing foreign investment at the expense of ASEAN.<sup>70</sup> Together, there was growing motivation on the part of the ASEAN countries to bring Northeast

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<sup>67</sup> Stubbs, "ASEAN Plus Three: Emerging East Asian Regionalism?," 445. See also, Gallant and Stubbs, "APEC's Dilemmas: Institution-Building Around the Pacific Rim," 99-111.

<sup>68</sup> Beeson, "The Political Rationalities of Regionalism: APEC and the EU in Comparative Perspective," 323-324.

<sup>69</sup> In explaining the reasons for inviting the leaders from three Northeast Asian countries to the first APT summit, a Malaysian official was quoted as saying that [ASEAN countries] “need to pursue a policy of inclusion and balance, especially with China and Japan.” See Michael Richardson, “Asians Insist on Japan-China Balance,” *International Herald Tribune*, September 4, 1997, p. 1.

<sup>70</sup> However, some authors argue that this zero-zero-sum view is not entirely accurate. See John Ravenhill, "Is China an Economic Threat to Southeast Asia?," *Asian Survey* 46, no. 5 (2006): 653-674; Ellen L. Frost, "Implications of Regional Economic Integration," in Richard J. Ellings and Aaron L. Friedberg, eds., *Strategic Asia 2003-04: Fragility and Crisis* (Seattle, Wash.: National Bureau of Asian Research, 2003), 405; Amitav Acharya, "Seeking Security in the Dragon's Shadow: China and Southeast Asia in the Emerging Asian Order," *Working Paper Series, Institute of Defence and Strategic Studies* No. 44 (2004): 8-11.

Asian countries into the fold of regional dynamics before the onset of the Asian financial crisis. However, as discussed below, it was the Asian financial crisis that provided the major catalyst that dramatically increased the demand for an East Asian regional institution on the parts of both ASEAN and the Northeast Asian countries.

### 6.2.1.2 Japan

Although Japan's interest in APEC has gradually waned since the U.S. government began pressing for a greater trade and investment liberalization agenda at the fore of the forum's agenda when it hosted APEC in 1993, Japan generally continued to support an Asia-Pacific rather than an East Asian regional arrangement. However, by the mid-1990s, some business and political circles showed their support for the EAEC concept. In late 1994, an influential business group, the *Keidanren* (Federation of Economic Organizations), expressed its support for the EAEC idea.<sup>71</sup> In November 1995, another influential group, *Keizai Doyukai* (Japan Association of Corporate Executives), also demonstrated its support.<sup>72</sup>

Despite some domestic support for the EAEC concept, until the mid-1990s, the Japanese government remained extremely cautious about attending any meetings held exclusively by East Asians. For example, Japan refused to attend an informal "six plus three" meeting scheduled at the Thai resort island of Phuket in April 1995, attended otherwise by the economic ministers of the ASEAN members, alongside the economic ministers of China, Korea, and Japan. When the Thai Deputy Prime Minister, Supachai Panitchpakdi, proposed the meeting to Rutyaro Hashimoto in September 1994, the then Japan's Minister of International Trade and Industry, Hashimoto had insisted on the participation of Australia and New Zealand, expressing the concern that such a meeting would encounter opposition from the United States.<sup>73</sup> Although Beijing had already expressed its intention to attend the meeting, the Japanese refusal to join and Korea's decision to follow suit forced the Thai host to cancel the meeting.<sup>74</sup>

When the Japanese government received an invitation to attend the informal ASEAN summit in 1997, it was initially still reluctant to get involved. Only after the Chinese

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<sup>71</sup> Higgott and Stubbs, "Competing Conceptions of Economic Regionalism: APEC versus EAEC in the Asia Pacific," 531.

<sup>72</sup> Leong, "The East Asian Economic Caucus (EAEC): 'Formalized' Regionalism Being Denied," 83.

<sup>73</sup> *Mainichi Shimbun*, April 7, 1995, p. 9; *Nihon Keizai Shimbun*, April 8, 1995, p. 5.

<sup>74</sup> *Nihon Keizai Shimbun*, April 8, 1995, p. 5; *Nihon Keizai Shimbun*, April 12, 1995, p. 5.

government accepted ASEAN's invitation did the Japanese government reveal its intention to attend the summit.<sup>75</sup> At the first APT meeting, the Japanese Prime Minister Ryutaro Hashimoto disagreed to the idea of making the APT summit an annual event. Since he had earlier proposed bilateral summits between Japan and ASEAN, it was speculated that he preferred to strengthen the relationship bilaterally rather than on an East Asian basis.<sup>76</sup> When Japan received an invitation to attend the next ASEAN informal summit in 1998, it was reported that the Japanese government had initially demonstrated some hesitation in accepting the invitation.<sup>77</sup> It was only at the third APT summit in 1999 that Tokyo's more active interest in the APT process was recognized by ASEAN members.<sup>78</sup>

What explains the shift in Japan's attitude toward East Asian regionalism? Certainly, the moderation of U.S. hostility toward East Asian regionalism diminished Japan's hesitation to take part in the first APT meeting. However, there are at least two other reasons that motivated Japan to take an active interest in the APT. First, the Asian economic crisis demonstrated that Japan had high industrial stakes in the economic health of the Southeast Asian countries as numerous Japanese firms were operating in the region. Moreover, the crisis damaged Japan's regional credentials, highlighting the image of the rise of China and the decline of Japan. This contrast was perceived particularly by ASEAN countries by "a China that kept Chinese yuan steady vis-à-vis U.S. dollars and a Japan that was not able to recover from a long recession and thus did not help the Asia-pacific economic recovery to come more swiftly and vigorously."<sup>79</sup> This experience prompted the Japanese government to make more of an effort to engage with the region in order to curb the decline of Japanese influence in East Asia.

Second, Japan's interest in the APT process was increasingly driven by its political concerns over China's growing influence in the region. Clearly, Japan could not afford to let China take a leading role in the East Asian regional framework. Thus Japan and ASEAN share

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<sup>75</sup> Stubbs, "ASEAN Plus Three: Emerging East Asian Regionalism?," 443.

<sup>76</sup> Siti Rahil Dollah, "Asians Split on Ways to Revive Economies after Crisis," *Japan Economic Newswire*, December 15, 1997.

<sup>77</sup> The Japanese government sources implied the possibility that Japan would have turned down the proposal before the ASEAN foreign ministers meeting in July 1998. Masaki Hisane, "Hanoi Proposes Special ASEAN Meeting," *Japan Times*, July 1, 1998.

<sup>78</sup> Terada, "Constructing an "East Asian" Concept," 267-268.

<sup>79</sup> Takashi Inoguchi, "Japan Goes Regional," in Takashi Inoguchi, ed., *Japan's Asian Policy: Revival and Response* (New York: Palgrave Macmillan, 2002), 7.

an interest in hedging against China's dominant role within East Asian regional dynamics. In short, Japan's growing interest in the APT was driven by both economic and political interests.

### 6.2.1.3 China

In contrast with a reluctant Japan, China had shown its support for Mahathir's call for the creation of an East Asian grouping. Although the Chinese had been skeptical about a multilateral approach, they rather quickly found an interest in an East Asian regional arrangement. China shared an interest with Malaysia in forming a grouping that excluded Western powers.

When ASEAN invited the leaders from the three Northeast Asian countries to their 1997 informal summit, China's President Jiang Zemin was reportedly the first one to officially accept ASEAN's invitation.<sup>80</sup> Yet, at the first informal summit in 1997, Beijing, like Tokyo, did not accept the idea of making the APT an annual event. However, the years following this summit have seen China's growing interest in the APT process, as demonstrated by China's active role in proposing several proposals within the APT framework.

China's shift in attitude toward East Asian regionalism was motivated by several events and developments in the 1990s.<sup>81</sup> First, in the aftermath of the post-Tiananmen isolation, Beijing had worked assiduously to improve its relations with Southeast Asian countries. Second, China was wary of the strengthening of the U.S.-Japan alliance during 1996-97. Third, the Asian economic crisis provided China with a great opportunity to increase its position within Asia.<sup>82</sup> Fourth, China's interest in the APT was further encouraged by NATO's bombing of the Chinese embassy in Belgrade in May 1999 and by the Cox Report, which was released in the same year. Spurred by its growing dissatisfaction with U.S. policy, Beijing viewed the APT as insurance against persistent problems in the US-China relationship. Finally, Beijing had recently adopted a more active role by taking some important initiatives, such as by viewing the APT as a means to strengthen its position in the region. In short, China's move toward the APT and greater economic diplomacy in Asia was initially driven as a response to the changing external

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<sup>80</sup> Michael Richardson, "Asians Insist on Japan-China Balance," *International Herald Tribune*, September 4, 1997, p. 1.

<sup>81</sup> David Shambaugh, "China Engages Asia: Reshaping the Regional Order," *International Security* 29, no. 3 (2005): 67-72.

<sup>82</sup> Ba, "China and ASEAN: Renavigating Relations for a 21-st Century Asia," 634.

environment, but China became more actively involved in shaping regional projects as a means of furthering its political objectives.

#### **6.2.1.4 The United States**

The U.S. government had strongly opposed the creation of a regional arrangement that would exclude the United States, as in both the case of the original Australian proposal for creating a regional forum for Western Pacific economic cooperation in 1989 and in Mahathir's EAEG/EAEC proposal during the early 1990s. However, in the latter half of the 1990s, the Clinton administration softened its attitude somewhat toward the formation of a grouping that would exclude the United States. The first conspicuous absence of U.S. opposition toward such a grouping was observed when the Asia Europe Meeting (ASEM) was launched in 1996. According to Davis B. Bobrow, "[n]either then nor since has either political Washington or economic New York paid much obvious attention to ASEM."<sup>83</sup> In contrast to its staunch hostility toward the earlier EAEG/EAEC proposal, the U.S. response to the development of the APT has been remarkably soft, although the U.S. has encouraged the inclusion of Australia and New Zealand in the grouping.<sup>84</sup> For example, Assistant Secretary of State James Kelly described the development of the APT as "a very healthy kind of dialogue within East Asia."<sup>85</sup> Part of the reason for this response can be attributed to diminishing U.S. attention to the East Asian region. Ellen Frost remarked that the U.S. government has taken an attitude of "benign neglect" toward the development of East Asian regionalism.<sup>86</sup>

There are at least two explanations for the change in America's attitude toward East Asian regionalism. The first explanation relates to changes in the economic conditions of the United States and Asian countries. U.S. opposition toward an "East Asia-only" grouping in the early 1990s was framed by anxiety over its decline, especially in the face of East Asia's rapidly growing economies. However, by the mid-1990s, the U.S. economy had recovered, while many

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<sup>83</sup> Davis B. Bobrow, "The U.S. and ASEM: Why the Hegemon Didn't Bark," *The Pacific Review* 12, no. 1 (1999): 104.

<sup>84</sup> Muthiah Alagappa, "Constructing Security Order in Asia: Conceptions and Issues," in Muthiah Alagappa, ed., *Alagappa, Muthiah* (Stanford, Calif.: Stanford University Press, 2003), 75.

<sup>85</sup> Transcript of Assistant Secretary of State James Kelly's statement on the upcoming ASEAN Regional Forum, July 18, 2001, available at <http://canberra.usembassy.gov/hyper/2001/0719/epf407.htm>

<sup>86</sup> Personal interview, September 24, 2005. Frost is a former counselor to the U.S. Trade Representative and currently a visiting fellow at the Institute for International Economics and an adjunct research fellow at the National Defense University.

Asian economies fell into the crisis of 1997–98. The second explanation is based on U.S. perceptions of the impact of regional arrangements that exclude the United States. Michael Wesley argues that the new regionalism as exemplified by the APT process “had showed itself to US policy makers to be incapable of constituting a challenge to US power.”<sup>87</sup>

## **6.2.2 Explaining the Shift in State Preferences**

What explains the shift in the configuration of state preferences regarding East Asian regionalism? It will be argued below that the Asian financial crisis served as the single most significant trigger that created the demand for the development of the APT process. After examining the impact of the crisis on the Asian countries, the ensuing section considers other alternative theoretical claims for explaining the change in state preferences in favor of regionalism, such as ideational changes, balance of power, and economic interdependence.

### **6.2.2.1 The Asian Financial Crisis as a Trigger: Regionalism as a Defensive Mechanism**

The examination of the configuration of state preferences among key government players in the previous section revealed that there was a growing perception among many relevant governments of the need for closer ties between Southeast and Northeast Asian countries. However, it was the Asian financial crisis of 1997–98 that provided the single greatest impetus for creating the urgent demand for a new East Asian regional mechanism.<sup>88</sup> The financial crisis started in Thailand in July 1997 and spread quickly among almost all nations in the region. As can be seen in Figure 6-1, the most severely affected countries included Indonesia, Thailand, Malaysia, and South Korea, all of which registered a drastic drop in GDP growth rate. Meanwhile, only China and Taiwan were left relatively unaffected. Although the timing and impact of the crisis differed in each country, all the crisis-affected countries experienced similar symptoms, including huge capital outflows, a drop in stock prices and real estate values, and the

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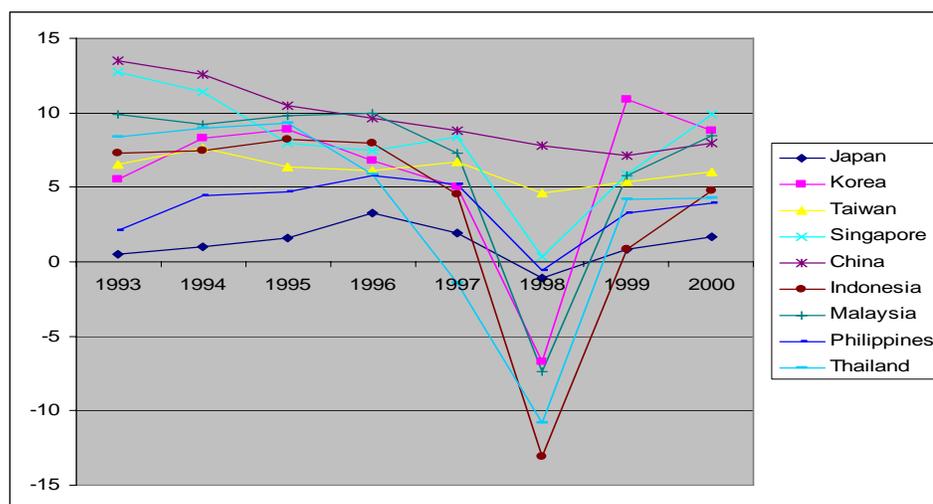
<sup>87</sup> Michael Wesley, "The Dog That Didn't Bark: The Bush Administration and East Asian Regionalism," in Mark Beeson, ed., *Bush and Asia: America's Evolving Relations with East Asia* (New York: Routledge, 2006), 66.

<sup>88</sup> Many analysts argue that the Asian financial crisis served as the single greatest catalyst for the emergence of East Asian regionalism. See, for example, Stubbs, "ASEAN Plus Three: Emerging East Asian Regionalism?," 448-450; Tsutomu Kikuchi, "East Asian Regionalism: A Look at the "ASEAN Plus Three" Framework," *Japan Review of International Affairs* 16, no. 1 (2002): 23-45; Webber, "Two Funerals and a Wedding?," 357-359; Yu, "Explaining the Emergence of New East Asian Regionalism: Beyond Power and Interest-Based Approaches," 284.

sharp depreciation of currencies. Table 6-1 shows the magnitude of the reversal in capital flows experienced in these crisis-affected countries.

**Figure 6-1: Change in Real GDP Growth Rate, Selected Asian Countries**

Percent



Source: IMF, *World Economic Outlook*, Statistical Appendix, tables 2 and 6, p. 166, p. 173.

<http://www.imf.org/external/pubs/ft/weo/2001/01/pdf/append.pdf>

**Table 6-1: Capital Flows to Indonesia, Malaysia, Philippines, South Korea, and Thailand (U.S. \$ billions)**

	1995	1996	1997	1998	1999
Net external financing	98.1	118.6	39.5	-15.2	-4.9
Net private flows	94.2	119.5	4.9	-38.7	-5.2
Equity investment, net	15.5	16.8	5.2	16.8	30.1
Direct investment, net	4.4	4.8	6.8	12.3	14.6
Portfolio investment, net	11.0	12.0	-1.7	4.5	15.4
Private creditors, net	78.7	102.7	-0.3	-55.5	-35.3
Commercial bank credit, net	64.9	69.6	-17.4	-48.8	-29.3
Nonbank credit, net	13.8	33.2	17.2	-6.7	-6.0
Net official flows	3.9	-0.9	34.6	23.5	0.2
International financial institutions	-0.5	-1.9	22.7	19.7	-4.6
Bilateral creditors	4.4	1.0	11.9	3.8	4.9

Source: Asian Development Bank, "Tracking Asia's Recovery – A Regional Overview," *Asia Recovery Report 2001* (Manila, Philippines: Asian Development Bank, 2001), p. 145.

The crisis provided the impetus for the emergence of East Asian regionalism for at least three reasons. First, the crisis “greatly strengthened perceptions of mutual economic interdependence and vulnerability between Southeast and Northeast Asia.”<sup>89</sup> Both government and business leaders in Northeast Asian countries became aware that their increased trade with, and investment in, Southeast Asia were greatly affected by the economic situations in those countries in the region. Northeast Asian leaders realized that “the economic health of the ASEAN members was very much in their interests.”<sup>90</sup> For ASEAN members, the crisis highlighted the importance of forming institutional links with the larger economies in Northeast Asia in order to avoid any future crisis.<sup>91</sup> As a result, leaders from both Northeast and Southeast Asia recognized that they are integral members of a broader region of East Asia.

Second, the crisis demonstrated the inadequacy of the existing regional institutions, such as APEC and ASEAN, to respond to the crisis in any effective way.<sup>92</sup> ASEAN did not have enough resources to deal with the crisis. APEC also did not respond to the crisis in any effective way. APEC lacked a “market-correction” function for dealing with the negative consequences of market activities. In particular, APEC was not intended, nor designed to cope, with financial crises, because it focused on trade and investment liberalization agendas.<sup>93</sup> Instead, it was primarily a “market-building” institution aimed at enhancing the efficiency of market activities.<sup>94</sup> In the end, APEC only endorsed the IMF program. Consequently, the crisis revealed that ASEAN was too small to respond to the crisis, but APEC was too big to fully represent the interests of its Asian members.<sup>95</sup>

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<sup>89</sup> Webber, "Two Funerals and a Wedding?," 357.

<sup>90</sup> Stubbs, "ASEAN Plus Three: Emerging East Asian Regionalism?," 449.

<sup>91</sup> Ibid.

<sup>92</sup> See, for example, Michael Wesley, "The Asian Crisis and the Adequacy of Regional Institutions," *Contemporary Southeast Asia* 21, no. 1 (1999): 54-73; Mark Beeson, "Reshaping Regional Institutions: APEC and the IMF in East Asia," *The Pacific Review* 12, no. 1 (1999): 1-24.

<sup>93</sup> Stuart Harris, "Asian Multilateral Institutions and their Response to the Asian Economic Crisis: The Regional and Global Implications," *The Pacific Review* 13, no. 3 (2000): 495-516. See also Ross Garnaut, "Introduction - APEC Ideas and Reality: History and Prospects," in Ippei Yamazawa, ed., *Asia Pacific Economic Cooperation (APEC): Challenges and Tasks for the Twenty-First Century* (London: Routledge, 2000), 16.

<sup>94</sup> For the distinction between “market-building” and “market-correction” mechanisms of regional institutions, see Alberta M. Sbragia, "Building Markets and Comparative Regionalism: Governance Beyond the Nation-State," in Markus Jachtenfuchs and Michèle Knodt, eds., *Regieren in internationalen Institutionen* (Opladen: Leske + Budrich, 2002), 240-245.

<sup>95</sup> Shaun Breslin, "Theorising East Asian Regionalism(s): New Regionalism and Asia's Future(s)," in Melissa G. Curley and Nicholas Thomas, eds., *Advancing East Asian Regionalism* (London: Routledge, 2007), 41.

Finally and most importantly, the financial crisis revealed East Asia's vulnerability to external forces, such as the rapid cross-border movement of short-term capital and the influence of global financial institutions.<sup>96</sup> The crisis demonstrated the inadequacy of global institutional arrangements such as the International Monetary Fund (IMF) to protect interests of regional countries, thus calling into question the legitimacy of the global institutional framework in the first place. East Asian regional leaders also confirmed the growing perception that global financial institutions are dominated by Western countries, especially the United States, and therefore do not reflect the interests of East Asian countries.<sup>97</sup> Consequently, the crisis created the regional leaders' desire to establish a regional mechanism as "a way of warding off the possible negative impacts of global processes and providing a degree of insulation for regional politics and economies."<sup>98</sup>

In short, the crisis revealed the inadequacies of the existing institutional frameworks, both at the regional and global levels. Deputy Prime Minister of Thailand Supachai Panitchpakdi, for example, remarked in 2000: "We cannot rely on the World Bank, Asian Development Bank, or International Monetary Fund ... we must rely [instead] on regional cooperation."<sup>99</sup> As a result, the crisis led to the emergence of an urgent demand for a new East Asian regional mechanism.

#### **6.2.2.2 Crises and Ideational Changes**

Many commentators argue that the crisis led to a dramatic change in thinking among policy elites in East Asia with regard both to how the region should be governed and what its relationship should be to the wider global context.<sup>100</sup> The immediate impact of the crisis on regional elites was the growth of resentment against the West-dominated IMF and, more

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<sup>96</sup> Mark Beeson, "ASEAN Plus Three and the Rise of Reactionary Regionalism," *Contemporary Southeast Asia* 25, no. 2 (2003): 251-268.

<sup>97</sup> For a scholarly analysis on this issue, see David P. Rapkin, "Is East Asia Under-Represented in the International Monetary Fund?," *International Relations of the Asia-Pacific* 3, no. 1 (2003): 1-28.

<sup>98</sup> Beeson, *Regionalism and Globalization in East Asia: Politics, Security, and Economic Development*, 5. See also Breslin, "Theorising East Asian Regionalism(s): New Regionalism and Asia's Future(s)," 33.

<sup>99</sup> Quoted in David Martin Jones and Michael L. R. Smith, "Constructing Communities: The Curious Case of East Asian Regionalism," *Review of International Studies* 33 (2007): 171.

<sup>100</sup> Alice D. Ba, "Contested Spaces: The Politics of Regional and Global Governance," in Alice D. Ba and Matthew J. Hoffmann, eds., *Contending Perspectives on Global Governance: Coherence and Contestation* (New York: RoutledgeCurzon, 2005), 205.

particularly, the U.S. response to the crisis.<sup>101</sup> According to Fred Bergsten, “most East Asians feel that they were both let down and put upon by the West.”<sup>102</sup> They believe that Western financial institutions caused or exacerbated the crisis by pulling out their money from the region and then declined to take part in the rescue operations. At the same time, they believe that the IMF and the United States imposed the so-called “Washington consensus” through IMF conditionality and prescriptions, which, in their view, aggravated rather than alleviated the crisis.<sup>103</sup> In the eyes of many observers, the perception of the “East Asian miracle” brought by the East Asian developmental state model was dramatically replaced by the image of “crony capitalism.” This “feeling of ‘humiliation’ shared by many East Asian countries”<sup>104</sup> helped to define the boundary of a newly emerging regional arrangement in the form of the ASEAN+3 framework.

Many analysts inspired by constructivist approaches go so far as to suggest that the crisis has contributed to developing an East Asian regional identity based on a shared sense of identity and regional consciousness vis-à-vis the West.<sup>105</sup> In this view, then, the crisis not only created the functional and material need for a new institutional mechanism to deal with new economic problems, but also produced ideational foundations for creating a regional institution based around East Asian countries. Consequently, through the “politics of inclusion and exclusion,”<sup>106</sup> Western countries, most notably the United States, were excluded from the East Asian regional institutional process which searched for a new regional institutional identity.

Moreover, in general, the crisis evidently demonstrated the negative consequences of globalization without appropriate regulatory mechanisms, particularly in the area of monetary and financial coordination. According to Kanishka Jayasuriya, it is precisely these sorts of “regulatory arrangement for policy coordination that the region lacked.”<sup>107</sup> The crisis undoubtedly revealed the limits of unregulated global capitalism, thus significantly challenging the dominant policy ideas that promoted financial liberalization. While some Western

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<sup>101</sup> Richard A. Higgott, "The Asian Economic Crisis: A Study in the Politics of Resentment," *New Political Economy* 3, no. 3 (1998): 333-356.

<sup>102</sup> Fred Bergsten, "Towards a Tripartite World," *The Economist* (2000): 22.

<sup>103</sup> Ibid.

<sup>104</sup> Kikuchi, "East Asian Regionalism," 24.

<sup>105</sup> Terada, "Constructing an 'East Asian' Concept," 251-277; Yu, "Explaining the Emergence of New East Asian Regionalism: Beyond Power and Interest-Based Approaches."

<sup>106</sup> Kim and Lee, "New Asian Regionalism and the United States: Constructing Regional Identity and Interest in the Politics of Inclusion and Exclusion," 185-231.

<sup>107</sup> Kanishka Jayasuriya, ed., *Asian Regional Governance: Crisis and Change* (New York: Routledge, 2004), xiv.

commentators proclaimed the triumph of economic neoliberalism in the aftermath of the Asian financial crisis, others saw it as “the first serious challenges to the hegemony of neoliberalism as the dominant form of economic organization since the end of the Cold War,” thus leading to a crisis of neoliberalism.<sup>108</sup> To respond to the limits of economic neoliberalism, policy elites in East Asia started to embrace “the idea that a globalized economy needs to develop regulatory structures for a range of financial and monetary issues, all of which encompass areas thought to be within the domain of domestic governance.”<sup>109</sup> In short, there was growing demand among some regional leaders to create some kind of regional political mechanism to deal with the negative consequences of globalization.<sup>110</sup> Yet, despite the importance of these ideational changes within regional policy elites, it is worth stressing that such ideational change occurred only as a result of the crisis.

### **6.2.2.3 The Shift in the Power Configurations**

Realist-informed theorists account for the formation of regionalism as a result of power realignments among regional powers or the shift in the broader balance of power among regional groupings. The rise of China has been singled out as the most significant factor in changing the overall relative power configurations in East Asia, and thus China’s rise serves as a major source of concern among the region’s powers. Although the rise of China can be analyzed in both military and economic dimensions, the most dramatic and immediate impact of the rise of China on the patterns of interactions among East Asian countries has been in the economic domain. In light of China’s increasing economic might and growing political clout, some scholars like Samuel S. Kim, argue that the APT process “has had the broader strategic objective of enmeshing an increasingly powerful China into a regional financial regime in the making.”<sup>111</sup>

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<sup>108</sup> Higgott, "ASEM and the Evolving Global Order," 31. For an excellent presentation of the post-crisis debates over the neoliberal globalization project, see Richard A. Higgott and Nicola Phillips, "Challenging Triumphalism and Convergence: The Limits of Global Liberalization in Asia and Latin America," *Review of International Political Economy* 26 (2000). Mark T. Berger also suggests that the Asian financial crisis represents “the onset of a crisis of neoliberalism.” See Mark T. Berger, "APEC and its Enemies: The Failure of the New Regionalism in the Asia-Pacific," *Third World Quarterly* 20, no. 5 (1999): 1025.

<sup>109</sup> Many prominent experts in the West also advocated some sort of regulatory mechanisms, especially in the new global financial architecture.

<sup>110</sup> Kanishka Jayasuriya discusses the possibility that such new regional arrangements develop into “regulatory regionalism.” See Jayasuriya, ed., *Asian Regional Governance: Crisis and Change*, xiv.

<sup>111</sup> The author goes as far as to suggest that ASEAN’s perceptions of China’s rise have provided the single greatest motive behind forming three regional arrangements in East Asia and the Asia-Pacific region: the Council for

As Figure 6-2 indicates, measured on a purchasing power parity (PPP) basis, China's GDP had surpassed Japan's by the mid-1990s. According to Akihiko Tanaka, concerns about China's growing economic power were ignited by the World Bank report released in 1993, which calculated China's GDP using the PPP.<sup>112</sup> However, according to market exchange rates, Japan remains the world's second largest economy, second only to the United States. In 2003, Japan's GDP was approximately three times that of China (Figure 6-3). Although there is some room for controversy, there is general agreement that market exchange rates provide a better indicator for measuring relative power in the international economy, whereas purchasing power parity is a better indicator of comparative levels of total consumption.<sup>113</sup> Apparently, there is a tendency that analysts who emphasize the impact of a rising China use the PPP to calculate China's GDP.

Although there is disagreement over the magnitude of China's rising economic power, undoubtedly the China factor has become an increasingly important one in shaping the patterns of interactions across East Asia. The region has also witnessed the decline of Japan's dominant role in the region's economy, which has been severely eroded through a series of events and developments in the 1990s, such as the collapse of the Japanese economic bubble during 1990–91, the subsequent economic stagnation, the Asian economic crisis, and the rise of China.<sup>114</sup>

Arguably, the gradual shift in the center of gravity from Japan toward China is the most significant change in overall trade and investment patterns among East Asian countries during the 1990s.<sup>115</sup> During the late 1980s and the early 1990s, there was a wide-spread perception that East Asian economies were coalescing around Japan. It was against that backdrop that Mahathir's EAEG was proposed. Nevertheless, in the 1990s, this image of a Japan-centered East

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Security Cooperation in the Asia Pacific (CSCAP), the ARF, and ASEAN+3. See Samuel S. Kim, "Regionalization and Regionalism in East Asia," *Journal of East Asian Studies* 4 (2004): 48, 49.

<sup>112</sup> Akihiko Tanaka, "Global and Regional Geo-Strategic Implications of China's Emergence," *Asian Economic Policy Review* 1, no. 1 (2006): 181. See World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (New York, N.Y.: Oxford University Press, 1993), 66-67.

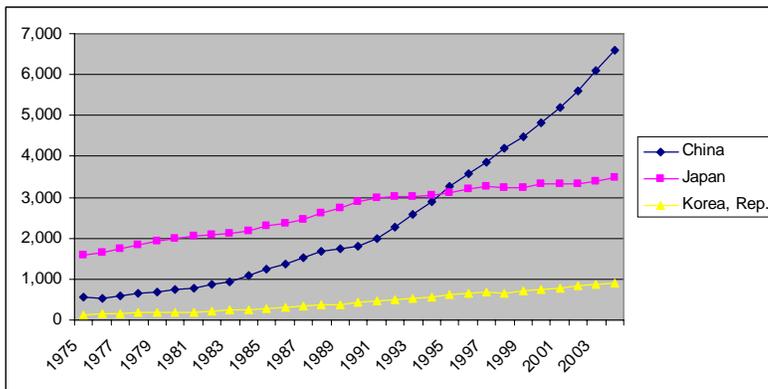
<sup>113</sup> Geoffrey McNicoll, "Demographic Future of East Asian Regional Integration," in T. J. Pempel, ed., *Remapping East Asia: The Construction of a Region* (Ithaca: Cornell University Press, 2005), 57. See also Lincoln, *East Asian Economic Regionalism*, 23.

<sup>114</sup> Stephan Haggard, "The Balance of Power, Globalization, and Democracy: International Relations Theory in Northeast Asia," *Journal of East Asian Studies* 4 (2004): 19.

<sup>115</sup> MacIntyre and Naughton, "The Decline of a Japan-Led Model of the East Asian Economy," 88.

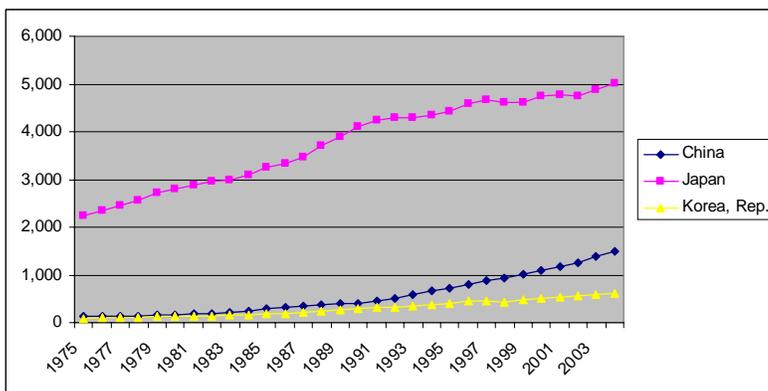
Asian economic system was not realized.<sup>116</sup> Instead, the economic presence of China increased enormously.

**Figure 6-2: Change in GDP at Purchasing Power Parity**  
(Billions of U.S. dollars)



Source: World Bank, WDI Online.

**Figure 6-3: Change in GDP at Market Exchange Rates**  
(Billions of constant 2000 U.S. dollars)



Source: World Bank, WDI Online.

The decline in Japanese influence in the region throughout the 1990s can be seen in Japan's declining share in regional trade, foreign direct investment, bank lending, and aid.<sup>117</sup> On

<sup>116</sup> Ibid., 85.

<sup>117</sup> Haggard, "The Balance of Power, Globalization, and Democracy: International Relations Theory in Northeast Asia," 20.

trade, Japan has become a less important source of imports and destination of exports for the rest of the region. By 2001, the share of East Asian exports to Japan steadily dropped from 23 percent of the region's global exports in 1981 to 14 percent.<sup>118</sup> On direct investment, Japan has become a less significant source of investment around the region in both relative and absolute terms.<sup>119</sup> Furthermore, Japanese direct investment in the rest of Asia declined substantially after 1997.<sup>120</sup> On bank lending, the total amount of Japanese loans made by Japanese commercial banks to the rest of Asia has dramatically declined since the mid-1990s.<sup>121</sup> Thus, by September 2002, the share of Japanese banks in all outstanding international loans to East Asia dropped from 40 percent to only 17 percent.<sup>122</sup> Finally, as a consequence of Japan's prolonged economic stagnation during the 1990s, Japan's Official Development Assistance (ODA) budget has steadily declined following its peak in 1995.

Meanwhile, the rise of China has been remarkable, especially in the economic domain. The major driving force behind China's rapid economic growth was a dramatic increase of inward foreign direct investment (FDI) in China from 1992 onwards.<sup>123</sup> The emergence of China as an increasingly important recipient of FDI has caused serious concern especially to ASEAN countries whose economic development has relied heavily on FDI from abroad (Figure 6-4). In 2002, China surpassed the United States for the first time as the world's top recipient of non-stocks and FDI shares, with actual FDI reaching US\$53.5 billion in 2003.<sup>124</sup>

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<sup>118</sup> Lincoln, *East Asian Economic Regionalism*, 53-54.

<sup>119</sup> *Ibid.*, 73.

<sup>120</sup> MacIntyre and Naughton, "The Decline of a Japan-Led Model of the East Asian Economy," 87.

<sup>121</sup> *Ibid.*, 85-86. See also Natasha Hamilton-Hart, "Capital Flows and Financial Markets in Asia: National, Regional, or Global?," in Ellis S. Krauss and T. J. Pempel, eds., *Beyond Bilateralism: U.S.-Japan Relations in the New Asia-Pacific* (Stanford, Cal.: Stanford University Press, 2004), 133-153.

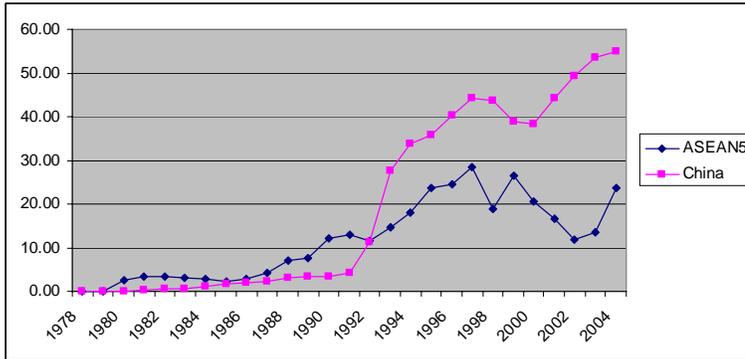
<sup>122</sup> Lincoln, *East Asian Economic Regionalism*, 84.

<sup>123</sup> MacIntyre and Naughton, "The Decline of a Japan-Led Model of the East Asian Economy," 86-88.

<sup>124</sup> Shaun Breslin, "China and the Political Economy of Global Engagement," in Richard Stubbs and Geoffrey R. D. Underhill, eds., *Political Economy and the Changing Global Order* (Toronto: Oxford University Press, 2006), 465.

**Figure 6-4: Foreign Direct Investment in China and ASEAN5, 1979–2004**

(Billions of current U.S. dollars)

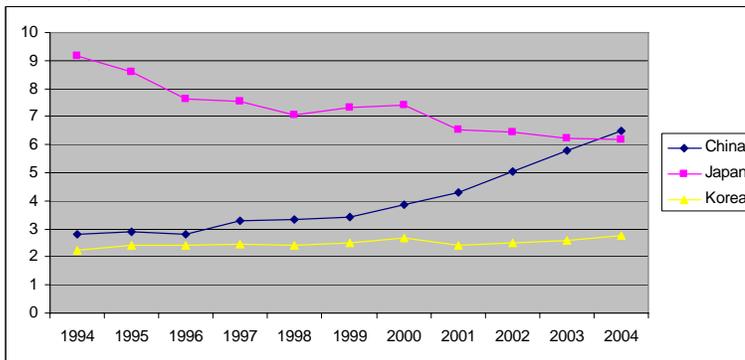


Source: World Bank, *WDI Online*.

Note: ASEAN5 refers to Indonesia, Malaysia, Philippines, Singapore, and Thailand.

**Figure 6-5: Shares in World Merchandise Exports, Selected Countries**

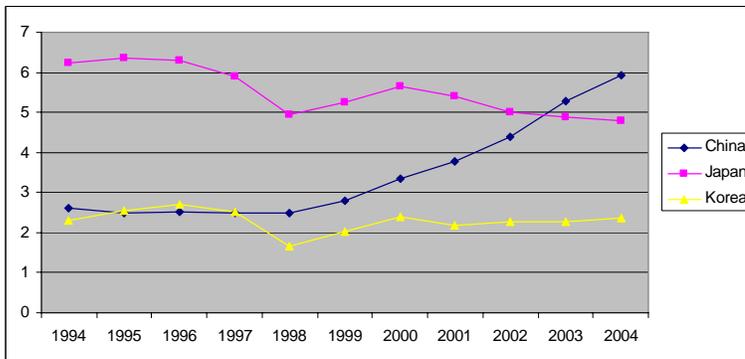
(Percent)



Source: World Trade Organization, *International Trade Statistics 2005*, available at: [http://www.wto.org/English/res\\_e/statis\\_e/its2005\\_e/appendix\\_e/a06.xls](http://www.wto.org/English/res_e/statis_e/its2005_e/appendix_e/a06.xls)

**Figure 6-6: Shares in World Merchandise Imports, Selected Countries**

(Percent)



Source: World Trade Organization, *International Trade Statistics 2005*, available at: [http://www.wto.org/English/res\\_e/statis\\_e/its2005\\_e/appendix\\_e/a07.xls](http://www.wto.org/English/res_e/statis_e/its2005_e/appendix_e/a07.xls)

Driven by FDI, China's trade volume dramatically increased in the latter half of the 1990s. China's merchandise exports rose from US\$121 billion in 1994 to US\$593 billion in 2004; its merchandise imports rose from US\$115 in 1994 to US\$561 in 2004.<sup>125</sup> As Figures 6-5 and 6-6 indicate, China's share in world exports and imports increased steadily in the late 1990s, while Japan's share gradually declined. As a result, China has become an increasingly significant trade partner for many countries.

What impact did China's increasing economic power have on the preferences of other regional powers over the issue of regionalism? Certainly, China's growing economic power has greatly affected the basic patterns of economic transactions not only in East Asia, but within the global economy. As revealed by the previous cross-national study of the changes in preferences, the rise of China certainly had some bearing on the attitudes of other key governments in ASEAN, Japan, and the United States. However, it was the perception, combined with projections, of China's rise, rather than the growth in China's material economic power that most influenced the policies of other regional powers.

In particular, the Asian economic crisis effectively created the perceived contrast between "a declining, apathetic Japan and a rising, dynamic China."<sup>126</sup> Despite the fact that Japan provided a large amount of financial assistance to help Asia's economic recovery, the crisis-hit countries were disappointed by Japan's inability to recover from its own economic stagnation and by its limited capability to take leadership in responding to the crisis.<sup>127</sup> Asian countries apparently expected from Japan not just the provision of financial assistance, but also an expansion of imports through its own economic recovery. As Naoko Munakata points out, "resistance to an increased Japanese role in the region was replaced by the expectation that Japan should lead the region out of the crisis and spearhead regional efforts to create a stable economic environment."<sup>128</sup> On the contrary, China managed to create the impression that it had instead acted as a responsible country by not devaluing its currency.

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<sup>125</sup> World Trade Organization, *International Trade Statistics 2005* (Geneva: The World Trade Organization, 2005), 200, 204.

<sup>126</sup> Ba, "China and ASEAN: Renavigating Relations for a 21-st Century Asia," 116.

<sup>127</sup> Andrew MacIntyre, "American and Japanese Strategies in Asia: Dealing with ASEAN," in Ellis S. Krauss and T. J. Pempel, eds., *Beyond Bilateralism: U.S.-Japan Relations in the New Asia-Pacific* (Stanford, Cal.: Stanford University Press, 2004), 122.

<sup>128</sup> Munakata, "Has Politics Caught Up with Markets?," 146.

Certainly, both China's economic ascent and the relative decline of Japan's influence have become increasingly important factors in shaping the configuration of state preferences among East Asian countries. However, as I argued earlier, the initial impetus for generating the demand for an East Asian regional cooperative arrangement was catalyzed by the East Asia's relationship with extraregional forces.

#### 6.2.2.4 The Growth of Regional Economic Interdependence

Liberal theorists of international relations and many economists identify the deepening of regional economic interdependence in East Asia as the most important variable for explaining the creation of East Asian regionalism.<sup>129</sup> As Table 6-2 indicates, intraregional trade shares among the APT countries rose from 30.93% in 1990 to 37.34% in 2001. However, contrary to the expectation of the liberal perspective, the APT was created exactly at a time of temporary downturn in the level of intraregional trade shares among the APT countries. The level of intraregional trade share among APT countries declined from 37.03% in 1995 to 35.45% in 1999 in the wake of the financial crisis. This prompts Ravenhill to suggest the possibility that "the *decline* in intraregional trade stimulated a new interest in regional collaboration as a means to stem this trend and a desire to place regionalism in East Asia on a more secure footing akin to that in the EU and NAFTA."<sup>130</sup> Nonetheless, if we look at the trade intensity of the APT, it shows a slight rising trend in the late 1990s, indicating an increasing intra-APT trade bias. For liberals, this trend cultivated a supporting environment for creating the APT by providing a stronger incentive for the East Asian countries to create a cooperative framework among them.

**Table 6-2: ASEAN+3's Intraregional Trade Share and Trade Intensity Index**

	1991	1993	1995	1997	1999	2001
Trade Share (percentage)	30.93	33.70	37.03	36.42	35.45	37.34
Trade Intensity Index	1.86	1.75	1.86	1.86	1.92	1.93

Source: Asian Regional Integration Center of ADB, *Integration Indicators Database* (<http://aric.adb.org/index.php>)

<sup>129</sup> See, for example, Masahiro Kawai, "East Asian Economic Regionalism: Progress and Challenges," *Journal of Asian Economics* 16 (2005): 30.

<sup>130</sup> Ravenhill, "A Three Bloc World? The New East Asian Regionalism," 173.

Table 6-3 indicates the changes in the trading patterns of the APT countries from 1980 to 2004. There are three important trends. First, China became an increasingly important trade partner for other Asian countries. The share of China in ASEAN's total exports rose from 1.0% to 7.4% in 2004, while the share of China in ASEAN's total imports increased from 2.7% to 9.6%. For Japan, China became the primary source of its imports with the share of China in Japan's imports at 20.7% in 2004. China also became an increasingly important destination for Japan's exports with China's share in Japan's total exports reaching 13.1% in 2004. Consequently, China replaced the United States as Japan's largest trading partner for the first time in 2004.<sup>131</sup> South Korea's trade with China has also increased dramatically since the two established diplomatic relations in 1992. In 2004, China was the most important destination for South Korea's exports. As some scholars point out, the recent rise in intraregional trade share can be partly attributed to a dramatic increase in Chinese trade volume with other Asian countries.<sup>132</sup> China has become an increasingly important production platform; China imports a growing amount of intermediate goods from other Asian countries, assembles them into final-demand goods, and exports them to extraregional markets in North America and Europe. As a result, a new triangular trade pattern and an international division of labor between China, other Asian countries, and the United States emerged.

Second, Japan's importance as a trading partner for ASEAN and South Korea has relatively declined. In 1980, Japan was the top trading partner for ASEAN and China in both imports and exports. However, Japan's trade share in ASEAN imports and exports dropped significantly during the period 1990–2004, although still important. Similarly, the proportion of Japan in China's and South Korea's exports and imports declined during the period 1980–2004. Yet Japan remained China's primary supplier of its imports in 2004.

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<sup>131</sup> "China Now Japan's Top Trade Partner," *Japan Times*, January 27, 2005.

<sup>132</sup> Lincoln, *East Asian Economic Regionalism*, 59; Hideo Ohashi, "China's Regional Trade and Investment Profile," in David Shambaugh, ed., *Power Shift: China and Asia's New Dynamics* (Berkeley: University of California Press, 2005), 72.

**Table 6-3: Trade Shares, Selected Economies and Selected Years (%)**

Trade Partner	ASEAN							
	Exports				Imports			
	1980	1990	2000	2004	1980	1990	2000	2004
USA	16.3	19.4	19.0	15.5	15.0	14.4	14.0	11.3
Japan	29.5	18.9	13.5	12.2	22.0	23.1	19.1	15.3
China	1.0	1.8	3.8	7.4	2.7	2.9	5.1	9.6
S. Korea	1.5	3.3	3.7	3.8	1.6	3.1	4.8	4.9
ASEAN	17.3	19.0	23.0	22.2	14.4	15.2	22.5	22.6
EU	12.5	15.6	14.5	14.4	13.0	15.3	10.7	11.4
<b>Japan</b>								
USA	24.5	31.7	30.1	22.7	17.4	22.5	19.1	14.0
China	3.9	2.1	6.3	13.1	3.1	5.1	14.5	20.7
S. Korea	4.1	6.1	6.4	7.8	2.2	5.0	5.4	4.9
ASEAN	10.4	11.6	14.3	12.9	17.5	12.7	15.7	14.8
EU	14.0	20.4	16.4	15.8	5.9	16.1	12.3	12.7
<b>China</b>								
USA	5.4	8.5	20.9	21.1	19.6	12.2	9.6	8.0
Japan	22.2	14.6	16.7	12.4	26.5	14.2	17.8	16.8
S. Korea	-	0.7	4.5	4.7	-	0.4	10.0	11.1
ASEAN	6.6	6.6	7.0	7.2	3.4	5.8	9.4	11.2
EU	13.0	10.0	15.3	18.1	14.4	17.0	13.3	12.5
<b>South Korea</b>								
USA	26.4	29.9	21.9	17.0	21.9	22.1	18.2	12.9
Japan	19.2	19.4	11.9	8.6	26.3	26.6	19.8	20.6
China	0.0	-	10.7	19.6	0.1	-	8.0	13.2
ASEAN	6.6	7.8	11.7	9.5	6.7	7.3	11.3	10.0
EU	16.7	15.4	13.6	13.3	7.6	13.0	9.8	10.5

Source: International Monetary Fund, *Direction of Trade Statistics Yearbook*, various years

Third, the United States remains an important trade partner for all the APT countries, despite its recent decreasing trade share in all of them except China. The United States emerged as the primary destination for China's exports, surpassing Japan and the EU; the share of the U.S. in China's total exports dramatically increased from 5.4% in 1980 to 21.1% in 2004. Meanwhile, the U.S. share in ASEAN, Japan, and South Korea, albeit still significant, recorded a declining trend in the period 2000–2004.

As shown in Table 6-4, many East Asian countries remained heavily dependent on inward FDI, with the notable exception of Japan. In the aftermath of the Asian financial crisis, Indonesia experienced a negative FDI, or a net disinvestment, as many foreign firms withdrew investments in reaction to economic stagnation and social and political uncertainty. However,

other crisis-affected countries, including South Korea, Thailand, and Malaysia, recorded a rise in foreign investment as a share of gross capital formation.

**Table 6-4: Ratio of Inward Foreign Direct Investment to Gross Fixed Capital Formation**

	1995	1996	1997	1998	1999
Cambodia	17.1	23.5	36.1	34.7	28.0
Indonesia	7.6	9.2	7.7	-1.6	-11.0
Laos	20.7	29.4	19.2	14.6	17.8
Malaysia	15.0	17.0	14.7	13.9	20.1
Myanmar	1.9	1.6	1.6	1.0	0.7
Philippines	8.9	7.8	6.2	12.7	5.1
Singapore	31.2	29.7	35.3	20.6	26.1
Thailand	2.9	3.0	7.2	26.7	13.7
Japan	n.a.	n.a.	n.a.	n.a.	1.1
China	14.7	14.3	14.6	12.9	11.3
South Korea	1.0	1.2	1.7	5.7	9.3
World	5.3	5.9	7.5	10.9	16.3

Source: Edward J. Lincoln, *East Asian Economic Regionalism* (Washington, DC: Brookings, 2004), p. 92.

**Table 6-5: Shares of Inward Foreign Direct Investment (%)**

	1995	1996	1997	1998	1999	2000	2001	2002	1995-2002
<b>ASEAN</b>									
U.S.	15.3	17.1	14.5	14.4	21.3	32.3	24.8	2.6	17.8
EU	17.9	24.4	18.6	24.8	35.2	59.5	32.5	30.6	30.4
Japan	20.0	17.5	15.3	17.6	6.1	2.0	8.7	24.3	13.9
Asian NIEs	10.1	7.4	10.3	8.6	5.8	6.4	9.9	4.1	7.8
<b>China</b>									
U.S.	8.2	9.4	9.7	12.4	14.6	12.8	10.9	9.9	11.0
EU	8.3	7.0	6.7	5.3	6.3	5.9	7.6	6.4	6.7
Japan	8.1	9.2	8.3	11.4	9.9	14.2	7.4	5.4	9.1
Asian NIEs	64.1	59.6	54.3	48.4	49.6	40.7	47.8	48.3	51.3
<b>South Korea</b>									
U.S.	33.0	27.3	45.7	33.6	24.1	19.2	34.5	49.4	29.7
EU	23.7	27.9	33.1	32.6	40.2	28.9	27.1	18.3	31.3
Japan	21.8	8.0	3.8	5.7	11.3	16.1	6.8	15.4	11.2
Asian NIEs	6.8	8.7	1.9	13.9	5.8	4.5	5.9	4.3	6.5

Sources: ASEAN Secretariat, *ASEAN Statistical Yearbook 2005* (Jakarta: ASEAN Secretariat, 2005), pp. 148-149, table VI.5; Masahiro Kawai, "Trade and Investment Integration and Cooperation in East Asia: Empirical Evidence and Issues," in ADB, *Asian Economic Cooperation and Integration: Progress, Prospects, and Challenges* (Manila: ADB, 2005), pp. 171-172, Table 7.4.

Table 6-5 shows changes in the shares of inward FDI by source country and group from 1995 to 2002. During the period 1995-2002, the European Union was the largest foreign direct investor in ASEAN, accounting for 30.4% of investment on average. The United States was the next largest investor in ASEAN, representing 17.8% of investment on average, although its share dropped significantly in 2002. Although Japan was the top investor in ASEAN in 1995, its share in ASEAN's investment significantly dropped from 20.0% in 1995 to 2.0% in 2000, while it recovered to 24.3% in 2002. For China, the share of Asian NIEs consistently recorded the highest, averaging 51.3% during this period.<sup>133</sup> As for South Korea, the EU and the United States were equally important investors, with their shares representing 31.3% and 29.7% on average during this period. Meanwhile, Japan's share in South Korea's investment was 11.2% on average. In general, the data suggests that extraregional investors from the United States and the EU and intraregional investors in Japan and Asian NIES remain equally important sources of investors in the APT countries.<sup>134</sup>

### **6.2.3 How Was ASEAN+3 Created?**

Having examined the motivations behind the creation of the APT process, this section explores *how* the APT was created, focusing largely on the process' initial stage. Such an exploration requires tracing the developments in the first half of the 1990s that led to the formation of the APT. In so doing, the ensuing section first illustrates the gradual steps toward the APT through some informal ministerial meetings among the APT countries and the ASEM process. It also examines Singapore's Prime Minister Goh Chok Tong's call in 1995 for closer ties with the Northeast Asian countries and a similar proposal from Malaysia in 1996, respectively. The section then analyzes how the Asian economic crisis of 1997-98 provided an important opportunity for developing the APT framework. It will be argued below that despite the

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<sup>133</sup> The data can be misleading, however, because the large volume of Hong Kong's FDI inflows to the PRC contains the so-called "round tripping," which refers to the reversal of Chinese capital that investors channeled out of China to take advantage of differences in the treatment of foreign and domestic investors.

<sup>134</sup> For more detailed discussions on the FDI trend, see Eisuke Sakakibara and Sharon Yamakawa, "Trade and Foreign Direct Investment: A Role for Regionalism," in Shahid Yusuf, M. Anjum Altaf, and Kaoru Nabeshima, eds., *Global Change and East Asian Policy Initiatives* (Washington, D.C.: World Bank, 2004), 63-119; Urata, "The Emergence and Proliferation of Free Trade Agreements in East Asia," 22-31; Masahiro Kawai, "Trade and Investment Integration and Cooperation in East Asia: Empirical Evidence and Issues," in Asian Development Bank., ed., *Asian Economic Cooperation and Integration: Progress, Prospects, and Challenges* (Manila: ADB, 2005).

Northeast Asian countries' initial hesitance, it was ASEAN, as a group, which played a key entrepreneurial role in convincing these countries to participate in the ASEAN-sponsored regional process. Despite ASEAN's significant role as convener, participation by the Northeast Asian countries also stresses the increasing role played by leaders from the three Northeast Asian countries in the subsequent development of the APT process.

### 6.2.3.1 ASEAN

How did ASEAN successfully invite the three Northeast Asian countries to its informal summit in December 1997? Below, I highlight the catalytic role that ASEAN played in initiating the APT process by investigating longer historical processes that resulted in the inauguration of the APT. Given the lack of Japan's structural leadership in East Asia and the absence of any institutional mechanism among Northeast Asian countries, ASEAN assumed the "costs of organizing" as the conference convener. In this way, as host to the annual APT meetings, ASEAN has provided an important platform for promoting policy dialogue in East Asia.<sup>135</sup>

The APT initiative can be seen as part of ASEAN's broader practice of so-called "conference diplomacy."<sup>136</sup> The concept of conference diplomacy stresses ASEAN's use of an informal style of international conferences, which does not involve binding commitments from the participants, as a way to discuss issues of common interest and build consensus within ASEAN's members. ASEAN has used similar ASEAN-sponsored conferences as a way to enhance the collective bargaining leverage vis-à-vis external powers by attempting to present a united front. The first example of ASEAN's use of conference diplomacy as a way of engaging with external powers was set up in the form of the Post-Ministerial Conference (PMC) of the ASEAN Ministerial Meeting (AMM) in July 1979. Through the ASEAN PMCs, ASEAN foreign ministers met with their counterparts from ASEAN's dialogue partners, including Japan, the United States, Australia, New Zealand, and the European Community. However, ASEAN PMCs had their limitations due to the fact that the scope of issues discussed at these conferences

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<sup>135</sup> Markus Hund, "ASEAN Plus Three: Towards a New Age of Pan-East Asian Regionalism? A Skeptic's Appraisal," *The Pacific Review* 16, no. 3 (2003): 386.

<sup>136</sup> For the concept of "conference diplomacy," see Koichi Sato, *ASEAN Regimu: ASEAN ni okeru Kaigi Gaiko no Hatten to Kadai [The ASEAN Regime: Developments and Tasks of Conference Diplomacy in ASEAN]* (Tokyo: Chikusa Shobo, 2003). For a brief summary, see Koichi Sato, "ASEAN's Conference Diplomacy," *Social Science Japan Newsletter* 28 (2004). For an application of the concept to the APT, see Sanae Suzuki, "East Asian Cooperation through Conference Diplomacy: Institutional Aspects of the ASEAN Plus Three (APT) Framework," *IDE APEC Study Center Working Paper Series 03/04* No. 7 (March 2004).

were mostly confined to those related to Southeast Asia, while major countries, such as China and South Korea, were not involved in the process.<sup>137</sup> It was thus only following the 1990s that ASEAN began to use conference diplomacy more extensively.

Prior to the initiation of the APT process, ASEAN, by the mid 1990s, had emerged as a proactive player in developing multiple layers of broader regionalist arrangements, such as APEC, the ARF, and ASEM. As Chapters 4 and 5 demonstrated, once ASEAN agreed to participate in APEC, it strove to become the core group within APEC by hosting the APEC meeting every other year and by attempting to shape APEC's institutional form in its favor. The ARF was created primarily through ASEAN's initiative, although a similar proposal had been put forward by the Japanese government. The proposal for creating the ASEM came from Singapore's Prime Minister, Goh Chok Tong. As discussed below, the creation of ASEM provided the first opportunity for East Asian leaders to meet together without the presence of the United States, which proved conducive to the subsequent formation of the APT process. The opportunities provided by this meeting enabled ASEAN to successfully invite the leaders of the three Northeast Asian countries to ASEAN-sponsored annual informal summits held after 1997. The following discussion begins by describing the incremental developments that led to the formation of the APT process.

In 1992, expressing a growing unease among East Asians about the formation of European and North American regionalism, Senior Minister Lee Kuan Yew described the EAEC as an "idea which will not go away."<sup>138</sup> In fact, the EAEC idea was discussed at a series of ASEAN foreign and economic ministerial meetings during the years between 1991 and 1997.<sup>139</sup> In July 1994, ASEAN foreign ministers met with their counterparts from China, Korea, and Japan at the AMM held in Bangkok in the form of a so-called informal "6+3" lunch meeting. While ministers had "discussed aspects of EAEC" during this meeting, there was little substantive progress. Nevertheless, the meeting had a symbolic meaning as the first ministerial encounter among ministers from both Northeast and Southeast Asian countries, reflecting the

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<sup>137</sup> Akihiko Tanaka, "The Development of the ASEAN+3 Framework," in Melissa G. Curley and Nicholas Thomas, eds., *Advancing East Asian Regionalism* (London: Routledge, 2007), 53.

<sup>138</sup> Bertha Henson, "ASEAN and NAFTA must Link Up – Mr. Lee," *The Straits Times*, May 15, 1992.

<sup>139</sup> Declarations after the ASEAN Ministerial Meetings (AMM) and ASEAN Economic Ministerial Meetings (AEM) included the desire for the formation of EAEC during the years between 1991 and 1997 and between 1994 and 1997, respectively. See Takashi Terada, "ASEAN+3 no Kanosei o Saguru: Higashi Ajia Chiikishugi no Seiritsu ni Mukete [Possibility of ASEAN+3 - Towards the Establishment of East Asian Regionalism]," *Gaiko Forum* 156 (2001): 63.

membership of EAEC.<sup>140</sup> Foreign ministers from the three Northeast Asian countries joined the next AMM in Brunei in 1995, and then again in Jakarta in 1996, when ministers agreed to include those three countries in the program of all future ASEAN ministerial meetings.<sup>141</sup>

### *Asia-Europe Meeting (ASEM)*

As Stubbs points out, the turning point for bringing the East Asian leaders together came in the second half of 1995, when a series of meetings were held to prepare for the Asia-Europe Meeting (ASEM) summit to be held in 1996.<sup>142</sup> The idea of an ASEM was first proposed by Singaporean Prime Minister Goh Chok Tong during his visit to France in October 1994. In his speech, he pressed for the need “for Europe and East Asia to engage in a dialogue at the highest level,” in order to fill a missing institutional link between the two regions.<sup>143</sup> On the European side, the Commission, having been informed by the report “New Asian Strategy” in July 1994, thus presented an interest in improving relations with the then growing East Asian market. By mid-1995, both ASEAN and the EU agreed to hold the ASEM. Yet, the issue of membership remained highly controversial, especially on the Asian side. When ASEAN members invited Japan, China, and South Korea to join them as Asian representatives, there was “some reluctance on the part of the Japanese government, which still feared alienating the U.S., and the Chinese government, which worried about being a target of criticism over human rights.”<sup>144</sup> Japan had insisted on inviting Australia and New Zealand on the Asian side. While Singapore and Indonesia reportedly supported the Japanese idea, it was rejected by Malaysia on the grounds that they “do not share our Asian values.”<sup>145</sup> Consequently, at the informal “7+3” lunch meetings of foreign ministers in July 1995, ministers agreed to hold the ASEM without extending invitations to Australia and New Zealand.

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<sup>140</sup> Terada, "Constructing an "East Asian" Concept," 261-262; Akihiko Tanaka, "'Higashi-Ajia' toiu Shin-Chiiki Keisei no Kokoromi: ASEAN+3 no Tenkai' [The Attempt of New East Asian Regionalism: The Evolution of ASEAN+3]," in Tokyo Daigaku Toyo Bunka Kenkyujo, ed., *Ajiagaku no Shoraizo [The Future of Asian Studies]* (Tokyo: Tokyo Daigaku Shuppankai, 2003), 278.

<sup>141</sup> Terada, "Constructing an "East Asian" Concept," 262.

<sup>142</sup> Stubbs, "ASEAN Plus Three: Emerging East Asian Regionalism?," 422.

<sup>143</sup> “Asia and Europe: A New Partnership for the 21s Century,” address by Singapore Prime Minister, Mr. Goh Chok Tong, at the Institut Francais des Relations Internationales (IFRI),” October 19, 1994, available at: <http://stars.nhb.gov.sg/stars/public/>

<sup>144</sup> Stubbs, "ASEAN Plus Three: Emerging East Asian Regionalism?," 442.

<sup>145</sup> Irene Ngoo and Tan Kim Song, “Japan Wants NZ, Aussies in Asia-EU Summit,” *The Straits Times*, July 25, 1995, p. 3.

In March 1996, the inaugural ASEM summit meeting was convened in Bangkok, bringing together the leaders from ten Asian countries and the EU, and notably for the first time, without the presence of the United States. In a sense, as Richard Higgott suggests, ASEM's formation provided a symbolic meaning in terms of the "politics of otherness" – it was significant who was *excluded* from the group rather than who was included.<sup>146</sup> At the ASEM meeting, the United States was clearly a major concern to both sides of participants – "the ghost at the feast," as Michael Leifer called it.<sup>147</sup> Nevertheless, surprisingly, the United States did not pay much attention to ASEM.<sup>148</sup> Many experts point out that ASEM – whose Asian membership was almost identical to the EAEG or the APT – helped East Asian countries cooperate with each other and develop an East Asian regional identity.<sup>149</sup> As a result, East Asian regional cooperation began to emerge by what Heiner Hänggi calls "regionalism through interregionalism."<sup>150</sup>

### *Goh Chok Tong's Proposal*

In December 1995, Singapore's Prime Minister Goh Chok Tong proposed that ASEAN leaders invite their counterparts from Japan, South Korea, and other East Asian countries to the first informal summit, which was to be held within the following 12 to 18 months.<sup>151</sup> In his speech at the opening session of the Fifth ASEAN Summit in Bangkok, Goh suggested that it was timely for ASEAN leaders to meet with their East Asian neighbors more frequently because of ASEAN's growing trade, investment and other economic ties with them. In his proposal, he highlighted the importance of Japanese and Korean "know-how" for the development of infrastructure in ASEAN countries.<sup>152</sup> At this Bangkok summit, leaders agreed to hold the first informal summit in Jakarta in December 1996.<sup>153</sup> Malaysian Prime Minister Mahathir lent his support for Goh's proposal, although both leaders avoided linking it directly with Mahathir's

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<sup>146</sup> Higgott, "ASEM and the Evolving Global Order," 27.

<sup>147</sup> Cited in *Ibid.*: 28.

<sup>148</sup> Bobrow, "The U.S. and ASEM: Why the Hegemon Didn't Bark," 104.

<sup>149</sup> Terada, "Constructing an "East Asian" Concept," 262; Webber, "Two Funerals and a Wedding?," 357.

<sup>150</sup> Heiner Hänggi, "Regionalism through Interregionalism: East Asia and ASEM," in Fu-Kuo Liu and Philippe Régnier, eds., *Regionalism in East Asia: Paradigm Shifting?* (London: RoutledgeCurzon, 2003), 197-219.

<sup>151</sup> Terada, "Constructing an "East Asian" Concept," 262.

<sup>152</sup> *Asahi Shimbun*, December 15, 1995, p. 9.

<sup>153</sup> At the Singapore summit in 1992, ASEAN leaders decided to meet formally every three years. At this summit in 1995, they agreed to hold informal summits in each of the two intervening years. See Tim Johnson, "ASEAN Leaders to Meet Annually, Next Summit Set for '96," *Japan Economic Newswire*, December 14, 1995.

controversial EAEC proposal.<sup>154</sup> It was also reported that Thailand demonstrated its support for the proposal.<sup>155</sup>

During the 29<sup>th</sup> AMM held in Jakarta in July 1996, the Malaysian foreign minister submitted a discussion paper on the EAEC which proposed that ASEAN members should work towards a “7+3+3” format by inviting not only China, Korea, and Japan, but three non-ASEAN Indo-China countries – namely, Cambodia, Laos, and Myanmar – to the first informal summit to be held in Jakarta later that year in December.<sup>156</sup> When asked about his views on Goh’s proposal, at the press conference following the ASEAN PMC, Japanese Foreign Minister Yukio Ikeda responded positively, much to the audience’s surprise. He said: “Since we are expanding and deepening our relations with ASEAN ... and if there is a concrete proposal from ASEAN, we would like to respond positively.”<sup>157</sup> This response was in sharp contrast to the lukewarm attitude that Japan had taken on the EAEC proposal till that point. Yet, at the first informal summit in Jakarta in 1996, the participation of leaders from the three Northeast Asian countries was not realized. Malaysia however expressed its intention to invite the three to the next informal summit to be held in Kuala Lumpur in 1997, which was planned to mark the thirtieth anniversary of the establishment of ASEAN.<sup>158</sup>

In January 1997, Japan’s Prime Minister Ryutaro Hashimoto visited five Southeast Asian countries – Brunei, Malaysia, Indonesia, Vietnam, and Singapore. In an attempt to strengthen the relationship between Japan and the ASEAN countries, Hashimoto delivered a policy speech in which he highlighted three areas of cooperation: closer dialogues between Japan and ASEAN at top levels, multilateral cultural cooperation through cultural exchanges, and joint action to deal with global problems such as terrorism and drugs. The most important element of his policy initiative was a proposal for annual Japan-ASEAN summits, beginning with the ASEAN Commemorative Summit to be held at the end of the year which aimed to mark the thirtieth anniversary of ASEAN’s foundation.<sup>159</sup>

While the Hashimoto proposal was welcomed by ASEAN member countries in principle, ASEAN leaders reacted to the proposal cautiously, stating that they would need to consult one

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<sup>154</sup> “Mahathir Welcomes Ideas of E. Asian Summit next Dec.,” *Japan Economic Newswire*, December 15, 1995.

<sup>155</sup> *Asahi Shimbun*, December 15, 1995, p. 9.

<sup>156</sup> Terada, “Constructing an “East Asian” Concept,” 262-263.

<sup>157</sup> Cited in *Ibid.*: 263.

<sup>158</sup> *Ibid.*

<sup>159</sup> Felix Soh, “Japan PM Unveils Initiative to Broaden ASEAN Ties,” *The Straits Times*, January 15, 1997, p. 1.

another before making any decision about such a summit. There were concerns among ASEAN countries that scheduling regular summits between Japan and ASEAN would complicate their relationship with other major powers in the region, such as China and the United States.<sup>160</sup> There were also speculations among some analysts that Hashimoto's policy initiative was driven by Japan's motive to counterbalance a growing Chinese power in the region.<sup>161</sup>

Therefore, in order to avoid antagonizing China, Malaysia proposed to invite the leaders of China and South Korea as well to hold a meeting with the ASEAN countries.<sup>162</sup> During his visit to Japan in March 1997, Malaysian Prime Minister Mahathir sounded out the idea of convening a special Japan-ASEAN summit as well as a summit meeting between ASEAN and the three Northeast Asian countries.<sup>163</sup> Some officials in ASEAN countries explained that they welcomed Hashimoto's initiative but such a format could only be possible if China was accorded similar treatment.<sup>164</sup> At the ASEAN Special Ministerial Meeting held in Kuala Lumpur at the end of May in 1997, ASEAN countries formally agreed to invite the heads of government of China, South Korea, and Japan to an informal ASEAN summit in December 1997.<sup>165</sup>

Despite Japan's initial reluctance to get involved in this format, the Chinese government's agreement to confirm its attendance at the meeting apparently prompted its counterparts in Japan and South Korea to accept the invitation.<sup>166</sup> Thus, Hashimoto's initiative to create exclusive summit meetings between ASEAN and Japan had the unintended consequence of resulting in ASEAN's counterproposal to convene a summit meeting of ASEAN+3 countries. This, in turn, led to the first-ever informal summit meeting among the leaders from both Northeast and Southeast Asian countries. Consequently, the first informal

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<sup>160</sup> For example, Professor Lee Poh of University of Malaysia explained, "Japan is not the only big power operating in Southeast Asia. The other powers like China and the U.S. may wonder why Japan should be the only country to have the regular summit with ASEAN and not China or U.S." Teo Poh Keng, "'Hashimoto Doctrine' Takes Japan Step Closer to ASEAN," *The Nikkei Weekly*, January 20, 1997, p. 19; See also, "Fears of Influence," *Far Eastern Economic Review*, July 30, 1997, pp. 14-15.

<sup>161</sup> Felix Soh, Susan Sim, and Ho Wah Foon, "Hashimoto Seen as Move to Engage ASEAN as Equal Partner," *The Straits Times*, January 22, 1997, p. 36.

<sup>162</sup> "Summit between ASEAN, Japan, S. Korea Proposed," *Japan Economic Newswire*, February 20, 1997.

<sup>163</sup> *Nihon Keizai Shimbun*, March 28, 1997, p. 8. See also, *Asahi Shimbun*, March 12, 1997, p. 3.

<sup>164</sup> James Kyng, "China to be Invited to ASEAN Summit," *Financial Times*, May 21, 1997, p. 8.

<sup>165</sup> Tanaka, "The Development of the ASEAN+3 Framework," 60. Malaysian Foreign Minister Datuk Abdullah Ahmad Badawi said that such a summit will not be regularized unless "the leaders want to make it an annual event." See "3 Leaders to Get Involved to Informal Summit," *Business Times* (Malaysia), June 2, 1997, p. 20.

<sup>166</sup> Stubbs, "ASEAN Plus Three: Emerging East Asian Regionalism?," 443.

ASEAN+3 meeting was realized in a way that was quite different from what Hashimoto hoped to see.

Although the decision to hold what came to be the first ASEAN+3 meeting was made before the onset of the Asian financial crisis in July 1997, it was the crisis that became a major impetus for the formation of the ASEAN+3 process. The previous section revealed that the crisis created the demand for East Asian institution-building in order to promote regional cooperation. At the same time, the crisis provided opportunities for countries like China and Japan to seek regional influence through managing the crisis. Beijing attempted to improve its status in the region by not devaluing its currency and offering aid packages. As discussed in further detail in the next chapter, the Japanese government proposed setting up an Asian Monetary Fund in September 1997. Although the finance ministers from Indonesia, Malaysia, and Thailand expressed strong support for the proposal, strong oppositions from the United States and the IMF, as well as China, forced the Japanese government to give up the idea.<sup>167</sup>

On December 15, 1997, in the midst of the Asian financial crisis, the first ASEAN+3 summit was held after the regular ASEAN informal summit. ASEAN leaders also met their counterparts from China, Japan, and South Korea at separate bilateral meetings in the form of ASEAN+1. Yet, it was not until 1998 that the APT leaders agreed to hold such meetings among the East Asian countries on an annual basis. Furthermore, it was only at the third APT summit in 1999 that the leaders released a joint statement.

Despite its relatively modest start in 1997, how did the APT process get off the ground? The following section attempts to answer this question by exploring the growing roles of the three Northeast Asian countries in the APT process. Political leaders in the three Northeast Asian countries played an increasing role in the APT process by proposing several important initiatives. Despite ASEAN's key role at the initial stage, the driving force behind the APT process shifted toward Northeast Asia rather than ASEAN.

### **6.2.3.2 Japan**

Since Japan's reluctance to get involved in East Asian regional institution-building was a major obstacle for the realization of the EAEC proposal, Japan's participation in the first APT

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<sup>167</sup> Kikuchi, "East Asian Regionalism," 27.

meeting in 1997 was a crucial factor for the successful launch of the APT. However, at the first APT meeting, Japan was a passive participant and did not offer full support to the APT process, largely because Japan appeared to be more interested in strengthening Japanese-ASEAN bilateral relations as Hashimoto originally proposed at the start of 1997.<sup>168</sup> Nonetheless, Japan gradually began to take an active role in the APT process after Hashimoto was replaced by his successor, Keizo Obuchi, in July 1998.

At the 1999 ASEAN+3 Summit Meeting in Manila, Obuchi announced the Plan for Enhancing Human Resources Development and Human Resources Exchanges in East Asia. The Philippine President, Joseph Estrada, named it the “Obuchi Plan” to show the ASEAN countries’ appreciation of this initiative.<sup>169</sup> During the same meeting, Japan also proposed holding an ASEAN+3 foreign ministerial meeting in the following year on the occasion of the ASEAN PMC.<sup>170</sup> Accordingly, since 2000, ASEAN+3 foreign ministerial meetings have been held regularly. Moreover, Obuchi was particularly enthusiastic about holding a trilateral leaders’ meeting among the “+3” countries. Although he proposed such a meeting in Hanoi in 1998, his idea did not materialize because of objections from China. The first three-way meeting was thus convened for the first time in the form of an informal breakfast meeting in Manila in 1999, after China finally agreed to the meeting being held.<sup>171</sup>

As will be demonstrated in the next chapter, Japan’s Ministry of Finance played a leading role in establishing the Chiang Mai Initiative, which aimed to provide financial stability in the region. In January 2002, Prime Minister Junichiro Koizumi proposed an Initiative for Japan-ASEAN Comprehensive Economic Partnership (JACEP) in order to strengthen economic collaboration between Japan and ASEAN. Furthermore, he suggested that East Asian countries should work toward an East Asian Community that would “act together and advance together,” by making “the best use of ASEAN+3.”<sup>172</sup> These policy initiatives demonstrated Japan’s growing role in the APT process.

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<sup>168</sup> Siti Rahil Dollah, “Asians Split on Ways to Revive Economies after Crisis,” *Japan Economic Newswire*, December 15, 1997.

<sup>169</sup> Terada, “Constructing an “East Asian” Concept,” 268. See also Kiyohisa Yoshida, “Asian Leaders Seek Greater Cooperation,” *The Daily Yomiuri*, November 29, 1999, p. 1.

<sup>170</sup> Tanaka, “‘Higashi-Ajia’ toiu Shin-Chiiki Keisei no Kokoromi: ASEAN+3 no Tenkai’ [The Attempt of New East Asian Regionalism: The Evolution of ASEAN+3],” 290.

<sup>171</sup> During this meeting, Obuchi proposed to make a trilateral meeting an annual event. However, Chinese Premier Zhu Rongji did not give an affirmative answer to the idea. See *Asahi Shimbun*, November 29, 1999, p. 3.

<sup>172</sup> For Koizumi’s full speech, see <http://www.mofa.go.jp/region/asia-paci/pmv0201/speech.html>

### 6.2.3.3 China

The Asian financial crisis of 1997-98 “offered China important opportunities to demonstrate regional leadership and its commitment to Southeast Asia, relative to that of other powers [i.e., the United States and Japan].” The APT process provided yet another opportunity for Beijing to improve its status and exert its influence in the region, while minimizing the anxiety among many Asian countries of China’s growing power.

Despite its reluctance to agree to regularize the APT at the first APT meeting, Beijing gradually took an active role in the APT process. The first example of China’s role was manifested when the then Chinese Vice President, Hu Jintao, proposed a meeting of APT vice finance ministers and deputy central bank governors to discuss international financial matters.<sup>173</sup> At the APT summit in 1999, the Chinese proposed to regularize the meetings of finance ministers and central bank governors to discuss such issues as economic adjustment, financial reform, and reform of the international monetary system.<sup>174</sup> Accordingly, in March 1999, such a meeting was held in Hanoi, where the agreement was reached to strengthen the surveillance of short-term capital flows. This meeting was then followed by the first ASEAN+3 finance ministers’ meeting, held in Manila in April 1999.<sup>175</sup>

It was significant that such proposals came from the Chinese and they were taken into action. Given China’s huge amount of foreign reserves, Chinese involvement in any regional financial cooperation was crucial. As discussed in the next chapter, China’s support was critical for the establishment of the Chiang Mai Initiative in May 2000. Jennifer Amyx suggests that China’s increasingly pro-active stance on regional financial cooperation has become a central driver for the ongoing development of regional financial cooperation, especially since the year 1999 or 2000.<sup>176</sup>

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<sup>173</sup> Tim Johnson, “East Asian Leaders Agree to Hold Annual Summits,” *Japan Economic Newswire*, December 16, 1998.

<sup>174</sup> Kikuchi, “East Asian Regionalism,” 31.

<sup>175</sup> Tanaka, “‘Higashi-Ajia’ toiu Shin-Chiiki Keisei no Kokoromi: ASEAN+3 no Tenkai’ [The Attempt of New East Asian Regionalism: The Evolution of ASEAN+3],” 288.

<sup>176</sup> Jennifer A. Amyx, “What Motivates Regional Financial Cooperation in East Asia Today?,” *Asia Pacific Issues* 76 (2005): 1-8.

#### 6.2.3.4 South Korea

While China and Japan would be considered the natural leaders in East Asia in terms of their power resources, neither could assume a leadership role because such a move would not be widely accepted by other countries in the region. In light of this political landscape, South Korea believed it could potentially play its part as a middle power role in moving the APT process forward.<sup>177</sup> During Kim Dae-jung's presidency, South Korea played just such a role in the APT process.

When Kim came into power in February 1998, he actively engineered the ASEAN+3 process by advancing several important proposals.<sup>178</sup> Faced with IMF conditions, he was forced to implement drastic domestic economic reforms. In November 1998, President Kim also attended the second APT summit as the first Korean president to do so, and was very enthusiastic about promoting East Asian cooperation. During the meeting, he proposed the establishment of the East Asia Vision Group (EAVG) that would consist of intellectuals from APT countries. At the 2000 APT summit, Kim proposed the establishment of the East Asia Study Group (EASG) comprising government officials to assess the recommendations put forward by the EAVG. The roles that these groups played will be explored in the next chapter.

#### 6.2.3.5 The United States

As argued earlier, in the early 1990s, the Bush administration exercised strong pressure to block the EAEG/EAEC initiative. In sharp contrast, in the latter half of the 1990s, the Clinton administration softened its attitudes toward the creation of a grouping that would exclude the United States. In response to the creation of ASEM, the U.S. government "chose not to bark."<sup>179</sup> It has also not opposed the ASEAN+3 process.<sup>180</sup> Although the U.S. government, as an external power, has not been involved in the formation of APT, the absence of U.S. opposition provided a political space for East Asian countries to form an East Asia-only grouping.

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<sup>177</sup> Evans, "Between Regionalism and Regionalization: Policy Networks and the Nascent East Asian Institutional Identity," 210.

<sup>178</sup> On Kim Dae-jung's active leadership in his foreign policy, see, for example, Rozman, *Northeast Asia's Stunted Regionalism: Bilateral Distrust in the Shadow of Globalization*, 217-225.

<sup>179</sup> Bobrow, "The U.S. and ASEM: Why the Hegemon Didn't Bark," 104.

<sup>180</sup> Alagappa, "Constructing Security Order in Asia: Conceptions and Issues," 75.

## 6.2.4 Explaining the Process of Construction

How did it become possible to hold the first APT summit, while previous attempts to create an East Asian grouping had failed to materialize? Despite its modest start in 1997, why and how did the APT process begin to take off with the development of many channels on an APT basis? The following pages highlight the three factors that contributed to the creation of the APT process.

### *Incremental/Gradual Approach*

As noted earlier, the idea of forming an East Asian grouping was pursued through a series of unofficial meetings at the ministerial level before the inaugural ASEAN+3 leaders' meeting in 1997. While identifying the Asian financial crisis and development of other forms of regionalism as a centripetal force for the development of the ASEAN+3, Takashi Terada highlights the importance of this pre-formative period before 1997. It is during this period that a growing acceptance of the concept of East Asia, as a combination of both Northeast and Southeast Asia, began to emerge gradually through a series of AMM informal lunches, the establishment of ASEM, and Goh's and Malaysia's proposals to invite leaders from the three Northeast Asian countries.<sup>181</sup> The indirect and gradual approach employed by ASEAN countries proved conducive to establishing a precedent for meetings in the form of ASEAN Plus China, Korea, and Japan.

This approach was particularly helpful in determining the attitudes of the United States toward the formation of an East Asian grouping, which was a major factor for Japan's initial reluctance to become involved in East Asian regionalism. After all, the major reasons for the failure of the EAEG/EAEC proposal stemmed from U.S. opposition and Japan's reluctance to participate. Unlike the case of EAEG/EAEC, by the mid-1990s, the United States had become more tolerant of regional institutions that did not involve the United States. This shift in U.S. attitude was an important factor in changing Japan's approach toward East Asian regionalism.<sup>182</sup>

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<sup>181</sup> Terada, "Constructing an "East Asian" Concept," 264, 261-264; Terada, "ASEAN+3 no Kanosei o Saguru: Higashi Ajia Chiikishugi no Seiritsu ni Mukete [Possibility of ASEAN+3 - Towards the Establishment of East Asian Regionalism]," 64.

<sup>182</sup> Terada, "Constructing an "East Asian" Concept," 268.

In short, these unofficial and indirect channels contributed to paving the way for the establishment of ASEAN+3.

Once the first APT summit was launched in 1997, APT leaders continued to employ a gradual approach toward institutionalization of the APT process. As noted earlier, the first APT summit did not lead to the decision to regularize the meeting because of the reluctance on the part of such countries as Japan and China to commit themselves. Therefore, the decision to hold the next APT meeting in Hanoi was particularly important to initiate the process of institutionalization. While the term “ASEAN+3” was occasionally used in the media following 1997, it was only after the ASEAN+3 meeting of finance ministers in Hanoi in March 1999 that the term became a common currency to describe the framework.<sup>183</sup> This gradualist approach proved conducive in promoting a slow, but steady, development of the APT process.

#### *Timing and Sequence of Institution-Building*

As Akihiko Tanaka suggests, there were also some “chance elements” that tipped the process of the APT formation.<sup>184</sup> While the Asian financial crisis of 1997–98 played a major role as a catalyst for the development of the APT process, the first meeting in Kuala Lumpur was planned *before* the onset of the Asian financial crisis in July 1997. ASEAN members formally agreed to invite leaders from the three Northeast Asian countries to their summit meeting in May 1997. The crisis “coincided with the initial meetings of the APT.”<sup>185</sup> Therefore, it is incorrect to identify the crisis as the cause of the establishment of the APT. Rather, the argument here is that, while the movement toward the establishment of the APT already existed prior to the crisis, the crisis became a key catalyst for the development of the APT process.

Although there was a growing consensus in ASEAN policy circles, prior to the crisis, that ASEAN needed to develop a closer collaboration with its Northern neighbors, the crisis made ASEAN leaders realize this as an urgent need. Furthermore, the crisis required new ideas that would provide regional solutions for regional problems, especially in the area of crisis prevention and management. It is probably reasonable to assume that the APT process would not have

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<sup>183</sup> Ibid.: 264.

<sup>184</sup> Tanaka, “Higashi-Ajia' toiu Shin-Chiiki Keisei no Kokoromi: ASEAN+3 no Tenkai' [The Attempt of New East Asian Regionalism: The Evolution of ASEAN+3],” 297.

<sup>185</sup> Stubbs, “ASEAN Plus Three: Emerging East Asian Regionalism?,” 448.

developed in the way it did without the presence of the crisis.<sup>186</sup> In other words, the crisis precipitated the critical juncture combining the demand and supply conditions that enabled the APT process to get off the ground. This critical juncture set up a particular historical trajectory that promoted the subsequent development of a regional institution based largely on an East Asian focus.

The history of regional institution-building in East Asia and the Asia-Pacific also highlights the importance of the sequence of events which led to the creation of each regional institution. Since an institution is not created in a vacuum, one cannot think of the creation of a regional institution in isolation from other existing institutions. For example, as some observers suggest, “without ASEAN there would be no APEC.”<sup>187</sup> By the same token, as indicated by the name itself, if there was no ASEAN, there would have been no ASEAN+3. Without ASEAN’s lead, it would have been impossible to bring the leaders from the three Northeast Asian countries to the same table. All the APT summits have been held on the sideline of ASEAN summit meetings, which ASEAN members have been hosting on a rotating basis. In this sense, ASEAN+3 provides an example of what some historical institutionalists call “layering,” which involves building a new institution on top of existing institutions while retaining some elements of those institutions and revising others, thus avoiding a series of negotiations.<sup>188</sup> It has become common understanding in the Asia-Pacific region that the creation of new regional institutions should be built upon the experiences and activities of ASEAN, by largely adopting the so-called ASEAN Way.

Furthermore, as discussed earlier, East Asian cooperation was to some extent born out of the formation of ASEM. The establishment of ASEM before the APT contributed to developing the foundation for the creation of the APT. Moreover, as demonstrated by the failure of the

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<sup>186</sup> Even without the crisis, the first meeting would have taken place as previously scheduled. However, it would have been highly unlikely that it would have witnessed the kind of development that the APT actually achieved after the the occurrence of the crisis.

<sup>187</sup> This statement has at least two meanings: 1) APEC built upon the experiences of ASEAN, in that APEC adopted many of the principles and procedures that had long supported the activities of ASEAN; and 2) if Southeast Asian nations did not have their own regional institution to address their common interests, they would have been even more reluctant to participate in APEC. See Funabashi, *Asia Pacific Fusion: Japan's Role in APEC*, 52; Michael G. Plummer, "ASEAN and Institutional Nesting in the Asia-Pacific: Leading from Behind in APEC," in Vinod K. Aggarwal and Charles E. Morrison, eds., *Asia-Pacific Crossroads: Regime Creation and the Future of APEC* (New York: St. Martin's Press, 1998), 309. For more details on the first point, see Yamakage, "Japan's National Security and Asia-Pacific's Regional Institution in the Post-Cold War Era," 199-200.

<sup>188</sup> Thelen, "How Institutions Evolve: Insights from Comparative Historical Analysis," 225-228.

EAEF proposal, there is sufficient reason to assume that the creation of the APT would have been unlikely if the APEC project had not gotten off the ground. APEC provided an institutional linkage for the United States to engage with East Asian economies, which subsequently helped to soften its stance toward regional institutions that did not involve the United States. As argued above, this, in turn, helped to shift Japan's initial lukewarm attitude toward East Asian regionalism. Through his interviews with senior officials within MITI and MOFA, Terada suggests that "the existence of APEC, of which the United States is a member, has helped Japan to develop its further interest in ASEAN+3, since East Asian nations are able to maintain trade and investment dialogues with the United States through APEC."<sup>189</sup> Lastly, ASEAN+3 has contributed to subsequent trilateral meetings between the leaders of the "+3" countries, which started in 1999. These developments all highlight the importance of taking into account the sequence of events which led up to regional institution-building.

### *Leadership*

Given the lack of a widely-accepted leader, the question over leadership is the most controversial one in the context of East Asian regionalism. ASEAN played an important role in initiating the APT meetings by bringing together the leaders from the Northeast Asian countries, despite their initial reluctance. As Hadi Soesastro suggests, the APT was primarily "driven by ASEAN. In fact, if ASEAN had not taken the lead, this process may not have emerged. A Japanese or Chinese initiative would have killed it."<sup>190</sup> Some argue however that ASEAN played a leading role in the APT process only "by default" because of the competition for regional leadership between Japan and China and the lack of cooperation between the Northeast Asian countries.

Nevertheless, the catalytic roles of middle-sized and small powers proved important in bringing the major powers to the process. In the formative years of the APT process, ASEAN members, especially Malaysia and Singapore, together with South Korea, played important roles in setting the process in motion.<sup>191</sup> As mentioned above, similar proposals by Singapore and Malaysia to invite the three Northeast Asian countries to the informal ASEAN summit were the

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<sup>189</sup> Terada, "Constructing an "East Asian" Concept," 268.

<sup>190</sup> Hadi Soesastro, "Asia-Japan Co-operation Toward East Asian Integration," in Ryokichi Hirono, ed., *Regional Co-Operation in Asia* (Singapore: Institute of Southeast Asian Studies, 2003), 25.

<sup>191</sup> Evans, "Between Regionalism and Regionalization: Policy Networks and the Nascent East Asian Institutional Identity," 210.

first clear manifestation of ASEAN's desire to develop an institutional link with the three countries. Subsequently, Korean President Kim Dae-jung played an important leadership role in proposing the establishment of the EAVG and EASG.

While the catalytic roles of smaller powers were important to initiate the process, the active participation of major powers like Japan and China was deemed crucial in keeping the process moving. In contrast to its previous reluctance to participate in East Asian regional institution-building, Japan became more enthusiastic about deepening its relationship with its Asian neighbors within the framework of East Asian cooperation, while at the same time enhancing its ties with the United States.<sup>192</sup> More importantly than this, however, China's adoption of a more proactive stance toward East Asian regional cooperation became a major driver for the development of the East Asian process.<sup>193</sup>

As discussed above, many policy initiatives advanced by major regional powers like China and Japan made the ASEAN+3 process get off the ground. While many observers believe that China and Japan have been competing for regional leadership in East Asia, this rivalry for leadership may not necessarily be a zero-sum relationship in the context of East Asian regionalism. In fact, as long as they do not hamper each other's initiatives, they may well contribute to moving East Asian regionalism forward – this has largely been the case thus far. Ravenhill suggests that, although historical suspicions and tensions in the region “have the potential to disrupt the new regional endeavors..., [s]uch tensions between the two economic giants of the region [i.e. China and Japan] ... may rebound to the benefits of regionalism if their leadership rivalry continues to be translated into competing initiatives for moving integration forward.”<sup>194</sup> As Douglas Webber correctly observes, “Sino-Japanese relations have not been transformed in the way that Franco-German relations were transformed in Western Europe after the Second World War.”<sup>195</sup> Yet, policy initiatives by Japan and China in East Asian regionalism have been mostly “mutually reinforcing,” though not necessarily coordinated.<sup>196</sup> The possibility of a co-leadership between Beijing and Tokyo is, however, bleak at this moment. To use Thomas

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<sup>192</sup> Inoguchi, "Japan Goes Regional," 1-34.

<sup>193</sup> Amyx, "What Motivates Regional Financial Cooperation in East Asia Today?," 1-8.

<sup>194</sup> Ravenhill, "A Three Bloc World? The New East Asian Regionalism," 191.

<sup>195</sup> Webber, "Two Funerals and a Wedding?," 362.

<sup>196</sup> Hidetaka Yoshimatsu, *Japan and East Asia in Transition: Trade Policy, Crisis and Evolution, and Regionalism* (Houndmills, Basingstoke, Hampshire ; New York: Palgrave Macmillan, 2003), 149.

Moore's phrase, China and Japan have been "competing to cooperate" to strengthen their relationship with ASEAN countries.<sup>197</sup>

In summary, the APT process was first driven by ASEAN's lead. ASEAN played a catalytic role in bringing major regional powers like China and Japan together, despite their initial reluctance. South Korea also played an important role in involving non-governmental actors in the process. Once China and Japan became active participants in the APT process, their initiatives have been important factors in keeping the process moving forward. It should also be noted that these developments have been made possible because of the absence of U.S. opposition, which was most critical for eliciting Japan's active participation.

### 6.3 CONCLUSION

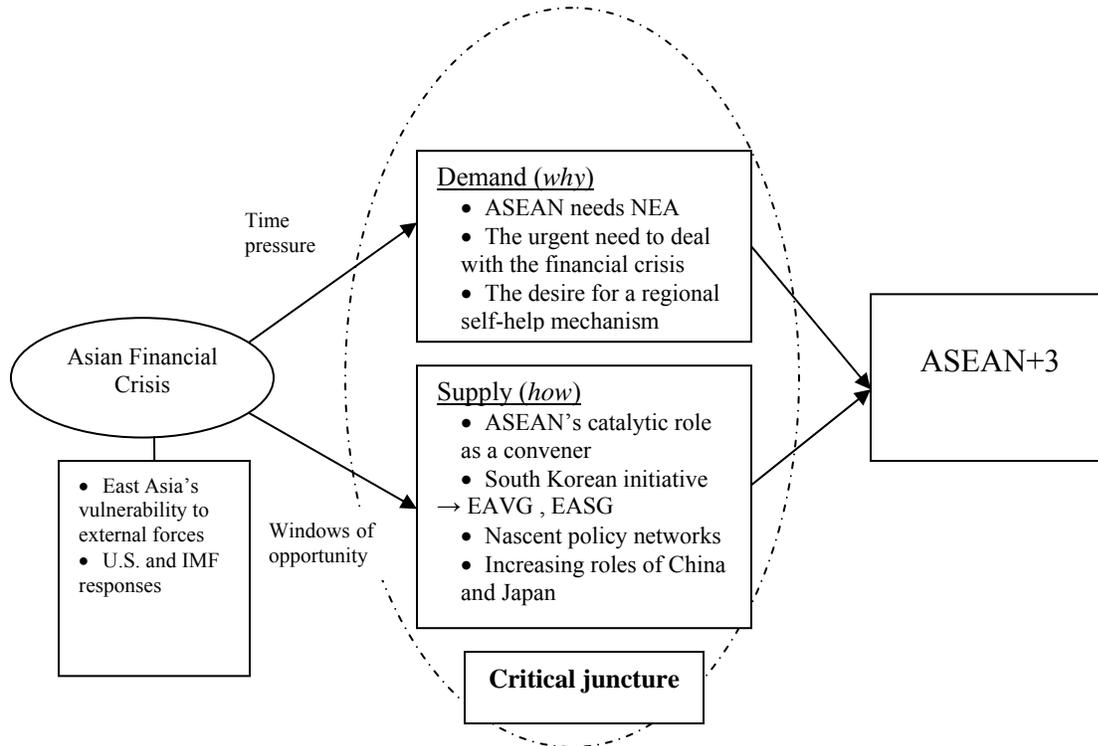
This chapter has attempted to answer why and how the ASEAN+3 process was successfully launched in the late 1990s, while the EAEG/EAEC proposal failed to materialize in the early 1990s. It argued that, while there emerged some seeds of East Asian institution-building before the onset of the Asian financial crisis, it was the Asian financial crisis that became a major catalyst that set in motion the subsequent development of the APT. East Asian leaders collectively recognized the inadequacy of Western-dominated global institutional frameworks like the IMF to protect their interests in the management of the financial crisis. According to Yoshihiro Iwasaki, a director of the ADB, "from the Asian point of view there is a stronger recognition that regional initiatives can help maximize the benefits of globalization while minimizing the disruptive effects of global financial markets."<sup>198</sup> As Paul Bowles suggests, "[t]he contours of post-financial crisis regionalism are, by state design, aimed at restoring to Asia a greater degree of political power and autonomy *vis-à-vis* the rest of the world, and the United States and the international financial institutions it controls, in particular."<sup>199</sup>

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<sup>197</sup> Thomas G. Moore, "China's International Relations: The Economic Dimension," in Samuel S. Kim, ed., *The International Relations of Northeast Asia* (Lanham, Md.: Rowman & Littlefield Publishers, 2004), 121-123.

<sup>198</sup> Cited in Edward Luce and John Thornhill, "East Asia Seeks its Own Voice: A New-Found Interest in Regionalism Is Prompting a Level of Financial and Economic Co-Operation that Presages Radical Initiatives," *Financial Times*, May 14, 2001, 20.

<sup>199</sup> Bowles, "Asia's Post-Crisis Regionalism: Bringing the State Back In, Keeping the (United) States Out," 245.



**Figure 6-7: Summary of the Argument for the Creation of ASEAN+3**

The creation of the APT was made possible because of ASEAN's initiative through an incremental and gradual approach that they deliberately employed. This incremental approach was particularly helpful to elicit the participation of Japan, which had been extremely cautious about joining any EAEC-like grouping due to the U.S. opposition. The devastating Asian financial crisis ironically provided a great opportunity for the development of the APT in a much quicker and innovative way than would have otherwise happened. Subsequently, a more active participation in the APT process by the Northeast Asian powers kept the APT process moving forward.

## **7.0 THE INSTITUTIONAL FORM AND EVOLUTION OF ASEAN+3**

The previous chapter discussed the factors that triggered the formation of the ASEAN+3 (APT) process. The present chapter is concerned with the institutional form that APT has taken and institutional development of the APT process. As noted in the previous chapter, APT started when ASEAN invited leaders of the three Northeast Asian countries to attend its summit meetings. Since then, the three Northeast Asian countries have attended the annual APT summit as the “guests” of ASEAN. Why has the APT continued to take this peculiar format, despite some countries’ proposals to hold the APT summits outside ASEAN as well? What accounts for the composition of the APT participants? Why have the APT countries decided to promote regional financial cooperation within the APT framework? Specifically, why and how did the APT participants agree on the Chiang Mai Initiative (CMI), while Japan’s proposal for an Asian Monetary Fund (AMF) failed to materialize?

To address these questions, the first section of this chapter provides a brief overview of APT’s evolution during the first decade. The second section analyzes the institutional form and evolution of APT first by exploring the institutional preferences of key participants and then by exploring how different state preferences affected the interstate negotiations in four dimensions of the institution. The third section focuses on regional efforts to promote financial cooperation in the aftermath of the Asian financial crisis as a mini-case study. It illustrates that the successful launch of regionalist projects depend on the variation of state preferences and the supply of political leadership in the absence of blocking power. The last section provides a summary of empirical findings and some theoretical implications of the institutional form and evolution of the APT.

## 7.1 ASEAN+3'S FIRST DECADE

The following pages briefly sketch APT's evolution during the first decade since its inception. The institutional evolution of APT can be divided into three phases: phase I (1997–1999), phase II (2000–2003), and phase III (2004–2006). The first phase saw the emergence and regularization of the APT process in the wake of the Asian financial crisis. The second phase was increasingly characterized by changing internal dynamics, particularly the rise of China as an active player in regionalist efforts. The third phase saw the emergence of increasing rivalry for regional leadership between China and Japan over different visions for the East Asian regional framework.

### 7.1.1 The First Phase: 1997–1999

The first APT summit was held in Kuala Lumpur on December 15, 1997, through ASEAN's invitation of the three Northeast Asian leaders to their informal summit. Although it was meant to celebrate the thirtieth anniversary of ASEAN, ironically it took place in the midst of the financial crisis that not only severely affected most ASEAN countries but also damaged the reputation of ASEAN as an organization. On the following day, ASEAN leaders also met with their counterparts from China, Japan, and South Korea at separate ASEAN+1 meetings. While this historic event successfully brought together leaders from Southeast and Northeast Asian countries without the presence of Western powers, the outcome of the summit was not significant in substance. Although each ASEAN+1 meeting led to the announcement of a joint statement, no joint statement was released by APT leaders as a whole. Furthermore, South Korea's President Kim Young-sam did not attend the meeting because of the crisis at home and Indonesia's President Suharto was absent from the meeting because of illness.<sup>1</sup> No agreement was reached to hold an "ASEAN-plus-three" leaders' meeting again in 1998, nor did the countries agree to make it a regular event. Although Prime Minister Mahathir proposed to

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<sup>1</sup> Akihiko Tanaka, "ASEAN-Japan Ties: A Basis for Cooperation," in JCIE, ed., *ASEAN-Japan Cooperation: A Foundation for East Asian Community* (Tokyo: Japan Center for International Exchange, 2003), 26.

convene similar summit meetings on a regular basis, Japanese Prime Minister Hashimoto and Chinese President Jiang Zemin were hesitant to support the idea.<sup>2</sup>

As the host country of the next ASEAN informal summit to be held late in 1998, Vietnam invited leaders from the three Northeast Asian countries to attend the summit.<sup>3</sup> President Kim Dae-jung of South Korea was the first leader to confirm that he would attend the summit.<sup>4</sup> While the Japanese government initially hesitated to accept the invitation, leaders from all three countries eventually confirmed their intention to take part in the ASEAN summit, leading to the second APT meeting.<sup>5</sup>

At the second APT informal summit in Hanoi in December 1998, leaders agreed to make the ASEAN+3 summit an annual event.<sup>6</sup> At the same meeting, Chinese Vice President Hu Jintao proposed a forum of East Asian vice finance ministers and deputy central bank governors to discuss international financial issues and to develop a surveillance mechanism for the floating of short-term capital.<sup>7</sup> Also, South Korea's President Kim Dae-jung proposed the establishment of an East Asia Vision Group (EAVG) made up of academics from the APT members to provide a vision for promoting East Asian cooperation. The 1998 meeting proved more critical in substance than the previous year's gathering.<sup>8</sup> The third APT informal summit in 1999 realized for the first time the participation of all heads of state all ten ASEAN members and the three Northeast Asian countries.<sup>9</sup> Held in Manila, this meeting led to the announcement of a "Joint Statement on East Asia Cooperation." After the Manila summit, various ministers from the thirteen countries—including ministers of finance, economics, foreign policy, agriculture and forestry, labor, and tourism—began to hold meetings on a regular basis.

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<sup>2</sup> Reportedly, Hashimoto preferred his own proposal for exclusive regular Japan-ASEAN summits to the broader ASEAN+3 summit. Siti Rahil Dollah, "Asians Split on Ways to Revive Economies after the Crisis," *Japan Economic Newswire*, December 15, 1997; See also Thomas Fuller, "Japan and China Refuse to Take Lead in Asian Crisis," *International Herald Tribune*, December 16, 1997, 13; *Asahi Shimbun*, December 17, 1997, 9.

<sup>3</sup> Terada, "Constructing an 'East Asian' Concept," 269.

<sup>4</sup> "Kim Advances Free Market," *The Nation*, September 18, 1998.

<sup>5</sup> Japanese government sources implied the possibility that Japan would turn down the proposal before the ASEAN foreign ministers' meeting in July 1998. Hisane Masaki, "Hanoi Proposes Special ASEAN Meeting," *Japan Times*, July 1, 1998.

<sup>6</sup> Tim Johnson, "East Asian Leaders Agree to Hold Annual Summits," *Japan Economic Newswire*, December 16, 1998.

<sup>7</sup> *Ibid.*; "East Asian Informal Summit A Success: Spokesman," *Xinhua News Agency*, December 22, 1998, 1.

<sup>8</sup> Akihiko Tanaka, "The Development of ASEAN+3," *Social Science Japan Newsletter* 28 (2004): 8.

<sup>9</sup> Cambodia became a member of ASEAN in April 1999.

### 7.1.2 The Second Phase: 2000–2003

The second phase in the development of the ASEAN+3 process from 2000 to 2003 saw rapid progress in the area of financial cooperation, the establishment of ministerial meetings in various areas, and the emergence of new ideas about the institutional development of ASEAN+3. Significant progress in financial cooperation was achieved when the finance ministers of the APT countries, who gathered in Chiang Mai in May 2000, agreed to set up a series of currency swap agreements among APT members. The negotiations leading to the so-called Chiang Mai Initiative will be discussed in detail in the mini-case study.

The fourth APT summit, held in Singapore in November 2000, witnessed discussions of what Prime Minister Goh Chok Tong called “two big ideas” concerning the future institutional development of ASEAN+3, namely, the transformation of ASEAN+3 into the East Asia Summit and the proposal for studying the feasibility of an East Asian free trade and investment area.<sup>10</sup> The idea of an East Asia Summit reportedly came from Malaysian Prime Minister Mahathir, while the idea of an East Asian free trade area was proposed by Thai Prime Minister Chuan Leekpai.<sup>11</sup> During the same meeting, President Kim proposed the establishment of an East Asian Study Group (EASG) composed of government officials to assess the recommendations of the EAVG.

In November 2001, the fifth APT summit meeting was held in Brunei. At this meeting, APT leaders welcomed the submission of the final report of the EAVG. The chairman’s statement noted that some of the measures proposed by the EAVG, such as the establishment of an East Asia Free Trade Area and the achievement of trade liberalization before the timeline set by APEC’s goals, were “bold yet feasible.”<sup>12</sup> South Korean President Kim also highlighted proposals for establishing an East Asia forum and the evolution of ASEAN+3 into the East Asia Summit. China, Japan, and South Korea also expressed their support for ASEAN’s efforts

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<sup>10</sup> Chua Lee Hoong, “‘Two Big Ideas’ to Boost East Asia,” *The Straits Times*, November 25, 2000, 1.

<sup>11</sup> “ASEAN-Plus-Three Meeting: Surin Keen on East Asian Talks: China Against US Naval Exercises,” *Bangkok Post*, November 26, 2000; *Nihon Keizai Shimbun*, November 25, 2000, 1, 7.

<sup>12</sup> “Press Statement by the Chairman of the 7<sup>th</sup> ASEAN Summit and the 5<sup>th</sup> ASEAN+3 Summit,” November 5, 2001, Brunei Darussalam. See ASEAN Secretariat, *ASEAN+3 Documents Series 1999-2004* (Jakarta: ASEAN Secretariat, 2005), 32.

toward regional integration, especially in the areas of human resource development, infrastructure, and information technology.<sup>13</sup>

In November 2002, the sixth APT summit was held in Phnom Penh, Cambodia. At this meeting, APT leaders received the final report of the East Asia Study Group (EASG). Among other things, the leaders “expressed willingness to explore the phased evolution of the ASEAN+3 summit into an East Asia Summit” in the long term, as recommended by the EASG.<sup>14</sup> In October 2003, the seventh APT summit was held in Bali, Indonesia. The APT leaders continued to discuss political, security, and economic issues of common interest. At this meeting, the leaders expressed concern over the terrorist attacks in Jakarta and at the UN Headquarters in Iraq. They also welcomed and showed their support for ASEAN’s adoption of the Declaration of ASEAN Concord II (Bali Concord II), which envisioned the three pillars of “ASEAN Security Community,” “ASEAN Economic Community,” and “ASEAN Socio-Cultural Community.”<sup>15</sup> Although the Bali summit saw a proposal for the eventual transformation of the ASEAN+3 summit into the East Asia Summit, no major decision was reached. Instead, the transformation was considered a long-term goal.<sup>16</sup>

Despite the relatively rapid development of the APT framework, during this period the APT summits started to be “overshadowed” by other developments, especially China’s active overtures toward ASEAN.<sup>17</sup> At the ASEAN-China summit meeting held on the sidelines of the APT in November 2000, Chinese Premier Zhu Rongji proposed the establishment of an expert study group to explore the possibility on the formation of a Free Trade Area (FTA) with ASEAN. In November 2002, Chinese and ASEAN leaders signed the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China. China’s move to strengthen its relationship with ASEAN prompted the Japanese government to follow suit. As discussed later, the emergence of China as an active player during this period became a major driving force behind the development of the regional process.

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<sup>13</sup> Ibid.

<sup>14</sup> “Press Statement by the Chairman of the 8<sup>th</sup> ASEAN Summit, the 6<sup>th</sup> ASEAN+3 Summit and the ASEAN-China Summit,” November 4, 2002, Phnom Penh, Cambodia. See Ibid., 95.

<sup>15</sup> “Press Statement by the Chairperson of the 9<sup>th</sup> ASEAN Summit and the 7<sup>th</sup> ASEAN Plus Three Summit,” October 7, 2003, Bali, Indonesia. See Ibid., 173, 180.

<sup>16</sup> Takashi Terada, “Creating an East Asian Regionalism: The Institutionalization of ASEAN+3 and China-Japan Directional Leadership,” *The Japanese Economy* 32, no. 2 (2004): 73.

<sup>17</sup> Soesastro, “Asia-Japan Co-operation Toward East Asian Integration,” 27.

### 7.1.3 The Third Phase: 2004–2006

This phase saw the formation of coexisting regional forums in East Asia. At the eighth ASEAN+3 summit, held in Vientiane in November 2004, the leaders agreed to convene the first East Asia Summit (EAS) in Malaysia in 2005. However, they failed to agree on the concrete shape of the EAS, including the agenda, membership, modalities, and relationship to the existing ASEAN+3 process.<sup>18</sup> This decision surprised many observers because at the foreign ministers' meeting held shortly before the summit, ministers had decided to defer the decision to a later time because of opposition from some ASEAN members, especially Indonesia.<sup>19</sup> In July 2005, APT foreign ministers formally agreed that leaders from all the APT countries plus Australia, New Zealand, and India would meet at the inaugural EAS, while keeping the APT summit among the existing thirteen members.

Accordingly, the APT and EAS were held as separate meetings in Kuala Lumpur in December 2005. At the ASEAN+3 summit, the leaders announced the Kuala Lumpur Declaration, in which they reiterated the “common resolve to realize an East Asian community as a long-term goal” and confirmed that the APT process would “continue to be the main vehicle in achieving that goal, with ASEAN as the driving force.”<sup>20</sup> The wording of the Kuala Lumpur Declaration of the East Asia Summit remained much more ambiguous, stating only that the leaders agreed that the EAS “could play a significant role in community building in this region.”<sup>21</sup>

## 7.2 ANALYZING INSTITUTIONAL FORM AND EVOLUTION

This section is divided into two sections. The first section investigates the institutional preferences of the APT members. The second section delves into the institutional form and

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<sup>18</sup> Munakata, *Transforming East Asia: The Evolution of Regional Economic Integration*, 127.

<sup>19</sup> *Yomiuri Shimbun*, November 27, 2004; *Asahi Shimbun*, November 29, 2004; *Mainichi Shimbun*, November 30, 2004.

<sup>20</sup> Kuala Lumpur Declaration on the ASEAN Plus Three Summit Kuala Lumpur, December 12, 2005, <http://www.aseansec.org/18036.htm>.

<sup>21</sup> Kuala Lumpur Declaration on the East Asia Summit Kuala Lumpur, December 14, 2005, <http://www.aseansec.org/18098.htm>.

evolution of the APT in four dimensions: membership, organizational structure, external orientation, and issue areas.

### **7.2.1 Governmental Institutional Preferences**

The following section outlines the institutional preferences of ASEAN members, Japan, China, and South Korea. It reveals different institutional preferences among these countries, most notably between the Chinese and Malaysian preference for a narrow East Asian regional framework on the one hand, and the Japanese and Singaporean preference for a broader regional arrangement on the other.

#### **7.2.1.1 ASEAN**

Since the inception of ASEAN+3, ASEAN governments have promoted the position that ASEAN provides an important platform for policy dialogue between Northeast and Southeast Asian countries. As in other regionalist projects within the Asia-Pacific region, ASEAN's general institutional preference is based on the application of the "ASEAN Way" toward regional cooperation, which emphasizes informality, consensus decision-making, and avoidance of excessive institutionalization. ASEAN strongly desires to maintain ASEAN-led processes in which ASEAN plays a central role in preparing regular meetings, setting agendas, and maintaining a privileged position as a chair of the conferences. In short, ASEAN wants to remain an "organizational hub."<sup>22</sup> Although these views have been generally supported by all the ASEAN members, there are differences among them with regard to specific aspects of the APT process.

As in the case of APEC, Malaysia and Singapore present two extreme opposing views. Malaysia has been the most consistent advocate of East Asian regionalism, comprising Northeast and Southeast Asia, since Prime Minister Mahathir Mohamad called for the creation of the East Asian Economic Grouping (EAEG) in the early 1990s. Malaysia has consistently preferred this grouping—reformulated as the East Asian Economic Caucus (EAEC) in 1991—to a wider regional grouping like APEC, which includes Western powers like the United States, Canada,

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<sup>22</sup> T. J. Pempel, "The Race to Connect East Asia: An Unending Steeplechase," *Asian Economic Policy Review* 1, no. 2 (2006): 247.

Australia, and New Zealand. Malaysia repeatedly opposed the inclusion of Australia and New Zealand in an East Asian grouping on the grounds that they do not belong to East Asia and do not share Asian values.<sup>23</sup>

Although the EAEG was initially perceived as an attempt to create an East Asian trading bloc, Mahathir denied such accusations by insisting that the EAEC would be “a loose consultative forum.” For example, in his keynote address to the Asia Society Conference on “Asia and the Changing World” in Tokyo in May 1993, Mahathir stated that he was “not advocating a preferential arrangement or a free trade area, or a customs union, or a common market or an economic union for East Asia.” Instead, the EAEC aimed to create “a loose consultative forum for the economies of the region.”<sup>24</sup>

When the APT process started in 1997, Mahathir initially avoided identifying it with his EAEC proposal.<sup>25</sup> However, subsequently he did not hesitate to call it the resurrection of his EAEG/EAEC proposal. For example, he stated in 1999: “We are still pushing for its formation. But there are already informal forums involving ASEAN and the three. This is EAEC though we don’t call it as such.”<sup>26</sup> More assertively, in 2003 he called on East Asian leaders to stop “hiding” behind the ASEAN+3 formation and admit the need to establish the EAEG.<sup>27</sup>

When the idea of holding a separate summit meeting with India or enlarging the ASEAN+3 into a “plus four” arrangement with India’s participation was floated at the 2000 ASEAN+3 meeting, Malaysia disagreed with the idea, partly because it had good relations with Pakistan, a long-time rival of India.<sup>28</sup> This position also reflected Malaysia’s consistent preference for a narrower grouping consisting of only Northeast and Southeast Asian countries.

In contrast with Malaysia’s preference for a narrow regionalism, Singapore prefers a wider East Asian regionalism incorporating Australia, New Zealand, and India. Senior Minister Lee Kuan Yew proposed an “ASEAN Plus Three, Plus Two” formula for a regional subgroup

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<sup>23</sup> Irene Ngoo and Tan Kim Song, “Japan Wants NZ, Aussies in Asia-EU Summit,” *The Straits Times*, July 25, 1995, 3.

<sup>24</sup> Mahathir’s speech at the Asia Society Conference on “Asia and the Changing World Order,” Tokyo, Japan, May 13, 1993, available at <http://www.pmo.gov.my>.

<sup>25</sup> Asked after the first APT summit, Mahathir stated that “it [the first APT summit] is not the EAEC. It is just identical (members of the EAEC).” See “East Asian Leaders Set to Meet Again Before April,” *Asia Pulse*, December 16, 1997.

<sup>26</sup> Cited in Leong, “The East Asian Economic Caucus (EAEC): ‘Formalized’ Regionalism Being Denied,” 57.

<sup>27</sup> Chok Suat Ling and Kamarul Yunus, “Dr M: EAEG is a Reality,” *New Straits Times*, August 5, 2003, 1.

<sup>28</sup> “Support for Enhanced ASEAN-India Dialogue,” *The Nation*, November 6, 2001.

within APEC by adding Australia and New Zealand.<sup>29</sup> At the 2000 APT meeting, Singapore supported the idea of expanding the group to ASEAN Plus Four by inviting India to join the group.<sup>30</sup> In 2002, Prime Minister Goh Chok Tong compared ASEAN to a jumbo jet with one wing in the making in the East, through agreements with China and Japan, and the second wing under construction with India.<sup>31</sup> More bluntly, Minister for Trade and Industry George Yeo stressed the importance of incorporating India as a counterweight against China.<sup>32</sup> At the 2004 summit, the new Prime Minister Lee Hsien Loong supported the idea of including India, Australia, and New Zealand to the summit.<sup>33</sup>

At the same time, the Singaporean government repeatedly emphasized the importance of embedding the United States in the process of East Asian regionalism. For example, in his keynote address at the U.S.-ASEAN Business Council's annual dinner in Washington, D.C., in 2001, Prime Minister Goh underscored the importance of the United States as "a strategic weight to maintain equilibrium" between Northeast and Southeast Asia.<sup>34</sup> In his speech at the Asia Society dinner in 2003, he warned that without the United States, the East Asian region would eventually be dominated by one player. He stressed the resulting need for the U.S. to embed itself in the process of East Asian regionalism, calling it "a strategic as well as economic imperative."<sup>35</sup> In short, Singapore clearly shows its preference for a wider regional arrangement in contrast to Malaysia's preference for a narrower grouping.

In terms of the institutional shape of ASEAN+3, ASEAN's preferred form is primarily an extension of ASEAN norms and principles into the APT process. As within ASEAN itself, ASEAN prefers informality, nonbinding commitments, noninterference, and consensus decision-making procedures within the ASEAN+3 process. Not surprisingly, ASEAN members have a strong preference for maintaining ASEAN-led processes rather than moving toward "East Asian" processes. Many ASEAN officials fear the possibility of ASEAN+3 transforming into "3+ASEAN," given the gap in economic development between Northeast Asian and Southeast

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<sup>29</sup> Jason Leow, "SM Proposes APEC Sub-Grouping," *The Straits Times*, November 21, 2000, 4.

<sup>30</sup> "Singapore to Push ASEAN to Engage with India: Officials," *Agence France Presse*, November 23, 2000.

<sup>31</sup> Chua Lee Hoong, "India Makes Trade Offer to ASEAN," *The Straits Times*, November 6, 2002.

<sup>32</sup> George Yeo became Minister for Foreign Affairs in August 2004. See Mushahid Aliman, and Jeet S. Pardesi, "S'pore-India Synergy Can Drive ASEAN-India Ties," *The Straits Times*, October 9, 2003.

<sup>33</sup> Kavi Chongkittavorn, "Regional Perspective: Which Country is Calling the Shots in East Asia?" *The Nation*, December 6, 2004.

<sup>34</sup> Goh Chok Tong, "Asia Needs US to Be On Board Train of Change," *The Straits Times*, June 15, 2001, 1.

<sup>35</sup> Goh Chok Tong, "FTAs will Ensure US and Asia Remain in Happy Embrace," *The Straits Times*, May 9, 2003.

Asian countries.<sup>36</sup> Thus, ASEAN officials repeatedly emphasize the need for ASEAN to remain in the driver's seat.<sup>37</sup> At the same time, ASEAN members view APT as a useful mechanism to pit China and Japan against each other within a multilateral setting.

Now that the ASEAN countries are involved in a variety of regional arrangements, such as APEC, the ARF, and ASEAN+3, they want ASEAN to remain integral to these broader regional processes. The ASEAN countries fear that ASEAN could become an irrelevant actor in these wider regional institutions. Thus, ASEAN's vision is to continue its strategy of "concentric circles" of cooperation discussed in Chapter 5.

With regard to external orientation, some ASEAN countries like Malaysia see the APT process as a way to increase their regional voices vis-à-vis extraregional powers. As Chapter 6 argued, the initial impetus for the development of the APT process was the East Asian countries' desire to reduce the East Asian region's vulnerability to and over-reliance on external forces. To use Mahathir's words, the idea of an East Asian Community, which came to be discussed widely in the APT process around 2001, ultimately aims to uphold "the governance of East Asia, by East Asia, and for East Asia."<sup>38</sup> However, this does not mean that the APT countries desire to create complete regional autonomy. On the contrary, they desire to use the APT process as a means to engage more actively in the world market. In principle, all ASEAN countries support the notion of open regionalism in opposition to the creation of an inward-looking closed grouping.

Since APT emerged in the midst of the Asian financial crisis, ASEAN's initial interest in the APT process naturally centered on financial issues. In particular, ASEAN countries were especially interested in receiving financial assistance from Japan and China. In the long run, however, ASEAN countries hope to strengthen their relations with the Northeast Asian countries in many fields.

### **7.2.1.2 Japan**

In terms of membership, Japan has consistently preferred a broader regional grouping than the current composition of APT. As noted in the previous chapter, Japan has a strong

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<sup>36</sup> Kavi Chongkittavorn, "Future of ASEAN: ASEAN+3 or 3+ASEAN?" *The Korea Herald*, October 10, 2002.

<sup>37</sup> Hisatsugu Nagao, "East Asian Community Closer to Reality," *The Nikkei Weekly*, July 12, 2004.

<sup>38</sup> Datuk Seri Dr Mahathir Mohamad, "Building the East Asian Community: The Way Forward," *New Straits Times*, August 5, 2003, 10.

preference for an Asia-Pacific regional forum over an East Asian grouping. Therefore, Japan was very reluctant to get involved in any exclusively East Asian grouping. After the idea of promoting an East Asian grouping had surfaced, on several occasions Japan attempted to incorporate such countries as Australia, New Zealand, and India in any move to promote the East Asian regional process. For example, when an informal meeting of economic ministers among ASEAN members, China, South Korea, and Japan proposed to be held in Phuket, Thailand, in April 1995, Japan refused to attend the meeting, insisting that Australia and New Zealand should also be invited.<sup>39</sup> Similarly, Japan proposed inviting Australia and New Zealand to the Asia-Europe Meeting (ASEM), pointing to the close economic and political links that Australia and New Zealand had with Asian countries.<sup>40</sup> Subsequently, encountering opposition from Malaysia, Japan grudgingly accepted the absence of the two countries from the ASEM.

Even after APT began, Japan continued to show its desire to invite more members to participate in the East Asian process. When Prime Minister Junichiro Koizumi proposed an East Asian “community that acts together and advances together” in January 2002, he envisioned an East Asian community of which core members would include not only ASEAN+3 countries but also Australia and New Zealand.<sup>41</sup> In supporting Koizumi’s vision, the Ministry of Foreign Affairs (MOFA) generally preferred an “ASEAN plus three plus two” format, which includes Australia and New Zealand.<sup>42</sup> At the ASEAN+3 foreign ministerial meeting in 2004, MOFA prepared and distributed an issue paper that proposed to admit Australia, New Zealand, and India as members of the East Asian Community.<sup>43</sup> The invitation of India to such a grouping was believed to have been encouraged by Japan’s fear about China’s possible predominance within an East Asian grouping and its desire to use India as a counterweight against China.

Yet this vision is not entirely shared within the Japanese government. The Ministry of Economy, Trade, and Industry (METI) has advanced its own version of an “ASEAN plus five” grouping in the form of an East Asian Free Business Zone, comprising ASEAN, Japan, South

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<sup>39</sup> Tanaka, “Higashi-Ajia’ toiu Shin-Chiiki Keisei no Kokoromi: ASEAN+3 no Tenkai’ [The Attempt of New East Asian Regionalism: The Evolution of ASEAN+3],” 280.

<sup>40</sup> Irene Ngoo and Tan Kim Song, “Japan Wants NZ, Aussies in Asia-EU Summit,” *The Straits Times*, July 25, 1995, 3.

<sup>41</sup> See <http://www.mofa.go.jp/region/asia-paci/pmv0201/speech.html>

<sup>42</sup> Natsumi Mizumoto, “Japan to Aim for E. Asia Free-Trade Area before 2010,” *Japan Economic Newswire*, April 13, 2002; Greg Sheridan, “Non-Event from Leaders of Free Whirl,” *The Australian*, May 2, 2002, 11; Dennis Shanahan, “Koizumi Visit a Chance to Get Back with Asia,” *The Australian*, April 26, 2002, 9.

<sup>43</sup> “Australia, N.Z., India Could Be Involved in E. Asian Community,” *Japan Economic Newswire*, June 28, 2004; “ASEAN-plus-3 Ministers Agree to Hold E. Asian Summit in 2005,” *Japan Economic Newswire*, July 1, 2004.

Korea, China, Hong Kong, and Taiwan. METI reportedly opposed Koizumi's inclusion of Australia.<sup>44</sup> Moreover, there were differences of opinion even within MOFA; some Asian specialists in MOFA were reportedly reluctant about the inclusion of Australia.<sup>45</sup>

Despite some differences within Japan, Japan's general preference for a broader regionalism is based on a combination of geopolitical, economic, and ideational factors, but it is particularly influenced by two factors: 1) the U.S. factor (i.e., Japan's preference for maintaining a strong relationship with the United States); and 2) the China factor (i.e., Japan's desire to dilute Chinese influence).

With regard to external orientation, as in the case of APEC, the Japanese government emphasized the principle of "open regionalism" in opposition to creating a closed regional bloc. Issue papers prepared by the Japanese government stress that "ASEAN+3 should continue to articulate principles such as openness, transparency, inclusiveness, and conformity with global norms and systems."<sup>46</sup> Japan hopes to use APT as an opportunity to curb its declining influence in the East Asian region while maintaining a strong relationship with extraregional powers, especially the United States. In terms of issue areas, the Japanese government promotes the concept of "functional cooperation" in various areas, such as trade and investment, information technology, finance, transnational issues, development assistance, energy, environmental protection, food, health, and intellectual property.<sup>47</sup>

### 7.2.1.3 China

In terms of membership, China prefers a narrower framework for East Asian regional cooperation.<sup>48</sup> Not surprisingly, China strongly opposed the participation of India in the ASEAN+3 summit when the idea was floated in 2000.<sup>49</sup> Moreover, the Chinese government wants to keep Australia, a close ally of the United States, out of the group.<sup>50</sup>

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<sup>44</sup> Terada, "Creating an East Asian Regionalism: The Institutionalization of ASEAN+3 and China-Japan Directional Leadership," 78.

<sup>45</sup> Ibid.

<sup>46</sup> "Issue Papers Prepared by the Government of Japan," Ministry of Foreign Affairs, June 25, 2004, available at <http://www.mofa.go.jp/region/asia-paci/issue.pdf>

<sup>47</sup> Ibid.

<sup>48</sup> Hund, "ASEAN Plus Three: Towards a New Age of Pan-East Asian Regionalism? A Skeptic's Appraisal," 383.

<sup>49</sup> Moore, "China's International Relations: The Economic Dimension," 119.

<sup>50</sup> Dirk Nabers, "ASEAN+3: The Failure of Global Governance and the Construction of Regional Institutions," in Stefan A. Schirm, ed., *New Rules for Global Markets: Public and Private Governance in the World Economy* (New York: Palgrave Macmillan, 2004), 224.

When the decision to hold the East Asia Summit (EAS) was reached in 2004, Beijing was initially enthusiastic about the inauguration of this new summit. When Malaysia offered to host the inaugural EAS in 2005 at the ASEAN+3 foreign ministerial meeting in 2004, China quickly expressed its interest in hosting the second summit in 2007, which would mark the tenth anniversary of ASEAN+3.<sup>51</sup> However, Beijing became less interested in the EAS once the decision was made to invite Australia, New Zealand, and India to the summit. Subsequently Beijing insisted that ASEAN+3 should be the core of any permanent regional grouping.<sup>52</sup> This reflected China's preference for a narrower regional framework so that it can exercise greater leverage within the group.

In describing the ASEAN+3 process, the Chinese government uses the term "10+3," implying that the participants are on an equal standing in this relationship.<sup>53</sup> Nonetheless, Beijing also acknowledges the important role of ASEAN as glue for this fragile grouping. Certainly Chinese leaders do not want to see any other single power dominating the ASEAN+3 process. At the same time, Beijing is well aware that any attempt by China to control ASEAN+3 would stall the process. Therefore, at least rhetorically, Beijing agrees to work within the ASEAN-led process as part of China's recent "charm offensive" toward ASEAN.<sup>54</sup> In this respect, Premier Zhu Rongji stressed that China "supports the continued important role by the ASEAN."<sup>55</sup> Similarly, at the ASEAN+3 foreign ministers' meeting, Chinese Foreign Minister Tang Jiaxuan maintained that "China supports ASEAN in continuing to play an important role in East Asian cooperation."<sup>56</sup>

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<sup>51</sup> "China Offers to Host 2007 East Asia Summit, Says Syed Hamid," *Malaysia General News*, July 1, 2004; Naraina Samad and Farrah Naz Karim, "China Offers to Host Summit," *New Straits Times*, July 2, 2004, 8.

<sup>52</sup> John Burton, Victor Mallet, and Richard McGregor, "A New Sphere of Influence: How Trade Clout is Winning China Allies Yet Stoking Distrust," *Financial Times*, December 9, 2005, 17; *Asahi Shimbun*, December 4, 2005.

<sup>53</sup> Melissa G. Curley, "Advancing East Asian Regionalism: An Introduction," in Melissa G. Curley and Nicholas Thomas, eds., *Advancing East Asian Regionalism* (London: Routledge, 2007), 17.

<sup>54</sup> Amitav Acharya, "China's Charm Offensive in Southeast Asia," *The International Herald Tribune*, November 8, 2003, 8.

<sup>55</sup> "Strengthening East Asian Cooperation and Promoting Common Development," Zhu Rongji's statement at the 5<sup>th</sup> ASEAN+3 Summit, Bandar Seri Begawan, November 5, 2001, available at <http://www.fmprc.gov.cn/eng/wjdt/zyjh/t25044.htm>

<sup>56</sup> Speech by Foreign Minister Tang Jiaxuan at the ASEAN plus China, Japan, and Korea Foreign Ministers' Meeting, July 30, 2002, available at <http://www.fmprc.gov.cn/eng/wjdt/zyjh/t25082.htm>.

The Chinese government shares with ASEAN a preference for the informal and consensual style of regional cooperation emphasized by the ASEAN Way.<sup>57</sup> For example, pointing to “the diversity of national conditions and the unevenness in the level of economic development of various countries,” Premier Zhu Rongji emphasized the importance of such principles as “mutual benefit, incremental progress and stressing on practical results.”<sup>58</sup> Further, China supports a gradual and incremental approach to the institutional development of the APT process. Foreign Minister Tang maintained that “East Asian cooperation should move at a pace comfortable to all parties.”<sup>59</sup>

China emphasizes the complementary roles of different cooperative regional arrangements such as APEC, APT, and ASEM.<sup>60</sup> Yet China has shown a particular interest in the APT process relative to other forums. For example, Zhu identified APT as “the main channel of East Asia cooperation.”<sup>61</sup> Zhu maintained that the APT process could serve as a vehicle through which to “gradually establish a framework for regional financial, trade and investment cooperation, and furthermore to realize still greater regional economic integration in a step by step manner.”<sup>62</sup>

In terms of issue areas, Zhu suggested that the APT should focus on the following areas of cooperation: the development of Mekong River Basin transformation and communication infrastructure, information technology, human resources development, agriculture, and tourism.<sup>63</sup>

#### 7.2.1.4 South Korea

President Kim Dea-jung (1998–2002) was an enthusiastic supporter of the ASEAN+3 process. In 1999, Kim expressed his desire to expand ASEAN+3 to encompass all of East Asia

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<sup>57</sup> Jusuf Wanandi, “China and Asia Pacific Regionalism,” in Ryosei Kokubun and Jisi Wang, eds., *The Rise of China and a Changing East Asian Order* (Tokyo: Japan Center for International Exchange, 2004), 45.

<sup>58</sup> “Strengthening East Asian Cooperation and Promoting Common Development,” Zhu Rongji’s statement at the 5<sup>th</sup> ASEAN+3 Summit, Bandar Seri Begawan, November 5, 2001, available at <http://www.fmprc.gov.cn/eng/wjdt/zyjh/t25044.htm>.

<sup>59</sup> Speech by Foreign Minister Tang Jiaxuan at the ASEAN plus China, Japan, and Korea Foreign Ministers’ Meeting, July 30, 2002, available at <http://www.fmprc.gov.cn/eng/wjdt/zyjh/t25082.htm>.

<sup>60</sup> See, for example, Vice-Premier Qian Qichen’s speech at the Luncheon by Asia Society, March 20, 2001, available at <http://www.fmprc.gov.cn/eng/wjdt/zyjh/t25010.htm>.

<sup>61</sup> Quote in Moore, “China’s International Relations: The Economic Dimension,” 118.

<sup>62</sup> Michael Richardson, “Asian Leaders Cautious on Forging New Regional Partnerships,” *International Herald Tribune*, November 27, 2000, 11.

<sup>63</sup> Soesastro, “Asia-Japan Co-operation Toward East Asian Integration,” 26.

within the next ten years, which would maximize its political clout in dealing with rival regional blocs. “I see a great deal of possibility in this ASEAN-plus-Three forum further expanding and further solidifying as a forum for East Asia as a whole,” he said. “It will be able to speak for the region vis-à-vis the North American Free Trade Area, vis-à-vis Latin America and vis-à-vis the European Union, and engage these organizations in cooperation as well as in competition.”<sup>64</sup> Kim’s strong support for turning ASEAN+3 into a more formalized institution was shown when his government reportedly strongly backed the Malaysian proposal to set up an ASEAN+3 summit in 2002 as “a stepping stone to establish an East Asian Grouping.”<sup>65</sup>

Since President Roh Moo-hyun came into office in 2003, he has promoted his own vision of regional community focusing on Northeast Asia. In his inauguration speech in February 2003, the newly elected president declared the dawning of the “Age of Northeast Asia.” During his speech, he mentioned that he had “a dream of seeing a regional community of peace and prosperity in Northeast Asia like the European Union.”<sup>66</sup> Accordingly, he established the Presidential Committee for Northeast Asian Cooperation Initiative to study and advance his vision. Roh Moo-hyun’s government has tended to focus on Northeast Asia as the core of wider regional groupings such as ASEAN+3 and APEC. In this respect, the Roh administration advocated a “3+ASEAN” formula in which Northeast Asia clearly leads Southeast Asia, rather than the current ASEAN-led ASEAN+3 arrangement. In terms of the future prospect, President Roh remarked that “the ASEAN Plus Three group would gradually develop into an East Asia Summit, eventually leading to the formation of the East Asian Community.”<sup>67</sup>

## 7.2.2 Four Dimensions of Institutional Evolution

As with the analysis of APEC in Chapter 5, the ensuing section analyzes the institutional form and evolution of the APT process in four dimensions of regional institution: membership, organizational structure, external orientation, and issue areas.

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<sup>64</sup> Kwan Weng Kin, “Kim Calls for Forum to Encompass all East Asia,” *The Straits Times*, November 23, 1999, 26.

<sup>65</sup> Kavi Chongkittavorn, “EAG Community: The Reality Grows,” *The Nation*, June 11, 2002.

<sup>66</sup> “Roe Takes Nation’s Highest Office,” *Korea Times*, February 26, 2003.

<sup>67</sup> Quoted in Takashi Terada, “Forming an East Asian Community: A Site for Japan-China Power Struggles,” *Japanese Studies* 26, no. 1 (2006): 6.

### 7.2.2.1 Membership

As in any other regional institution, the issue of membership was extremely controversial in forming APT. It was even more so because the participants in the APT process were almost identical to the list of countries to be included in the aborted EAEC proposal.<sup>68</sup> As noted in the previous chapter, until the mid-1990s, U.S. opposition toward the EAEC kept some Asian countries, especially Japan, extremely cautious about participating in an East Asia-only grouping.

Nevertheless, an East Asian grouping gradually emerged in the late 1990s in the form of APT. Arguably the most important feature of APT's membership is the absence of Western members of APEC. While "Asia-Pacific" regionalism in the form of APEC encountered several obstacles and lost its momentum in the latter half of the 1990s, "East Asian" regionalism in the form of ASEAN+3 emerged as a new vehicle of cooperation. As noted in Chapter 6, this new development was encouraged by the growing division within APEC between Anglo-American members and Asian countries and the East Asians' frustration with U.S. reactions to the Asian financial crisis. The Asian financial crisis created a significant demand for cooperation within East Asia.

Although the membership of APT has not changed since its inception, the possibility of enlarging its membership has been discussed since 2000, when the idea of expanding the ASEAN+3 into a "plus four" arrangement with India's participation was floated at the fourth APT summit in Singapore. However, countries such as China and Malaysia objected to the idea.<sup>69</sup> Thus, at this meeting, ASEAN leaders decided that it was "too early" to consider India's participation on the grounds that the forum should concentrate on strengthening the current grouping.<sup>70</sup> The following year, ASEAN members reached an agreement to invite India on an ASEAN+1 basis, with Thailand's strong advocacy and Malaysia's cautious support.<sup>71</sup> In 2002, India began to convene regular meetings with ASEAN members in the format of ASEAN+1, although it has not been invited to the APT meeting.

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<sup>68</sup> While the EAEC would include ASEAN member states, China, Japan, South Korea, Taiwan, and Hong Kong, APT does not include Taiwan and Hong Kong.

<sup>69</sup> "Support for Enhanced ASEAN-India Dialogue," *The Nation*, November 6, 2001.

<sup>70</sup> Amit Baruah, "ASEAN 'No' to Summit with India," *The Hindu*, November 25, 2000.

<sup>71</sup> "Support for Enhanced ASEAN-India Dialogue," *The Nation*, November 6, 2001.

**Table 7-1: Representative Members' Preferences on APT's Enlargement**

<b>Enlargement</b>	<b>No Enlargement</b>
Japan, Singapore, (India), (Australia), (New Zealand)	China, Malaysia

Different state preferences among APT countries with regard to the membership of the grouping came to the fore during negotiations preparing for the inauguration of the East Asia Summit. Table 7-1 summarizes membership preferences of several APT countries. While some members like Japan and Singapore expressed their willing to invite additional countries to the group, others, especially China and Malaysia, resisted the expansion.<sup>72</sup> The question of who is included and who is excluded not only has highly political implications, but also has an impact on prospects for the institutional development of the APT process.

#### **7.2.2.2 Organizational Structure**

The APT framework can be characterized as a consultative process with a multilayered structure, which consists of three levels: ASEAN+3, ASEAN+1, and +3.<sup>73</sup> ASEAN+3 can be further divided into three levels. The first comprises annual summit meetings of the heads of government from the thirteen countries. The second involves regular and ad hoc meetings at the ministerial level. The third involves senior officials from ministries and agencies.<sup>74</sup> ASEAN+1 summit meetings between ASEAN and Japan, South Korea, and China have been held annually since the first time APT leaders gathered in 1997. Trilateral summit meetings among the “plus three” countries—Japan, South Korea, and China—were instigated in 1999 through the initiative of Japanese Prime Minister Obuchi.<sup>75</sup> However, this three-way summit was not held in 2005 because China and Korea refused to hold such a meeting in protest against the Japanese Prime Minister’s repeated visit to the controversial Yasukuni Shrine, which enshrines the war dead from WWII, including fourteen Class A war criminals.

<sup>72</sup> Kavi Chongkittavorn, “Regional Perspective: U.S. and the Future of the East Asian Community,” *The Nation*, December 27, 2004.

<sup>73</sup> Sanae Suzuki, "East Asian Cooperation through Conference Diplomacy: Institutional Aspects of the ASEAN Plus Three (APT) Framework," *Working Paper Series 03/04* No. 7 (2004): 11.

<sup>74</sup> Evans, "Between Regionalism and Regionalization: Policy Networks and the Nascent East Asian Institutional Identity," 201.

<sup>75</sup> Prime Minister Obuchi had proposed a trilateral meeting at the Hanoi ASEAN+3 meeting. However, it did not materialize because of the Chinese objection. While the first meeting was convened in 1999, Chinese Premier Zhu did not give an affirmative answer to the idea of making it an annual event at that time. See *Asahi Shimbun*, November 29, 1999, 3.

The most important feature of ASEAN+3 is that, as its name indicates, ASEAN+3 originated in ASEAN's practice of inviting the three Northeast Asian countries to their summit meetings as guests. Leaders from the Plus Three countries, therefore, participate in these meetings by ASEAN's invitation. In such a format, only ASEAN countries can host ASEAN+3 meetings, with ASEAN members rotating chairmanship annually in alphabetical order. The rotating ASEAN chair plays a central role in preparing the summits, inviting participants, setting agendas, building consensus among participants, and drafting documents. Although the idea of holding ASEAN+3 meetings outside ASEAN states has been floated since 2000, it has not materialized in the face of ASEAN's hesitation. Furthermore, Malaysia's 2002 proposal for establishing a secretariat was rejected. Thus, the APT process primarily consists of a series of regularized meetings rather than institutionalized organizations.

Decision-making procedures in APT are primarily predicated upon the "ASEAN Way," which emphasizes consultation, informal diplomacy, and consensus. There is no formal decision-making body, nor does APT have a decision-making procedure based on majority voting. Both Northeast and Southeast Asian leaders feel comfortable with informal decision-making procedures based on consensus. At the second economic ministers' meeting, held in October 2000, ministers agreed on the "13 - X" principle, which would allow the implementation of proposed projects without full consensus of all the members.<sup>76</sup> This principle is based on ASEAN's "five-minus-one" formula originally developed by Singapore's former Prime Minister Lee Kuan Yew.<sup>77</sup> This practice was adopted within ASEAN as a pragmatic way of implementing projects without requiring unanimity as long as no one opposes them.<sup>78</sup>

### *Nongovernmental Actors*

While nongovernmental bodies like PBEC and PECC preceded APEC, there were initially no nongovernmental actors organized on an East Asian basis preceding the formation of

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<sup>76</sup> "Joint Press Statement of the 2nd Meeting of the ASEAN Economic Ministers and the Ministers of People's Republic of China, Japan and Republic of Korea," Chiang Mai, Thailand, 7 October 2000, available at <http://www.aseansec.org/607.htm>. See also Hidetaka Yoshimatsu, "Political Leadership, Informality, and Regional Integration in East Asia: The Evolution of ASEAN Plus Three," *European Journal of East Asian Studies* 4, no. 2 (2005): 220-221.

<sup>77</sup> Suzuki, "East Asian Cooperation through Conference Diplomacy: Institutional Aspects of the ASEAN Plus Three (APT) Framework," 32. For the "five-minus-one" principle, see Acharya, "Culture, Security, Multilateralism: The 'ASEAN Way' and Regional Order," 63-64.

<sup>78</sup> Solingen, "East Asian Regional Institutions: Characteristics, Sources, Distinctiveness," 35.

the APT.<sup>79</sup> However, many nongovernmental bodies were subsequently created to support the APT process. Following South Korean President Kim's proposal, the East Asia Vision Group (EAVG) was formally created in October 1999 and was chaired by a Korean academic, Han Sung-joo.<sup>80</sup> The EAVG consisted of twenty-six intellectuals – two representatives from each of the thirteen countries in the APT. The task assigned to the EAVG was to come up with concrete blueprints for East Asian cooperation. The final report was submitted to the fifth ASEAN+3 summit in Brunei Darussalam in 2001.<sup>81</sup> At the fourth ASEAN+3 summit in November 2000, Kim proposed the establishment of the East Asia Study Group (EASG), consisting of government officials, to assess the recommendations of the EAVG and their implications for East Asian cooperation. The EASG held six sessions from July 2001 to October 2002. The final report of the EASG was submitted to the 2002 ASEAN+3 summit in Phnom Penh, Cambodia.

In response to the EASG's proposal, the Network of East Asian Think-tanks (NEAT) was established in Beijing in September 2003. It was formed to "serve as a bridge between the academic community and political decision-makers" in the region.<sup>82</sup> Similarly, following the EAVG's recommendation and the endorsement by the EASG and the leaders of the APT countries, the East Asian Forum (EAF) was formed in Seoul in December 2003 to enhance understanding and cooperation among government officials, academics, and business leaders from the APT countries.<sup>83</sup> Motivated by these developments, the Council on East Asian Community (CEAC) was established in Tokyo in May 2004. The CEAC consists of representatives from corporations and government agencies as well as prominent intellectuals in Japan. It aims to conduct policy discussions among its members and produce policy recommendations.<sup>84</sup>

The East Asia Business Council (EABC) meeting, another short-term measure put forward by the EASG, was inaugurated in Kuala Lumpur, Malaysia, in April 2004. The first EABC meeting was organized by the National Chamber of Commerce and Industry Malaysia

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<sup>79</sup> Evans, "Between Regionalism and Regionalization: Policy Networks and the Nascent East Asian Institutional Identity," 202.

<sup>80</sup> Han Sung-joo is a former foreign minister who later served as an ambassador to the United States.

<sup>81</sup> East Asia Vision Group, *Towards an East Asian Community: Region of Peace, Prosperity and Progress* (2001), available at <http://www.aseansec.org>.

<sup>82</sup> Ibid.

<sup>83</sup> <http://www.eastasiaforum.org/default.asp>.

<sup>84</sup> The membership of CEAC consists of 12 think-tank members, 57 individual members and 15 corporate members as of 2004. See <http://www.ceac.jp>.

(NCCIM). The main task for the EABC is, in the words of its chairman Tan Sri Azman Hashim, “to provide private sector perspective and feedback to the ASEAN+3 governments with the aim of deepening economic cooperation and linkages and to strengthen cooperation among the private sectors of ASEAN, China, Japan, and Korea.”<sup>85</sup> The Malaysian government, with the International Trade and Industry Ministry acting as the lead agency, played an important role in the formation of the EABC.<sup>86</sup> These nongovernmental groups may constitute a nascent transnational policy network. It is yet unknown to what extent these newly formed networks of nongovernmental organizations, such as the EAF, NEAT, CEAC, and EABC, can influence intergovernmental processes within the APT framework.

### *East Asia Summit*

When the idea of the transformation of ASEAN+3 into the East Asia Summit was floated at the 2000 APT meeting, Singapore’s Prime Minister Goh, who was a chair of that meeting, recommended “a gradual evolution.”<sup>87</sup> The EAVG report in 2001 called for “the evolution of the annual summit meetings of ASEAN Plus Three into the East Asian Summit and for the establishment of an East Asian community.”<sup>88</sup> When the idea of an East Asian Summit was discussed at the Bali APT meeting in 2003, one of the major controversial issues was the question of which country should host the first meeting.<sup>89</sup>

As noted earlier, the original idea was to “transform” ASEAN+3 into a more formalized East Asia Summit. As a logical evolution of ASEAN+3 into the East Asia Summit, the possibility of holding the summits outside ASEAN countries was discussed. For example, at the 2002 ASEAN+3 summit in Singapore, Prime Minister Goh pointed to the possibility for Northeast Asian countries to assume the role of chairmanship at East Asia Summits.<sup>90</sup> South Korean President Roh Moo-hyun stated in 2003 that “the Northeast Asian countries should alternately host the ASEAN Plus Three summit once every three or four years as an interim step

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<sup>85</sup> Tengku Noor Shamsiah, “EABC Keen to Promote Trade and Investment among ASEAN+3 Countries,” *Bernama*, April 14, 2004.

<sup>86</sup> Santha Oorjitham, “ASEAN Plus 3 is Vehicle for East Asian Community, Says Syed Hamid,” *Malaysia General News*, July 28, 2004.

<sup>87</sup> Chua Lee Hoong, “‘Two Big Ideas’ to Boost East Asia,” *The Straits Times*, November 25, 2000, 1.

<sup>88</sup> East Asia Vision Group, *Towards an East Asian Community: Region of Peace, Prosperity and Progress* (2001), available at <http://www.aseansec.org>.

<sup>89</sup> Kavi Chongkittavorn, “Mixed Views on East Asia’s Future Path,” *The Nation*, May 10, 2004.

<sup>90</sup> C. P. F. Luhulima, “Time To Institutionalize East Asia Cooperation,” *The Jakarta Post*, February 18, 2005.

towards the East Asia Summit.”<sup>91</sup> However, some ASEAN countries, such as Indonesia and Thailand, showed reservations about convening an East Asian summit; they were particularly hesitant about extending the role of chairmanship to the three Northeast Asian countries, apparently because of concerns that it could eclipse the APT process.<sup>92</sup>

At a meeting of foreign ministers from the APT in July 2004, ministers discussed the idea of holding the inaugural East Asia Summit in Malaysia in 2005. At that meeting, China officially expressed its interest in hosting the second East Asia Summit in 2007, while lending its support for Malaysia’s chairmanship for the first summit.<sup>93</sup> In response to China’s move, Japan proposed to co-host the inaugural East Asia Summit with Malaysia. At the APT summit in November 2004, the APT leaders agreed to hold the inaugural meeting in Malaysia in 2005. Through a series of negotiations at a meeting of foreign ministers in July 2005, it was agreed that the East Asia Summit would be hosted and chaired only by ASEAN members.<sup>94</sup> It was also decided at the same meeting that two separate summit meetings would be held in Malaysia: the APT meeting among the existing thirteen APT members and the East Asia Summit among the same thirteen countries plus Australia, New Zealand, and India. Accordingly, following the regular 2005 ASEAN summit in Kuala Lumpur, the thirteen APT leaders gathered for the APT summit on December 12, and those leaders plus the three additional leaders participated in the inaugural EAS summit on December 14. As of now, APT and EAS coexist as two different groupings, though all the participants except Australia, New Zealand, and India are the same.

### *Secretariat*

The idea of establishing a secretariat for ASEAN+3 was discussed at the 2001 ASEAN+3 leaders’ meeting in Brunei. In June 2002, the Malaysian government officially proposed the establishment of an ASEAN+3 secretariat in Kuala Lumpur with an offering of US\$ 10 million (RM 38 million) to cover the first five years of its operations.<sup>95</sup> However, Malaysia’s proposal did not gain support among other ASEAN members. Although China, Japan, and South Korea

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<sup>91</sup> Cited in Terada, "Forming an East Asian Community: A Site for Japan-China Power Struggles," 7.

<sup>92</sup> "ASEAN-puls-3 Ministers Agree to Hold E. Asian Summit in 2005," *Japan Economic Newswire*, July 1, 2004.

<sup>93</sup> Openg Onn, "China Offers to Host 2007 East Asia Summit, Says Syed Hamid," *Malaysia General News*, July 1, 2004.

<sup>94</sup> *Asahi Shimbun*, December 4, 2005.

<sup>95</sup> Ashraf Abdullah, "KL to Give RM 38m for Secretariat," *New Straits Times*, June 6, 2002, 3. See also Kavi Chongkittavorn, "EAG Community: The Reality Grows," *The Nation*, June 11, 2002.

were reported to have given tacit support for the proposal, some officials of the other ASEAN countries reacted to the proposal skeptically, viewing it as an attempt to institutionalize the ASEAN+3 process.<sup>96</sup> As one ASEAN diplomat warned, many ASEAN officials were concerned that if ASEAN+3 were further institutionalized, ASEAN would be “neutralized” by the Northeast Asian giants, especially China, and “lose its luster as a regional entity.”<sup>97</sup> Similarly, Singapore’s Prime Minister Goh expressed his reservations about the establishment of an ASEAN+3 secretariat, stating that ASEAN would be overshadowed by the three North Asian giants.<sup>98</sup> Furthermore, the Indonesian and Singaporean governments were particularly concerned that the creation of an ASEAN+3 secretariat would weaken the ASEAN secretariat in Jakarta and the APEC secretariat in Singapore, respectively. The Thai government indicated that it preferred to strengthen the ASEAN Secretariat in Jakarta.<sup>99</sup> The Philippines stated that it would be too early to establish an ASEAN+3 secretariat, fearing that it would overshadow the ASEAN Secretariat.<sup>100</sup>

At the ASEAN Ministerial Meeting in Bandar Seri Begawan in July 2002, ASEAN senior officials discussed three options: 1) Malaysia’s proposal to establish a separate secretariat to be hosted by an ASEAN member country; 2) the expansion of the ASEAN Secretariat in Jakarta; and 3) the establishment of an ASEAN+3 bureau within the ASEAN Secretariat.<sup>101</sup> All of these options were considered infeasible.<sup>102</sup> Instead, as a compromise, the idea of establishing an “ASEAN Plus Three Unit” within the ASEAN Secretariat eventually gained support from the ASEAN members. Accordingly, in December 2003, the ASEAN Plus Three Unit was established at the ASEAN Secretariat “to assist the ASEAN Plus Three Co-chairs to coordinate and monitor ASEAN Plus Three Cooperation.”<sup>103</sup>

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<sup>96</sup> P. Parameswaran, “Malaysian Proposal for ‘ASEAN Plus Three’ Secretariat Evokes Fears,” *Agence France Presse*, July 26, 2002; Saiful Azhar Abdullah, “Setback for ASEAN+3 Secretariat,” *New Straits Times*, August 3, 2002, p. 10.

<sup>97</sup> *Ibid.*

<sup>98</sup> “Plus-Three Secretariat Plan ‘Not in Group’s Best Interests,’” *The Straits Times*, October 10, 2002.

<sup>99</sup> “ASEAN Considers Strengthening ‘ASEAN plus 3’ Cooperation,” *Japan Economic Newswire*, July 27, 2002; Saiful Azhar Abdullah, “Plus 3 ‘Home’ Dogs ASEAN,” *New Strait Times*, July 29, 2002, p. 10.

<sup>100</sup> “Ministers Reject Plus 3 Secretariat in KL Proposal,” *Business Times*, July 30, 2002, p. 22.

<sup>101</sup> Saiful Azhar Abdullah, “Plus 3 ‘Home’ Dogs ASEAN,” *New Strait Times*, July 29, 2002, p. 10.

<sup>102</sup> Brendan Pereira, “ASEAN Fears a New Secretariat will Dilute Group,” *The Straits Times*, July 30, 2002.

<sup>103</sup> <http://www.aseansec.org/16580.htm>

### 7.2.2.3 External Orientation

When any new institution is created, there are always questions about how it should relate to existing institutions at the regional and global levels.<sup>104</sup> When Mahathir announced his EAEG proposal, it was primarily viewed as a challenge to the newly formed APEC, especially in the eyes of the U.S. government. Many commentators also saw APEC and EAEG as “competing regionalism.”<sup>105</sup> In fact, one of the reasons for the failure to launch the EAEG proposal can be attributed to the fact that APEC had not yet been firmly established. Once the APEC program got off the ground, the existence of APEC helped some countries like Japan to feel less constrained to pursue an “Asia-only” option while maintaining good relations with the United States through APEC.<sup>106</sup>

East Asian leaders are well aware of the importance of the region’s relationship with the extraregional world. In particular, they recognize the strategic and economic importance of the United States. Therefore, any proposals for creating an Asia-only grouping had to confront the question of how to accommodate the relationship with United States. East Asian leaders have stressed that APT eschewed an inward-looking closed regionalism. For example, when such ideas as the transformation of ASEAN+3 into the East Asia Summit and the creation of an East Asia free trade area were proposed at the 2000 APT summit in Singapore, Singapore Prime Minister Goh stated that these suggestions should pursue the principle of “open regionalism.” He also stressed that the development of the APT reflected a growing East Asian identity, but it was “not an attempt to shut out Washington.”<sup>107</sup>

In the aftermath of the September 11 terrorist attacks in the United States, APT leaders confirmed their resolve to work more closely together to generate the region’s own “internal dynamism” in order to reduce dependence on the U.S. market. Singapore’s Prime Minister Goh Chok Tong, for example, spoke to the Singapore media:

“[In the post-September 11 world], it is very important for all of us to work together. For us to depend on the US alone as a market for growth will be much more difficult in future because the US economy is likely to slow down. So we recognize the need to generate

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<sup>104</sup> On the concept of institutional reconciliation and nesting, see Aggarwal, "Analyzing Institutional Transformation in the Asia-Pacific," 23-61. For the application of the concept to Asia-Pacific and East Asian regional institutions, see Kikuchi, "East Asian Regionalism," 39-41.

<sup>105</sup> Higgott and Stubbs, "Competing Conceptions of Economic Regionalism: APEC versus EAEC in the Asia Pacific," 516-535; Lim Kian Tick, "Competing Regionalism: APEC and EAEG, 1989-1990," 54-86.

<sup>106</sup> Terada, "Constructing an 'East Asian' Concept," 268.

<sup>107</sup> Chua Lee Hoong, “‘Two Big Ideas’ to Boost East Asia,” *The Straits Times*, November 25, 2000, 1.

internal dynamism and that we should do through further cooperation amongst ourselves.”<sup>108</sup>

Malaysian Prime Minister Mahathir also warned against ASEAN’s overdependence on the U.S. economy, stating more bluntly: “There is too much dependence on the U.S. When it is affected, all of ASEAN would be hit as well.”<sup>109</sup> Here lies East Asian leaders’ dilemma: while they desire to have greater control over regional affairs and reduce their overdependence on external powers like the United States, many of them hope to keep the United States engaged in the East Asian region.

Nevertheless, some analysts contemplate the possibility that East Asia and the Asia-Pacific, which are represented by APT and APEC respectively, constitute “rival regions.”<sup>110</sup> As discussed in detail below, although Japan’s proposal for creating an Asian Monetary Fund failed to clearly identify its relationship with the global institutional framework, the Chiang Mai Initiative (CMI) explicitly established a link with the IMF within the APT framework in 2000. The CMI thus confirmed that it would be complementary to the role of the IMF.<sup>111</sup> The 2001 EAVG also stressed the importance of finding the *raison d’etre* for the APT within the existing institutional framework by recommending that the APT “avoid duplication of the work of other related organizations and regional frameworks and instead complement their contributions.”<sup>112</sup> Although the relationship among existing regional institutional arrangements remains somewhat unclear, the APT is not aimed at creating a closed regional bloc.

#### 7.2.2.4 Issue Areas

Since the financial crisis was the primary catalyst for the formation of the APT process, it is not surprising that the initial efforts for developing regional policy coordination focused on monetary and financial cooperation. However, regional cooperative efforts in the form of APT

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<sup>108</sup> Cited in Yang Razali Kassim, “ASEAN, E Asia in Major Move to Reduce Dependence on US,” *The Business Times* (Singapore), November 6, 2001, 1-2.

<sup>109</sup> Yang Razali Kassim, “ASEAN, E Asia in Major Move to Reduce Dependence on US,” *The Business Times* (Singapore), November 6, 2001, 1-2.

<sup>110</sup> David Capie, “Rival Regions? East Asian Regionalism and Its Challenge to the Asia-Pacific,” in Jim Rolfe, ed., *The Asia-Pacific: A Region in Transition* (Honolulu: Asia-Pacific Center for Security Studies, 2004), 149-165.

<sup>111</sup> Tsutomu Kikuchi, “Track II Mechanisms in an Emerging Multilayered Regional Governance in East Asia,” in Hank Lim and Chyungly Lee, eds., *The Emerging North-South Divide in East Asia: A Reappraisal of Asian Regionalism* (Singapore: Eastern Universities Press, 2004), 120.

<sup>112</sup> East Asia Vision Group, *Towards an East Asian Community: Region of Peace, Prosperity and Progress* (2001), available at <http://www.aseansec.org>.

have been expanded to include a wide range of issues, including political and security issues, the environment, and social welfare.<sup>113</sup> In a “Joint Statement on East Asia Cooperation” released at the third APT summit in 1999, leaders agreed to promote cooperation on eight fields within the APT framework, including economic cooperation, monetary and financial cooperation, social and human resources development, scientific and technical development, cultural and information, development cooperation, politics and security, and transnational issues.<sup>114</sup>

**Table 7-2: Scope of Cooperation within ASEAN+3**

	<b>Area of Cooperation</b>	<b>Year of Establishment</b>
1	Politics and Security	2000
2	Economic, Trade, and Investment	2000
3	Finance and Monetary	2000
4	Agriculture, Fishery, Forestry	2001
5	Labor	2001
6	Environment	2002
7	Tourism	2002
8	Culture and Arts	2003
9	Energy	2004
10	Health	2004
11	Information Technology and Communications	2004
12	Social Welfare and Development	2004
13	Transnational Crime and Counter-Terrorism	2004
14	Science and Technology*	2001
15	Youth*	2004

*Source:* ASEAN Secretariat, *Annual Report, 2004–2005* (Jakarta: ASEAN Secretariat, 2005), p. 66.

*Note:* \* Only at senior officials level; all other areas of cooperation are at ministerial and senior officials levels.

### ***Economic Cooperation***

The first ASEAN+3 Economic Ministers Meeting (AEM+3) was held in Yangon in May 2000. While ASEAN+3 ministers met twice each year in 2000 and 2001, AEM+3 meetings have been held annually afterwards. At the second AEM+3 meeting in October in 2001, economic ministers agreed to identify three priority areas of cooperation: accelerating trade, investment, and technology transfer; encouraging technical cooperation in information technology and e-

<sup>113</sup> Nick Thomas, "ASEAN+3: C/community Building in East Asia?," *Journal of International and Area Studies* 8, no. 2 (2001): 1.

<sup>114</sup> “Joint Statement on East Asian Cooperation,” Issued by the heads of state/government, Manila, November 28, 1999. <http://www.aseansec.org>.

commerce; and strengthening small and medium-sized enterprises (SMEs) and supporting industries.<sup>115</sup>

In the trade area, many initiatives have been pushed forward more on a bilateral basis than on a region-wide basis. Traditionally, the East Asian region was characterized by the absence of any formal preferential trade arrangements. At the end of 2001, China, Japan, Hong Kong, Korea, Taiwan, and Mongolia were the only members of the WTO that did not belong to any discriminatory trade agreements. In 1998, however, East Asian governments began to actively negotiate bilateral preferential agreements.<sup>116</sup> The most dramatic change has come from Japan and Korea, both of which had long eschewed the pursuit of discriminatory regional approaches in favor of a “multilateralism-only” policy based on the GATT system. In his visit to Japan in October 1998, Korea’s President Kim Dae-jung proposed to start negotiating a free trade agreement (FTA) between the two countries. This move by Korea and Japan apparently made the Chinese concerned about the possibility of being isolated from the FTA trend in East Asia, motivating them to consider FTAs as a policy option.<sup>117</sup>

In November 2000, Chinese Premier Zhu Rongji proposed the creation of a joint expert group to explore ways to enhance China-ASEAN economic cooperation, including the China-ASEAN Free Trade Area. China’s proposal came as a surprise to many observers because of China’s traditionally reluctant attitude toward regional trade arrangements.<sup>118</sup> Accordingly, a China-ASEAN Experts Group on Economic Cooperation was established to explore the possibility of establishing an FTA between the two. The expert group completed the feasibility study and submitted the report in October 2001. Most importantly, the report called for the establishment of an ASEAN-China FTA, which would create a huge economic region of 1.7 billion people with a GDP of about U.S. \$2 trillion and total trade of U.S. \$1.23 trillion, within ten years.<sup>119</sup>

In November 2001, Chinese and ASEAN leaders endorsed the ideas envisioned by the expert group and agreed to initiate the negotiation process. Within two years from the initial

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<sup>115</sup> Suzuki, "East Asian Cooperation through Conference Diplomacy: Institutional Aspects of the ASEAN Plus Three (APT) Framework," 19.

<sup>116</sup> Ravenhill, "A Three Bloc World? The New East Asian Regionalism," 179. See also Ravenhill, "The New Bilateralism in the Asia Pacific," 299-317.

<sup>117</sup> Terada, "Constructing an "East Asian" Concept," 270.

<sup>118</sup> Moore, "China's International Relations: The Economic Dimension," 121.

<sup>119</sup> ASEAN-China Expert Group on Economic Cooperation, *Forging Closer ASEAN-China Relations in the Twenty-first Century* (2001).

proposal, the leaders from both sides signed the Framework Agreement on Comprehensive Economic Cooperation at the ASEAN-China Summit in November 2002. The Framework aimed at the establishment of free trade between China and the original five ASEAN members by 2010 and between China and ASEAN's four new members (Cambodia, Laos, Myanmar, and Vietnam) by 2015. To ease ASEAN's concerns about the implications of an FTA, China agreed to reduce tariffs on a number of goods, including agricultural products, over three years according to the timetable in three product categories (zero tariffs for all products no later than January 2006) as an "early harvest" phase of liberalization. China's concession to ASEAN members to eliminate tariffs at the early stage contributed to getting ASEAN on board.<sup>120</sup> The early harvest program allows ASEAN members to make an early entry to China's market in many products before a full FTA is finalized. This move by China was motivated more by political interests than by economic interests.<sup>121</sup>

In order to catch up with these Chinese moves, Japanese Prime Minister Junichiro Koizumi proposed a "Comprehensive Economic Partnership" with ASEAN during his trip to ASEAN in January 2002. At the same time, Japan and Singapore signed the Japan-Singapore Economic Agreement for a New Age Partnership (JSEPA), which marked the first bilateral agreement (including free trade agreements) that Japan had ever reached. These Japanese initiatives came immediately after China's agreement to begin formal discussions of an ASEAN-China FTA in November 2001. Moreover, Japan signed a joint declaration on a Comprehensive Economic Partnership with ASEAN at the Phnom Penh APT summit in November 2002.

These trends show a chain reaction of initiatives, especially between China and Japan. However, as Ellen Frost observes, Japan has been "lagging behind" probably since around 2000. In fact, it "is now China, not Japan, that sets the pace, shape, and direction of regional trade institution-building."<sup>122</sup> The biggest obstacle in a Japan-ASEAN economic partnership is Japanese domestic constituencies. These include not only resistance from the agricultural sector but also opposition by the Ministry of Health, Labor, and Welfare to the free movement of health-care workers.<sup>123</sup>

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<sup>120</sup> Munakata, "Has Politics Caught Up with Markets?," 151.

<sup>121</sup> Moore, "China's International Relations: The Economic Dimension," 121-122.

<sup>122</sup> Frost, "Implications of Regional Economic Integration," 407-408.

<sup>123</sup> Takashi Shiraishi, "The Road to East Asian Unification," *Japan Review of International Affairs* 18, no. 1 (2004): 66.

On an East Asian regional level, the idea of creating an East Asian Free Trade Area (EAFTA) was formally tabled at the ASEAN+3 leaders' meeting in Singapore in November 2000. At that meeting, leaders agreed to set up a working group to study the benefits and feasibility of establishing an EAFTA.<sup>124</sup> The EAVG report submitted in 2001 also recommended the establishment of an EAFTA and liberalization of trade well ahead of the APEC Bogor Goal.<sup>125</sup> However, the EASG report identified it as a long-term measure.<sup>126</sup> Furthermore, at the 2002 trilateral summit talks among China, Japan, and South Korea, Chinese Premier Zhu Rongji proposed a feasibility study of an FTA among the three Northeast Asian countries. The Japanese government, however, reacted cautiously to Zhu's proposal.<sup>127</sup>

### ***Financial and Monetary Cooperation***

Before the Asian financial crisis hit the region, there were few regional schemes for financial and monetary cooperation in East Asia and the Asia-Pacific. However, the financial crisis generated an urgent need to create a regional mechanism for crisis prevention and management in the future. Consequently, many proposals for regional financial and monetary cooperation have been put forward in the aftermath of the crisis. The initiatives that have emerged in East Asia have focused on four areas: policy dialogue and surveillance mechanisms, establishment of a liquidity support facility, financial system strengthening, and Asian bond market development.<sup>128</sup>

### ***Policy Dialogue***

The financial crisis highlighted the need for a regional mechanism for policy dialogue and surveillance. In October 1998, the ASEAN Surveillance Process (ASP) was established to strengthen regional cooperation through information exchange, an early warning system and a peer review process, and a monitoring mechanism for economic and financial developments.<sup>129</sup>

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<sup>124</sup> Soesastro, "Asia-Japan Co-operation Toward East Asian Integration," 26.

<sup>125</sup> East Asia Vision Group, *Towards an East Asian Community: Region of Peace, Prosperity and Progress* (2001).

<sup>126</sup> East Asia Study Group, *Final Report of the East Asia Study Group* (2002).

<sup>127</sup> *Nihon Keizai Shimbun*, November 5, 2002, 1, 2; Junichi Fukazawa and Toshinao Ishii, "China's ASEAN Strategy Outmaneuvers Japan," *The Daily Yomiuri*, November 6, 2002, 10.

<sup>128</sup> Mario B. Lamberte, "An Overview of Economic Cooperation and Integration in Asia," in Asian Development Bank., ed., *Asian Economic Cooperation and Integration: Progress, Prospects, and Challenges* (Manila: Asian Development Bank, 2006), 23.

<sup>129</sup> <http://www.aseansec.org/739.htm>.

As proposed by the Chinese, finance ministers of the ASEAN+3 countries met for the first time in April 1999 on the sidelines of the annual ADB meeting in Manila. In November 1999, ASEAN+3 leaders confirmed the importance of “strengthening policy dialogue, coordination and collaboration on the financial monetary and fiscal issues of common interests.”<sup>130</sup> To this end, the ASEAN+3 Economic Review and Policy Dialogue (ERPD) process was established in May 2000.<sup>131</sup> Finance ministers of this group have met once a year and their deputies semiannually to exchange information and promote policy discussion. The group has taken the initiative to create a mechanism for monitoring short-term capital flow and to develop a regional early warning system to detect regional financial vulnerabilities.<sup>132</sup>

The second type of cooperation is the establishment of a liquidity support facility, which is based on sharing foreign exchange reserves among countries in the region. This type of coordination, which can be referred to as resource coordination, constitutes a stronger form of coordination than policy dialogue.<sup>133</sup> The magnitude and contagious nature of the financial crisis made East Asian countries realize not only their own overreliance on the IMF as a lender of last resort, but also the limitations of the global financial institution for crisis prevention and management.<sup>134</sup> Therefore, policy elites in the region recognized the need to create a regional financing facility to deal with liquidity crises and minimize the risk of currency crises, which requires the pooling of reserves from participating members. The East Asian leaders recognized the benefits of taking advantage of the abundant foreign reserves in the region (See Table 7-3). In May 2000 the Chiang Mai Initiative (CMI) was launched as a first step toward establishing a regional financing facility. It was based on the expansion of the ASEAN Swap Arrangement (ASA) and the establishment of a network of bilateral swap arrangements (BSAs) among ASEAN+3 countries to provide financial liquidity support in the event of a future financial crisis. The CMI is regarded as “the most important accomplishment of the ASEAN+3 process to

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<sup>130</sup> “Joint Statement on East Asia Cooperation,” November 28, 1999, in ASEAN Secretariat., *ASEAN+3 Documents Series 1999-2004* (Jakarta: ASEAN Secretariat, 2005), 4.

<sup>131</sup> Haruhiko Kuroda and Masahiro Kawai, “Strengthening Regional Financial Cooperation in East Asia,” in Gordon De Brouwer and Yun-jong Wang, eds., *Financial Governance in East Asia: Policy Dialogues, Surveillance and Cooperation* (London: RoutledgeCurzon, 2004), 151.

<sup>132</sup> Ibid.

<sup>133</sup> Peter J. Montiel, “An Overview of Monetary and Financial Integration in East Asia,” in Asian Development Bank., ed., *Monetary and Financial Integration in East Asia: The Way Ahead: Volume 1* (New York: Palgrave Macmillan, 2004), 7.

<sup>134</sup> Lamberte, “An Overview of Economic Cooperation and Integration in Asia,” 24; Kuroda and Kawai, “Strengthening Regional Financial Cooperation in East Asia,” 153.

date.”<sup>135</sup> Because of the centrality of the CMI within the APT process, the establishment of the CMI will be examined later in detail as a mini-case study.

**Table 7-3: Comparison of Foreign Exchange Reserves (US\$ billion)**

	1997	2003
ASEAN	142.44	228.48
ASEAN+3	509.90	1439.03
US	30.81	39.72
EU-15	371.99	232.35
Latin America	157.99	175.05
Eastern Europe	74.21	187.37
Middle East	75.02	89.03

Source: <http://www.aseansec.org>

The third type of regional cooperation aims at strengthening domestic institutions and markets.<sup>136</sup> The Asian crisis dramatically revealed the weakness of domestic financial institutions among East Asian countries. The rapid financial liberalization that many East Asian countries had been undertaking since the mid-1980s had not been accompanied by appropriate domestic institutions. Consequently, East Asian leaders recognized the need for domestic reforms to establish sound and stable financial systems. They also recognized the need for some form of regional institutional mechanism to ensure the implementation of domestic reforms at a higher level. However, initiatives to develop common regional measures for strengthening the region’s financial system remain limited.

#### *Asian Bond Market*

The last development in the financial sector is the growth of interest in developing Asian capital markets. Before the Asian crisis, many firms in Asia had largely relied on short-term, dollar-denominated financing. This caused the so-called “double mismatch” problem, that is, both maturity and currency mismatches. A maturity mismatch was caused by the fact that domestic banks and firms relied on short-term borrowing for long-term investments, while a currency mismatch emerged because the debit was denominated in foreign rather than local

<sup>135</sup> Kim, "Regionalization and Regionalism in East Asia," 49.

<sup>136</sup> Lamberte, "An Overview of Economic Cooperation and Integration in Asia," 25.

currencies.<sup>137</sup> The risks caused by the double mismatch problem were revealed by the crisis of 1997–98, which highlighted the region’s vulnerability to the volatility in short-term capital movements. This experience prompted regional leaders to realize the need to channel a large pool of Asian savings for long-term investment within the region by developing domestic and regional capital markets in Asia.<sup>138</sup>

Against this background, initiatives to develop Asian bond markets were proposed to reduce the risks associated with the double match problem. The Executives’ Meeting of East Asia and Pacific Central Banks (EMEAP) launched the Asian Bond Fund (ABF) in June 2003. The ASEAN+3 finance ministers also endorsed the establishment of the Asian Bond Market Initiative (ABMI), which was originally proposed by Japan’s Ministry of Finance.<sup>139</sup> The objective of the ABMI is “to develop efficient and liquid bond markets in Asia, enabling better utilization of Asian savings for Asian investments.”<sup>140</sup> These initiatives to develop regional bond markets have shown relatively rapid progress.<sup>141</sup>

### ***Political and Security Cooperation***

Politics and security were included in the areas of cooperation identified by the 1999 Joint Statement. The Philippine government proposed the establishment of the East Asia Security Forum within the APT framework to discuss security issues. Although the proposal not adopted, the APT leaders did not exclude security issues from the agenda of the APT summit.<sup>142</sup>

In the aftermath of the September 11 terrorist attacks in the United States, Japan attempted to adopt an antiterrorism declaration prior to the APT summit. However, despite its effort, Tokyo failed to gain support from ASEAN countries and China. On the contrary, there was even an attempt to issue an objection to the U.S. military actions in Afghanistan. This proposal from Malaysia reportedly had gained support from Indonesia, while it was rejected by

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<sup>137</sup> Masaru Yoshitomi and ADBI Staff., *Post-Crisis Development Paradigms in Asia* (Tokyo: Asian Development Bank Institute, 2003), 65-67.

<sup>138</sup> Kawai, "East Asian Economic Regionalism: Progress and Challenges," 43.

<sup>139</sup> Jennifer A. Amyx, "Political Dynamics of Regional Financial Cooperation in East Asia: A Comparative Perspective," *The Japanese Economy* 32, no. 2 (2004): 105-106; Kawai, "East Asian Economic Regionalism: Progress and Challenges," 43-44.

<sup>140</sup> [http://asianbondsonline.adb.org/regional/asean\\_plus\\_three\\_asian\\_bond\\_market\\_initiatives/overview.php](http://asianbondsonline.adb.org/regional/asean_plus_three_asian_bond_market_initiatives/overview.php).

<sup>141</sup> Amyx, "Political Dynamics of Regional Financial Cooperation in East Asia: A Comparative Perspective."

<sup>142</sup> Suzuki, "East Asian Cooperation through Conference Diplomacy: Institutional Aspects of the ASEAN Plus Three (APT) Framework," 18.

the Philippines and Singapore.<sup>143</sup> At the ASEAN summit right before the APT summit, ASEAN members issued the ASEAN Declaration on Joint Action to Counter Terrorism to express their concern and their efforts to fight terrorism, but they remained reluctant to adopt a similar declaration at the APT meeting. China, which had taken the initiative to push the APEC forum in Shanghai in October to condemn terrorism, expressed a lukewarm attitude toward Japan's proposal. Because of lack of support from the ASEAN countries and China's cautious attitude, Tokyo's attempt to have the APT issue an antiterrorism declaration failed.<sup>144</sup> Nonetheless, at the foreign ministers' meeting in 2002, the foreign ministers from the APT countries agreed to cooperate on transnational crimes such as terrorism.

### 7.3 MINI-CASE STUDY: FROM THE AMF TO THE CMI

In August 1997, in the wake of the Asian financial crisis, Japanese officials called for the creation of an Asian Monetary Fund (AMF). It was to be capitalized to US\$100 billion, with half of its reserves to be provided by Japan and the rest by other regional powers, such as Taiwan, Singapore, Hong Kong, and China.<sup>145</sup> Although the proposal received a certain level of support from regional leaders, strong opposition from the United States and the IMF forced the Japanese government to give up the AMF proposal. However, the idea of creating a regional scheme for financial cooperation did not disappear. Following a series of negotiations, in May 2000 the finance ministers of ASEAN+3 countries agreed to develop a network of currency swap and repurchase agreements known as the Chiang Mai Initiative (CMI).

Why did the AMT proposal fail to get off the ground, while it gained some support from some regional leaders? Despite the failure in an earlier attempt to create a regional financial facility, why and how was the CMI successfully launched? Although it is incorrect to view the CMI as the resurrection of the AMF because of the differences between the two, both initiatives aimed to develop a framework for financial cooperation among Asian countries without the

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<sup>143</sup> *Asahi Shimbun*, November 6, 2001, 3.

<sup>144</sup> "Japan Fails to Get ASEAN Nations to Adopt Antiterrorism Accord," *The Daily Yomiuri*, November 7, 2001, 3; *Asahi Shimbun*, November 6, 2001, 3; *Nihon Keizai Shimbun*, November 6, 2001, 2.

<sup>145</sup> Shaun Narine, "The Idea of an "Asian Monetary Fund": The Problems of Financial Institutionalism in the Asia-Pacific," *Asian Perspective* 27, no. 2 (2003): 68.

participation of the United States. Therefore, this paired comparative analysis provides further insight into why some “Asia-only” regionalist initiatives get off the ground, while others do not.

As in the preceding analyses, the present mini-case study seeks to explain the failure of the AMF and the successful formation of the CMI by exploring the variation of state preferences among key regional actors concerning financial cooperation and the political process of interstate negotiations. In particular, it addresses *why* there was a demand for the creation of a regional mechanism to enhance financial cooperation and *how* the CMI initiative came into being, despite the earlier failure to establish a regional financial facility. The following section begins, however, by briefly reviewing the pre-crisis history of financial and monetary cooperation in the Asia-Pacific region. It then assesses the causes of the failure in launching the AMF proposal. Finally, it explores why and how the CMI was successfully established.

### *Pre-Crisis Initiatives*

Prior to the onset of the Asian financial crisis, regional cooperation in financial and monetary issues in Asia was very limited. Nonetheless, there were some attempts for regional financial cooperation. The idea to create a regional monetary fund was first advanced with the establishment of the Asian Development Bank (ADB) in 1966. Advocates for the idea envisioned an Asian equivalent of the IMF which would complement the activities of the ADB in the same way that the IMF complements the activities of the World Bank. However, the idea failed to elicit support, and it was being shelved for some decades.<sup>146</sup>

In 1977, ASEAN set up the ASEAN Swap Arrangement (ASA) – a small scheme to provide liquidity to one another in times of crisis. However, the swap arrangement, which amounted to \$80 million, was too small to counter the movements of capital that occurred during the 1997 currency attack in Asia.<sup>147</sup> In 1991, Japan took the lead to establish the Executives’ Meeting of East Asia Pacific Central Banks (EMEAP). It has met twice a year at the senior official level since then. The first meeting of EMEAP central bank governors was held in July 1996. In September 1995, Bernie Fraser, who was the governor of the Reserve Bank of Australia at the time, proposed to establish an Asian version of the Bank of International

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<sup>146</sup> Jennifer A. Amyx, "Japan and the Evolution of Regional Financial Arrangements in East Asia," in Ellis S. Krauss and T. J. Pempel, eds., *Beyond Bilateralism: U.S.-Japan Relations in the New Asia-Pacific* (Stanford: Stanford University Press, 2004), 201-202.

<sup>147</sup> Ravenhill, "A Three Bloc World? The New East Asian Regionalism," 185.

Settlements (BIS). The objective of the proposed institution was, in Fraser's words, to "provide a more focused forum than presently exists in the region to help central banks cope with the emergence of deregulated, global financial markets and their consequences."<sup>148</sup>

Right before the eruption of the 1997–98 crisis, Japanese officials had begun contemplating the idea to create a regional mechanism for stabilizing Asian currencies in case financial crises emerged within Japan's Ministry of Finance (MOF). The idea rose mostly from the outbreak of the Mexican peso crisis that began late in 1994. Japanese officials became concerned that if a similar crisis occurred in Asia, Asian nations would probably not be able to receive IMF loans proportionate to the ones Mexico received because of the lack of the Asian countries' IMF quotas commensurate with their rapid economic development.<sup>149</sup> While many MOF officials began to discuss the idea frequently, they were not able to reach consensus, especially with regard to whether or not the United States should be included in such a regional institution.<sup>150</sup> Before the idea was finalized and discussed with other countries involved in the tentative proposal, a currency crisis hit Thailand in July 1997.

### *The Asian Monetary Fund*

Following a rapid drop of the Thai baht on August 11, 1997, Japan's Vice Finance Minister of International Affairs, Eisuke Sakakibara, announced the proposal to create an AMF at a conference held in Tokyo to discuss a rescue package for Thailand. Since the U.S. government refused to contribute to the financial aid package, American officials did not attend these initial meetings.<sup>151</sup> On September 10, Sakakibara wrote an unofficial memo to explain his proposal to officials in South Korea, Hong Kong, Singapore, Malaysia, and Indonesia and sent other senior officials from the International Finance Bureau of the MOF to China and Australia.<sup>152</sup> At Japan's request, the AMF idea was discussed internationally for the first time at the joint annual meetings of the IMF and World Bank held in Hong Kong in late September.

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<sup>148</sup> Cited in Natasha Hamilton-Hart, "Co-operation on Monetary and Finance: How Important? How Likely?," *Third World Quarterly* 24, no. 2 (2003): 288.

<sup>149</sup> Amyx, "Japan and the Evolution of Regional Financial Arrangements in East Asia," 202. See also Kikuchi, "East Asian Regionalism," 26.

<sup>150</sup> Amyx, "Japan and the Evolution of Regional Financial Arrangements in East Asia," 202.

<sup>151</sup> *Ibid.*, 204.

<sup>152</sup> Shigeo Hayashi, *Japan and East Asian Monetary Regionalism: Towards a Proactive Leadership Role?* (London: Routledge, 2005), 85.

Japan's AMF proposal envisioned a regional fund to pool foreign exchange reserves from countries in the region to finance the debt of the crisis-affected countries. The United States was not included in the Japanese plan. In particular, Sakakibara believed that Asian leaders would need a regional framework to discuss regional financial problems without U.S. pressure.<sup>153</sup> He personally held the view that Japan should play a larger role in Asia more autonomous from U.S. influence.<sup>154</sup> Given the U.S. refusal to participate in the Thai bailout package, other officials in the MOF were also convinced that the U.S. would not contribute to such a regional fund.<sup>155</sup>

Malaysia, especially Prime Minister Mahathir, a well-known critic of the IMF, was the most enthusiastic supporter of the AMF proposal, while most ASEAN member countries, including Thailand, Indonesia, and the Philippines, were also generally supportive of the idea.<sup>156</sup> However, China and Singapore were unwilling to lend their support. The Chinese reluctance to support the Japanese initiative was apparently based on their suspicion regarding Japanese regional hegemonic ambitions.<sup>157</sup> Singapore was reluctant to support a regional framework that excluded the United States.<sup>158</sup> Reactions from South Korea were mixed. The South Korean government initially opposed the AMF proposal because of its concerns over U.S. opposition as a recipient of the IMF rescue package and its suspicion regarding Japan's ambitions for regional dominance.<sup>159</sup> However, Seoul eventually endorsed the AMF concept for several reasons, including its own harsh experience with IMF conditionality and increasing recognition of the benefits of the AMF idea.<sup>160</sup>

Not surprisingly, the United States and the IMF strongly opposed the AMF idea. U.S. officials, especially Treasury Secretary Robert Rubin and Federal Reserve Chairman Alan Greenspan, were concerned that an AMF would undermine the role of the IMF by creating

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<sup>153</sup> Katada, "Japan's Counterweight Strategy: U.S.-Japan Cooperation and Competition in International Finance," 186. See also Hayashi, *Japan and East Asian Monetary Regionalism: Towards a Proactive Leadership Role?*, 85.

<sup>154</sup> Amyx, "Japan and the Evolution of Regional Financial Arrangements in East Asia," 203.

<sup>155</sup> Hayashi, *Japan and East Asian Monetary Regionalism: Towards a Proactive Leadership Role?*, 85.

<sup>156</sup> Amyx, "Japan and the Evolution of Regional Financial Arrangements in East Asia," 204; Kikuchi, "East Asian Regionalism," 27.

<sup>157</sup> Bowles, "Asia's Post-Crisis Regionalism: Bringing the State Back In, Keeping the (United) States Out," 255; Katada, "Japan's Counterweight Strategy: U.S.-Japan Cooperation and Competition in International Finance," 187; Moore, "China's International Relations: The Economic Dimension," 120.

<sup>158</sup> Hayashi, *Japan and East Asian Monetary Regionalism: Towards a Proactive Leadership Role?*, 86-87.

<sup>159</sup> Chung-in Moon and Seung-won Suh, "Japan's Asian Regionalism and South Korea," in Charles K. Armstrong, et al., eds., *Korea at the Center: Dynamics of Regionalism in Northeast Asia* (Armonk, N.Y.: M.E. Sharpe., 2006), 139-140.

<sup>160</sup> Jung-Hoon Lee and Chung-in Moon, "Responding to Japan's Asian Policy: The Korean Calculus," in Takashi Inoguchi, ed., *Japan's Asian Policy: Revival and Response* (New York: Palgrave Macmillan, 2002), 157.

“moral hazard” problems. They were particularly worried that such a fund would be offered under weaker conditionality than that of the IMF program.<sup>161</sup>

Facing strong opposition from the IMF, the United States, and many European governments, as well as lack of support from China, by the end of October 1997 the Japanese government had no choice but to give up the idea of establishing an AMF.<sup>162</sup> Instead, on November 19, 1997, central bankers and finance ministers from East Asian countries, as well as the United States, Canada, Australia, and New Zealand, agreed to establish the Manila Framework Group (MFG). Its objective was to develop a regional framework for financial cooperation in order to restore and improve financial stability in the region. Most importantly, the MFG established a new regional mechanism for economic monitoring and surveillance to complement the IMF’s surveillance mechanism.<sup>163</sup> Thus, the MFG essentially confirmed the central role of the IMF in dealing with the financial crisis.<sup>164</sup> In addition to a surveillance mechanism, the MFG focused on economic and technical cooperation in finance (“financial ecotech”), measures to strengthen the IMF’s ability to manage financial crises, and development of cooperative financing arrangements.<sup>165</sup> The MFG departed from Japan’s AMF proposal in that it lacked any funding facility to pool resources from member countries. Moreover, the MFG consisted of fourteen Asia-Pacific countries, including the United States.

### *The Chiang Mai Initiative*

Although the AMF was aborted in favor of the MFG, East Asian leaders continued to search for an appropriate way to promote regional financial cooperation. As noted earlier, finance ministers of the ASEAN+3 countries have held regular meetings since 1999. At their second meeting, held in Chiang Mai, Thailand, in May 2000, the finance ministers agreed to establish the Chiang Mai Initiative (CMI). The CMI “involves an expanded ASEAN Swap Arrangement that would include all ASEAN countries, and a network of bilateral swap and repurchase agreement facilities among ASEAN countries, China, Japan and the Republic of

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<sup>161</sup> Amyx, "Japan and the Evolution of Regional Financial Arrangements in East Asia," 204-205.

<sup>162</sup> Katada, "Japan's Counterweight Strategy: U.S.-Japan Cooperation and Competition in International Finance," 186.

<sup>163</sup> Kuroda and Kawai, "Strengthening Regional Financial Cooperation in East Asia," 151.

<sup>164</sup> Ravenhill, "A Three Bloc World? The New East Asian Regionalism," 186.

<sup>165</sup> Soesastro, "Asia-Japan Co-operation Toward East Asian Integration," 40.

Korea.”<sup>166</sup> Why and how did the APT countries agree to establish the CMI within three years of the failed attempt to establish the AMF?

As argued in the previous chapter, the motive behind the development of regionalist initiatives within the APT framework was defensive. As William Grimes points out, “the East Asian states have been driven by a motivation to reduce their vulnerability to global finance rather than to maximize market efficiency.”<sup>167</sup> Even after the failure to launch the AMF, Japan’s interest in developing some sort of regional scheme for financial cooperation did not disappear among Japanese officials. Japan modified its original position under the leadership of Haruhiko Kuroda, who succeeded Sakakibara in 1999. Kuroda envisioned a regional financial institution that would supplement rather than compete with the IMF.<sup>168</sup> Although critical of IMF’s conditionality program during the Asian financial crisis, Kuroda and his MOF colleagues acknowledged the IMF’s important role in any regional financial architecture.

Despite Japan’s pivotal role in launching the CMI, the most important change among East Asian countries that made the establishment of the CMI possible was the shift in China’s attitudes toward regional financial cooperation. Given its vast pool of foreign exchange reserves,<sup>169</sup> China’s participation was particularly crucial for the creation of any regional framework for financial cooperation. Therefore, besides opposition from the United States and the IMF, China’s lack of support for the AMF idea was also a major obstacle to the creation of a regional fund. However, China gradually changed its attitudes toward regional financial cooperation.<sup>170</sup> When the concept of the CMI was put forward, China lent its support, marking a sharp contrast to its negative attitude toward Japan’s AMF proposal.

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<sup>166</sup> Joint Ministerial Statement of the ASEAN Plus Three Finance Ministers Meeting, Chiang Mai, Thailand, 6 May 2000, <http://www.aseansec.org/6312.htm>.

<sup>167</sup> William W. Grimes, "East Asian Financial Regionalism in Support of the global Financial Architecture? The Political Economy of Regional Nesting," *Journal of East Asian Studies* 6 (2006): 357.

<sup>168</sup> Amyx, "Japan and the Evolution of Regional Financial Arrangements in East Asia," 214-215.

<sup>169</sup> China became the largest foreign exchange reserves in the world in 2006, surpassing Japan.

<sup>170</sup> For the shift in China’s position on regional financial cooperation, see Bowles, "Asia's Post-Crisis Regionalism: Bringing the State Back In, Keeping the (United) States Out," 255-258.

**Table 7-4: International Reserves of East Asia, 1999–2005 (US\$ billion)**

	1999	2000	2001	2002	2003	2004	2005*
<b>Japan</b>	287.0	354.9	395.2	461.3	663.3	833.9	829.9
<b>China</b>	157.8	168.3	215.7	291.2	408.2	614.5	659.1
<b>South Korea</b>	74.0	96.1	102.8	121.4	155.3	199.0	206.0
<b>Taiwan</b>	106.2	106.7	122.2	161.7	206.6	242.0	253.2
<b>Hong Kong</b>	96.3	107.5	111.2	111.9	118.4	123.5	122.4
<b>Singapore</b>	76.9	80.1	75.4	82.1	95.7	112.2	116.0
<b>Indonesia</b>	26.5	28.5	27.3	31.0	35.0	35.0	33.3
<b>Malaysia</b>	30.6	29.5	30.5	34.2	44.5	66.4	74.1
<b>Philippines</b>	13.2	13.1	13.4	13.1	13.5	12.9	14.8
<b>Thailand</b>	34.1	32.0	32.4	38.1	41.1	48.7	47.1

*Source:* Yung Chul Park, *Economic Liberalization and Integration in East Asia: A Post-Crisis Paradigm* (Oxford: Oxford University Press, 2006), p. 196.

*Original sources:* IMF, *International Financial Statistics* and *The Economist* (2005), July 16–22 and June 11–17.

*Note:* \* at the end of May

During the negotiations leading to the establishment of the CMI, the key issue was the relationship between any regional financial mechanism and the IMF. More specifically, the main issue was whether the conditions for lending should be linked with IMF programs. Malaysia strongly insisted on no linkage. Other ASEAN countries, with the exception of Singapore, preferred weak IMF linkage.<sup>171</sup> On the other hand, China and South Korea favored close linkage with IMF programs. Given the concentration of foreign exchange reserves in countries such as Japan, China, South Korea, and Singapore (see Table 7-4), they could foresee themselves as the sole donors of funds within the region.<sup>172</sup> In particular, China pressed for as much as 100 percent linkage, despite the fact that Chinese officials remained critical of IMF conditionality applied to its 1998 rescue packages.<sup>173</sup>

Given the variation of state preference concerning the shape of a regional financial arrangement, especially its relationship with the IMF, Japan played “the pivotal arbitrating role in working out the general conditions and principles for the currency swap network.”<sup>174</sup> From July to August 1999, before the CMI was announced in May 2000, the Japanese government under Prime Minister Obuchi dispatched a high-level mission, called the Mission for the Revitalization of the Asian Economy, to six Asian countries, including Indonesia, Malaysia, the

<sup>171</sup> Amyx, "Japan and the Evolution of Regional Financial Arrangements in East Asia," 213-214.

<sup>172</sup> *Ibid.*, 213; Amyx, "Political Dynamics of Regional Financial Cooperation in East Asia: A Comparative Perspective," 101.

<sup>173</sup> Amyx, "Political Dynamics of Regional Financial Cooperation in East Asia: A Comparative Perspective," 101.

<sup>174</sup> Amyx, "Japan and the Evolution of Regional Financial Arrangements in East Asia," 214.

Philippines, Thailand, Vietnam, and South Korea. Headed by Hiroshi Okuda, the then chairman of the board of Toyota Motor Corporation and the chairman of the Japan Federation of Employers' Association (*Nikkeiren*), the so-called Okuda Mission comprised private sector business leaders, academics, and high-ranking officials from the MOFA, the MOF, the MITI, and the Economic Planning Agency (EPA). The purposes of the mission were to study the issues and needs facing East Asian countries two years after the eruption of the crisis, to assess Japan's assistance to the crisis-affected countries, and to study the tasks for the recovery of Asian economies and their prosperity in the twenty-first century and the role of Japan in the region.<sup>175</sup>

One of the recommendations of the final report, which was released in November 1999, was the need for a regional emergency liquidity facility. These "behind-the-scenes" activities proved conducive to assessing regional interests in financial cooperation and building consensus in support of a regional emergency financing mechanism.<sup>176</sup> In addition to a series of negotiations with the countries in Asia, the Japanese government made particular efforts to assure the United States that the proposed idea of a web of swap agreements was not related to the AMF concept.<sup>177</sup> Moreover, having modified its position in favor of some linkage to IMF programs, the Japanese government emphasized that the CMI would complement the role of the IMF.<sup>178</sup>

At the ASEAN+3 finance ministers' meeting held in Honolulu in May 2001, the ministers agreed on the concrete design of the CMI, including the crucial agreement on a linkage with IMF programs, which allows only 10 percent of the bilateral swap agreement to be drawn without the approval of the IMF. In other words, the remaining 90 percent of the assets mobilized under the CMI requires the acceptance of an IMF program. Over the next few years, a series of bilateral swap arrangements were reached (see Table 7-6). As of the year 2004, the total amount of swap agreements was \$36.5 billion.<sup>179</sup> Skeptics of the CMI argued that the

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<sup>175</sup> Susumu Yamakage, "Higashi Ajia Chiiki-shugi to Nihon ASEAN paatonaashippu [East Asian Regionalism and the Japan-ASEAN Partnership]," in Susumu Yamakage, ed., *Higashi-Ajia Chiiki Shugi to Nihon Gaiko [East Asian Regionalism and Japanese Foreign Policy]* (Tokyo: Nihon Kokusai Mondai Kenkyujo, 2003), 4-5; Hayashi, *Japan and East Asian Monetary Regionalism: Towards a Proactive Leadership Role?*, 110-111.

<sup>176</sup> Glenn D. Hook et al., "Japan and the East Asian Financial Crisis: Patterns, Motivations and Instrumentalisation of Japanese Regional Economic Diplomacy," *European Journal of East Asian Studies* 1, no. 2 (2002): 187.

<sup>177</sup> Hayashi, *Japan and East Asian Monetary Regionalism: Towards a Proactive Leadership Role?*, 113-114.

<sup>178</sup> Amyx, "Japan and the Evolution of Regional Financial Arrangements in East Asia," 214; Katada, "Japan's Counterweight Strategy: U.S.-Japan Cooperation and Competition in International Finance," 187.

<sup>179</sup> Yung Chul Park, *Economic Liberalization and Integration in East Asia: A Post-Crisis Paradigm* (Oxford: Oxford University Press, 2006), 175.

amounts involved under the CMI would be inadequate for preventing speculative attacks.<sup>180</sup> Others criticized the CMI's linkage to the IMF conditionality for undermining the CMI's capacity to be used independently.<sup>181</sup> Still others pointed to the limited nature of the CMI as a series of *bilateral* agreements rather than a *multilateral* regional fund.

**Table 7-5: Currency Swaps under the Chiang Mai Initiative (as of 2004)**

<i>Parties</i>	<i>Currencies</i>	<i>Conclusion Dates</i>	<i>Size</i>
Japan-Korea	\$/won	July 4, 2001	\$2 billion
Japan-Thailand	\$/baht	July 30, 2001	\$3 billion
Japan-Philippines	\$/peso	August 27, 2001	\$3 billion
Japan-Malaysia	\$/ringgit	October 5, 2001	\$1 billion
PRC-Thailand	\$/baht	December 6, 2001	\$2 billion
Japan-PRC	yen/renminbi	March 28, 2002	\$3 billion
PRC-Korea	renminbi/won	June 24, 2002	\$2 billion
Korea-Thailand	\$/won/baht	June 25, 2002	\$1 billion
Korea-Malaysia	\$/won/ringgit	July 26, 2002	\$1 billion
Korea-Philippines	\$/peso	August 9, 2002	\$1 billion
PRC-Malaysia	\$/ringgit	October 9, 2002	\$1.5 billion
Japan-Indonesia	\$/rupiah	February 17, 2003	\$3 billion
PRC-Philippines	renminbi/peso	August 31, 2003	\$1 billion
Japan-Singapore	\$/S\$	November 10, 2003	\$1 billion
Korea-Indonesia	\$/rupiah	December 24, 2003	\$1 billion
PRC-Indonesia	\$/rupiah	December 30, 2003	\$1 billion

*Source:* Asian Development Bank, "Chiang Mai Initiative (CMI): Current Status and Future Directions," [http://aric.adb.org/pdf/cmi\\_currentstatus.pdf](http://aric.adb.org/pdf/cmi_currentstatus.pdf)

However, there has been some progress. In May 2005, the finance ministers reached several important decisions at the tenth APT finance ministers' meeting held in Istanbul. First, they agreed to establish a collective decision-making mechanism for the current bilateral arrangements as a first step toward multilateralization of the CMI arrangement. Second, they agreed to significantly increase the size of swaps. Third, it was agreed that the size of swaps that could be withdrawn without the IMF-supported program would be increased from 10% to 20%.<sup>182</sup> Following the Istanbul Agreement, the total swap size has been doubled, reaching \$75.0

<sup>180</sup> Amyx, "Japan and the Evolution of Regional Financial Arrangements in East Asia," 216.

<sup>181</sup> Dieter and Higgott, "Exploring Alternative Theories of Economic Regionalism: From Trade to Finance in Asian Co-operation?," 444.

<sup>182</sup> "The Joint Ministerial Statement of the 8<sup>th</sup> ASEAN+3 Finance Ministers' Meeting, Istanbul, Turkey, May 4, 2005, see <http://www.aseansec.org/17448.htm>

billion by May 2006.<sup>183</sup> The question about the effectiveness of the CMI remains. However, the establishment of the CMI framework itself was significant, given the historical lack of financial cooperative systems in the East Asian region.

Four conclusions can be drawn from the above mini-case study. First, there needs to be at least a minimum level of agreement among key members if a regionalist project is to be successfully launched. In particular, the differences in policy preferences of two major regional powers can be a major obstacle to a regionalist initiative. In the East Asian context, a basic agreement between Japan and China seems essential for the success of any regionalist project. Give China's objection to Japan's AMF proposal, even if the United States and the IMF had not opposed it, the AMF would not have been established. The change in China's attitude toward East Asian monetary regionalism was crucial for creating a meaningful financial arrangement in East Asia.

Second, an external hegemonic power can effectively block a regionalist initiative. Given East Asian countries' dependence on the United States, the policy stance of the U.S. government is a major factor in the success of an "Asia-only" regionalist project. The U.S. successfully prevented the formation of the AMF, just as it killed Mahathir's EAEG proposal discussed in the previous chapter. In a sharp contrast to U.S. opposition to the AMF, U.S. reactions to the CMI concept were remarkably muted, if not positive.<sup>184</sup> For example, U.S. Treasury Secretary Lawrence Summers, who had strongly opposed the AMF, expressed his support for the CMI agreement.<sup>185</sup> IMF officials also lent their support to the establishment of the network of currency swaps under the CMI.<sup>186</sup> The absence of U.S. "blocking power" was a necessary condition for the successful launch of the CMI.<sup>187</sup>

Third, external orientation is an extremely important component of a regionalist project. Particularly important for the CMI was its relationship to the IMF. The AMF failed to establish such a relationship with the preexisting global institutional framework, which was a major reason for its failure. As noted earlier, many U.S. and IMF officials were concerned that the AMF would undermine the role of the IMF by becoming a potential rival institution. The muted U.S.

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<sup>183</sup> <http://www.aseansec.org/18390.htm>

<sup>184</sup> Higgott, "ASEM and the Evolving Global Order," 42.

<sup>185</sup> Hayashi, *Japan and East Asian Monetary Regionalism: Towards a Proactive Leadership Role?*, 117.

<sup>186</sup> Amyx, "Japan and the Evolution of Regional Financial Arrangements in East Asia," 216.

<sup>187</sup> Rapkin, "The United States, Japan, and the Power to Block: The APEC and AMF Cases," 373-410.

response to the CMI can be explained by the fact that the CMI clearly established a strong link with the IMF program. U.S. officials are now convinced that the CMI is complementary to the role of the IMF rather than challenging it. The CMI's linkage to the IMF eased U.S. concerns about the moral hazard problem.

Fourth, the mini-case study highlights the importance of entrepreneurial leadership in gaining support from key members. Japan's AMF proposal was a big departure from Japan's earlier hesitation to take a regionalist initiative. In fact, many perceived it as "a sign of Japan's willingness to take independent regional leadership."<sup>188</sup> However, Japan failed to gain support not only from the United States, but also from key regional powers like China. Sakakibara's initial failure to circulate his plan to China apparently increased China's suspicion about Japan's proposal.<sup>189</sup> In contrast with the failure to exercise leadership in the case of the AMF, Japan's Ministry of Finance took great pains to coordinate different policy preferences among key regional states prior to the CMI agreement. In particular, Japan succeeded in gaining support from China. It was Japan's entrepreneurial leadership, with China's support, that made the establishment of the CMI possible.

#### **7.4 EXPLAINING INSTITUTIONAL FORM AND EVOLUTION**

What explains the institutional form and evolution of the ASEAN+3 process? The following section first provides a summary of empirical findings and then discusses theoretical implications.

The APT from 1997 to 1999 was characterized by a very modest start. The first APT gathering was convened through ASEAN's initiative without setting any formal agenda; the participating leaders did not even agree to regularize the APT meeting because of Japanese and Chinese hesitation. However, through their experiences of the Asian financial crisis, East Asian leaders gradually realized that the existing global institutional frameworks were not sufficient to

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<sup>188</sup> Katada, "Japan's Counterweight Strategy: U.S.-Japan Cooperation and Competition in International Finance," 185.

<sup>189</sup> *Ibid.*, 187; Amyx, "Japan and the Evolution of Regional Financial Arrangements in East Asia," 204. This parallels Mahathir's strategic mistake in consulting with Indonesia's President Suharto about his EAEG proposal, discussed in the previous chapter.

protect their interests; they recognized the urgent need for a regional mechanism to reduce the region's external vulnerability. Since they also recognized the inadequacy of existing regional institutions such as ASEAN and APEC, they desired to develop a new East Asian regional mechanism for promoting regional financial cooperation. In short, the initial impetus for the development of the APT framework was a defensive motive to protect East Asian regional interests.

The crisis also had a significant impact on the initial institutional make-up of the APT framework, especially in terms of its membership and issue areas. In the wake of the crisis, East Asian leaders soon recognized that ASEAN did not have the capacity to manage the crisis; at the same time, they confirmed the already growing perception that APEC did not accurately represent the interests of East Asian countries. In other words, they realized that ASEAN was too small, but APEC was too big. Therefore, the newly formed APT grouping, which included the three major Northeast Asian countries and excluded Western powers like the United States, provided them with an appropriate forum for enhancing regional financial cooperation.

During the second phase of APT from 2000 to 2003, the development of the APT process was increasingly driven by “intraregional competitive dynamics” rather than the defensive motives that dominated the first phase.<sup>190</sup> Most importantly, the emergence of China as an active regionalist player became the major driving force within the East Asian regional process. At the same time, however, China's bold initiatives such as the ASEAN-China FTA overshadowed the APT multilateral forum. Prompted by China's activism in regional affairs, Japan strengthened its diplomatic efforts to curb the decline of its influence in the region and counter China's growing power.

Meanwhile, the APT process also benefited from input from nongovernmental actors. The East Asia Vision Group (EAVG) submitted its final report in Brunei Darussalam in 2001. The EAVG report proposed twenty-two key recommendations in six fields: economics; finance; politics and security; environment and energy; society, culture, and education; and institutional cooperation. The EAVG put forward fifty-seven concrete measures, including the establishment of the East Asian Free Trade Area (EAFTA), establishment of a self-help regional facility for financial cooperation, establishment of poverty alleviation programs, evolution of the annual ASEAN+3 summit meetings into the East Asia Summit, and establishment of a nongovernmental

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<sup>190</sup> Munakata, *Transforming East Asia: The Evolution of Regional Economic Integration*, 150.

East Asia Forum made up of governmental and nongovernmental representatives from the region.<sup>191</sup>

In response to the EAVG report, the East Asia Study Group (EASG) of government officials submitted its final report in 2002. In assessing the concrete measures put forward by the EAVG, the EASG identified seventeen concrete measures as short-term goals, flagged nine measures as medium-to-long-term measures that required further study, and excluded the remaining thirty-one measures from its list of recommendations to the ASEAN+3 summit. Among “the implementable concrete measures with high priority” were the formation of an East Asia Business Council, establishment of an East Asian Investment Information Network, and formation of a network of East Asian think tanks and a nongovernmental East Asian Forum. Medium-term and long-term measures that the EASG identified included the formation of an EAFTA, establishment of an East Asia Investment Area, establishment of a regional financing facility, and evolution of the ASEAN+3 summit into the East Asia Summit.<sup>192</sup>

During this period, the EAVG and EASG set the tone for discussions of the institutional development of the APT process. Certainly the EAVG, through the EASG’s response, has played an important, albeit limited, role in the process of APT institution-building. However, the involvement of civil society within the APT countries remains extremely limited. The process of East Asian community-building has been “almost exclusively at the elite levels.”<sup>193</sup> In fact, while the EAVG and EASG reports have been discussed in various policy dialogues and among senior government officials, they “have attracted virtually no public attention.”<sup>194</sup>

The third phase of APT’s development from 2003 to 2006 saw the acceleration of competitive initiatives from China and Japan, both of which pressed for their preferred form of the APT. The most serious points of disagreement were concerned with the issue of membership. The issue of future membership of the APT group became highly politicized in the competition for regional leadership between China and Japan. The outcome was the coexistence of two regional arrangements: the inauguration of the East Asia Summit among sixteen countries and the continuation of the APT among the existing thirteen members.

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<sup>191</sup> East Asia Vision Group, *Towards an East Asian Community: Region of Peace, Prosperity and Progress* (2001), available at <http://www.aseansec.org>.

<sup>192</sup> East Asia Study Group, *Final Report of the East Asia Study Group* (2002), <http://www.aseansec.org>.

<sup>193</sup> Capie, "Rival Regions? East Asian Regionalism and Its Challenge to the Asia-Pacific," 158.

<sup>194</sup> Evans, "Between Regionalism and Regionalization: Policy Networks and the Nascent East Asian Institutional Identity," 207.

The remainder of this section considers the implications of the empirical observations from the following theoretical perspectives: neorealism, rational institutionalism, sociological institutionalism, and historical institutionalism. First, neorealist approaches provide limited but important insights into the institutional evolution of the APT. As discussed in the previous chapter, the way in which the APT process came into being posed a puzzling question with regard to the important role of non-great powers like ASEAN countries in assuming “the cost of organizing.” Reflecting the origin of the APT process, the institutional features of the APT process largely reflected the practices of ASEAN itself, which challenges the neorealist view that the form of multilateral institutions reflects the interests of great powers.

However, analysis of the subsequent development of the APT process confirms the neorealist expectation about the importance of power. Although ASEAN played a crucial role in drawing the three bigger powers in Northeast Asia into an ASEAN-sponsored regional framework, it was those three countries that provided a subsequent boost to the institutional development. Furthermore, ASEAN’s refusal to extend the chairmanship to the three Northeast Asian countries illustrates that power considerations are at play, though neorealists may expect a more clear transition from the fabricated “ASEAN+3” format to a “3+ASEAN” process. From a neorealist perspective, the failure to allow the Northeast Asian countries to host the APT meetings can also be explained by mistrust and power competition among the Northeast Asian countries, especially between China and Japan. The analysis of the establishment of the CMI confirmed the importance of agreement between Japan and China, two regional giant powers. It also highlighted the importance of the absence of opposition from the U.S. hegemonic power. The institutional make-up of the CMI confirms that although the creation of the CMI was encouraged by the interests of both small countries in need of rescue funds and major powers (Japan and China) as potential lenders, a strong IMF linkage within the CMI framework primarily reflects the interests of the lenders.

Second, rational institutionalists have difficulty in explaining the informal and consensual nature of the APT’s institutional design. The adoption of consensus-based decision-making stems from the fact that APT countries are more concerned about proceeding at a speed comfortable to all participants than enhancing the efficiency of negotiations. The lack of precision and enforcing mechanisms also poses a challenging question for rational institutionalist understandings of institutions.

Third, sociological institutionalists would explain the institutional form of the APT as a result of the prevailing socio-cultural preferences for particular institutional features. Unlike the case of APEC, the analysis of institutional preferences suggests that there is a high level of convergence of preferences among the East Asian countries for a loose and informal process. In this respect, there are some benefits to analyzing APT's institutional form from a sociological institutionalist perspective. However, sociological institutionalist interpretations of institutions preclude the possibility that these expressed norms may be instrumental tools that politicians use in a strategic way.

Fourth, for historical institutionalists, the APT provides an example of what some historical institutionalists call "layering," which refers to the practice of building a new institution on top of existing institutions by retaining some elements of the preexisting institutions and revising others.<sup>195</sup> Furthermore, the persistence of the peculiar format of "ASEAN+3," despite Northeast Asian countries' attempt to convene the APT summit meetings outside ASEAN capitals, shows a "path-dependent" nature of the institutional structure.

## 7.5 CONCLUSION

This chapter has analyzed the institutional form and evolution of the APT process. The central feature of APT is the centrality of ASEAN to the APT process. APT originated from ASEAN's invitation to the leaders from the three Northeast Asian countries to attend their summit meetings as guests. Since the first APT meeting, all the APT summits have been held on the sidelines of the ASEAN summits, which ASEAN members have been hosting on a rotating basis. The rotation of chairmanship among ASEAN members provides the hosting ASEAN country with greater leverage in setting the agendas for the APT meetings. Many ASEAN leaders' insistence on retaining ASEAN's privileged position to host the APT meetings stemmed from their political concerns about potential domination by the three Northeast Asian giants. The extension of the ASEAN Way into the APT process can be explained by the convergence of institutional preferences among ASEAN countries and the three Northeast Asian countries.

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<sup>195</sup> Thelen, "How Institutions Evolve: Insights from Comparative Historical Analysis," 225-228.

The analysis of APT's institutional evolution shows that although the initial political demand for an East Asian regional cooperative arrangement was catalyzed by East Asia's relationship with extraregional forces, intraregional dynamics became an increasingly important factor in the subsequent development of the APT process. Moreover, although the APT was initially set up through a top-down initiative by national government leaders without any nongovernmental organizations promoting the creation of an East Asian intergovernmental institution, the APT has since embraced more interaction between bottom-up and top-down processes with the emergence of several nongovernmental bodies to support the APT process.<sup>196</sup> The mini-case study on the successful formation of the CMI highlighted the importance of political demand for regional financial cooperation and the supply of political leadership in coordinating among different preferences and providing the institutional designs that are consistent with the existing global institutional framework.

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<sup>196</sup> Evans, "Between Regionalism and Regionalization: Policy Networks and the Nascent East Asian Institutional Identity," 202.

## **8.0 CONCLUSION**

This dissertation has explored: 1) why and how the specific historical circumstances at the each critical juncture (in the late 1980s and the late 1990s) were conducive to creating Asia-Pacific and East Asian regional institutions, respectively; and 2) why these two regional institutions took the forms that they took and how and why they evolved in the way they did. To answer the first question, Chapters 4 and 6 analyzed the formation of APEC and ASEAN+3 (APT), respectively, by exploring triggering mechanisms, the demand for a regionalist project, and the supply of entrepreneurial political leadership. Chapters 5 and 7 addressed the second question with regard to the institutional form and evolution of these two regional arrangements by investigating institutional preferences of key members and exploring the four dimensions of the institutional form: 1) membership; 2) organizational structure; 3) external orientation; and 4) issue-areas.

This concluding chapter is divided into five sections. The first section summarizes empirical findings in Chapters 4–7. The second section evaluates the conceptual framework by revisiting the alternative hypotheses for the formation and evolution of regionalism introduced in Chapter 3. The third section considers the extent to which the analytical framework proposed in this dissertation can be applied to other cases. The fourth section discusses the prospects of regionalism in Asia and some policy implications. The last section provides future research agendas.

### **8.1 SUMMARY OF FINDINGS**

Chapter 4 explored why and how APEC was created in 1989, while the earlier proposals for similar regionalist projects failed to materialize. The analysis of state preferences concerning regionalism among relevant governments showed that the existence of ASEAN's strong

resistance was a major obstacle for creating an Asia-Pacific regional arrangement until the late 1980s. Although the Japanese government occasionally showed an interest in creating an Asia-Pacific regional forum, it was well aware that Japan's initiative would cause suspicion and resistance among other Asian countries because of the "history problem." While the "supply" of regionalist ideas developed mostly by nongovernmental policy networks was abundant, it failed to create an urgent governmental demand for the creation of an Asia-Pacific regional mechanism. Therefore, despite some governmental interests, no political leaders took the initiative to put proposals such as the OPTAD into practice. Instead, the PECC was created as a nongovernmental body through joint leadership by the Japanese and Australian governments. It was not until the late 1980s that many Asia-Pacific governments recognized the need for an intergovernmental arrangement in the region.

Empirical investigation showed that in the late 1980s, many governments in the Western Pacific countries were increasingly concerned about the growing U.S. unilateral tendency, the prospect of emerging regional blocs, and the stalemate of the Uruguay Round of the GATT negotiations. The strongest demand for creating an intergovernmental mechanism in the Asia-Pacific came from the Japanese and Australian governments. Japan was particularly concerned about the danger of over-reliance on the United States in the face of growing trade frictions between the two in the 1980s. In response to increasing U.S. pressure on Japan in the late 1980s, a regionalist approach was recognized as an appealing option for the Japanese government in order to constrain U.S. unilateral actions, while at the same time keeping the United States engaged in Asia. At the same time, the Australian government sought the creation of a regional forum to avoid its marginalization from the perceived emergence of regional trading blocs, none of which include Australia as a natural member. Canberra's pursuit of a regionalist approach was also based on its strategic motive to increase its bargaining leverage vis-à-vis the U.S. government, given the former's growing conflicts of interest with the latter's trade policy.

By the late 1980s, ASEAN's resistance to the creation of an Asia-Pacific intergovernmental forum had declined because of the adoption of more liberal trade policies by many of the ASEAN countries in the 1980s. Furthermore, ASEAN members also became concerned about the marginalization as a result of the perceived triadization of the world economy and the possible collapse of the liberal trading system, which came to outweigh their fear of domination by major powers in a proposed Asia-Pacific regional grouping. What was

decisive to change ASEAN's attitude was the U.S. proposal for free trade agreements (FTAs) with ASEAN members, which ASEAN leaders perceived as a threat. ASEAN's agreement to join the Asia-Pacific regional forum in July 1989 proved a "tipping point" in allowing the inaugural APEC meeting in Canberra in November in the same year. Meanwhile, the U.S. government, which was earlier reluctant to support an Asia-Pacific regional framework, also lent its support for the creation of the Asia-Pacific regional forum. To sum up, the configuration of state preferences concerning regionalism greatly shifted in support of Asia-Pacific regionalism in the late 1980s.

Encouraged by more flexible attitudes of previously reluctant governments, the late 1980s became a window of opportunities for realizing an Asia-Pacific regionalist idea. Although the activities of non-governmental bodies like PAFTAD and PECC have long promoted Asia-Pacific regionalist ideas, it was the Australian government that assumed the primary "costs of organizing" in proposing the initiative to create APEC, mobilizing support from the proposed participants, and hosting the inaugural APEC meeting. Meanwhile, the Japanese government played an important but "behind the scenes" role, because of the normative constraint arising from its historical legacy. It must be noted, however, that the successful launch of the APEC initiative became possible, because the U.S. government had become more receptive to the idea of creating an Asia-Pacific regional arrangement. Moreover, the subsequent development of APEC was encouraged by the end of the Cold War.

Chapter 5 argued that the persistence of divergent institutional preferences and the lack of consistent leadership proved major obstacles to APEC's institutional development. The most important sources of differences were the organizational structure of APEC and the prioritization of APEC's key issues. While Western members pressed for a more legalistic and rule-based approach, Asian governments favored consensus-based decision-making procedures based on informal consultations. Moreover, countries such as the United States and Australia sought to use APEC as a vehicle for trade liberalization, while most Asian countries resisted this direction in favor of focusing on economic and technical cooperation.

Major institutional developments, such as the establishment of economic leaders' meetings, the establishment of the EPG, and the establishment of the secretariat, were driven primarily by Western members of APEC, especially the United States and Australia. Alarmed by these moves, Asian countries succeeded in putting the brakes on APEC's excessive

institutionalization. Consequently, APEC's modalities of cooperation continued to be characterized by principles such as consensus, flexibility, and concerted unilateralism.

Heralding the second phase of APEC's institutional development, the direct involvement of the leaders beginning in 1993 became a prominent feature of APEC in comparison to other multilateral organizations mainly dealing with trade issues.<sup>1</sup> During APEC's second phase, however, differences over institutional preferences among the APEC members came to the forefront, as the U.S. government attempted to turn APEC into a rule-based negotiating body for trade and investment liberalization. Nevertheless, although the United States succeeded in initiating economic leaders' meetings and bringing its preferred agendas to the center of APEC's activities, the actual success of U.S. attempts to transform APEC to its favored design was extremely limited. The mini-case study on the stalemate of the U.S.-led Early Voluntary Sectoral Liberalization initiative illustrates how different institutional preferences with regard to APEC's modality and objectives came to stall the negotiations, thus preventing the U.S. government from transforming APEC into a rule-based vehicle for trade liberalization.

Chapter 6 explored why and how the ASEAN+3 process was successfully launched in the late 1990s, as well as why Mahathir's first attempt to create an East Asian grouping in the form of the East Asian Economic Group (EAEG) in the early 1990s failed to materialize. It argued that the EAEG failed to materialize because of U.S. opposition, lack of Japanese support, lack of consensus among other ASEAN countries, and Mahathir's strategic mistakes. Despite the failure of the EAEG, a similar East Asian grouping was formed as the ASEAN+3 when ASEAN leaders invited their counterparts from China, Japan, and South Korea to attend the ASEAN summit meetings, starting in 1997. The Asian financial crisis served as a major catalyst for the development of the APT. The crisis generated a widespread regional dissatisfaction with global institutional frameworks such as the IMF. It also revealed the inadequacy of the existing regional institutions such as ASEAN and APEC. Consequently, the crisis prompted East Asian leaders to promote the creation of a regional mechanism on an *East Asian* basis.

ASEAN's role as a convener proved particularly important in drawing the bigger three Northeast Asian countries into the ASEAN-sponsored regional process. Prior to the onset of the financial crisis, the ASEAN countries had taken incremental steps toward the creation of an East

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<sup>1</sup> The WTO and NAFTA, for example, do not have leaders' meetings. Aggarwal and Morrison, "APEC as an International Institution," 314.

Asian gathering. The gradual approach helped to assess the U.S. attitude toward East Asian regionalism, which was crucial for eliciting the participation of a reluctant Japan. Given the absence of trust among the Northeast Asian countries and the lack of structural leadership from either Japan or China, ASEAN took the central role in organizing and hosting the annual APT meetings. Meanwhile, Japan's inability to exercise a leadership role during the crisis prompted Japanese leaders to rethink Japan's role in East Asia and encouraged its active participation in the East Asian intergovernmental process. On the other hand, the crisis provided China with an excellent opportunity to increase its status in regional affairs. As a result, the crisis became a watershed event in the development of an East Asian regional grouping.

Chapter 7 showed that there is a convergence of institutional preferences among the APT countries for informal, incremental, and consensus-based processes. The APT was created on the sidelines of ASEAN itself, whose members only can rotate the chairmanship of annual APT leaders' meetings. A hosting ASEAN member plays a central role in preparing the meetings, inviting participants, drafting policy documents and statements. Given ASEAN's concerns about the domination of the APT process by the Northeast Asian countries and the lack of an accepted leadership role of any Northeast Asian country, the APT leaders confirmed ASEAN's centrality in the process on several occasions. Despite general agreement on the informal and incremental nature of the APT process, the APT countries remained divided over the preferred membership of the APT.

The analysis of APT's evolution showed that, although the initial creation of the APT was encouraged by the region's desire to create a regional self-help mechanism relatively free from external powers like the United States and U.S.-dominated international financial institutions, its subsequent institutional development was fed more by changing internal dynamics, especially the relationship between China and Japan. The continued disagreement on the issue of membership and the failure to agree on the modality of the East Asia Summit led the East Asian leaders to hold two separate summit meetings rather than "transforming" the APT into the East Asia Summit as originally planned.

The mini-case study of the Chiang Mai Initiative established under the APT process highlighted the importance of agreement between Japan and China as two regional giants and the absence of opposition from the U.S. hegemonic power for the successful launch of an Asian regionalist initiative. Despite the fact that East Asian countries' interest in developing an East

Asian regional framework stemmed from their realization that the existing global institutional frameworks are insufficient to protect their interests, they also realized the necessity of “nesting” a newly created institution within the preexisting institutional environment.<sup>2</sup>

## 8.2 THEORETICAL EVALUATIONS

This dissertation analyzed the formation of APEC and the APT by exploring two dimensions of regional institution-building. The first stage of analysis addressed the question of *why* the Asia-Pacific and East Asian regionalist projects were launched in the late 1980s and late 1990s, respectively. The demand-side question of explored four possible explanations: 1) realist accounts of the formation of regionalism as the result of the shifting political balance of power; 2) liberal explanations for regionalism as a logical response to regionalization (i.e., the rise of regional economic interdependence); 3) constructivist approaches to regionalism as a result of the growth of regionalist ideas; and 4) the defensive regionalism perspective that sees regionalism as regional states’ defensive mechanism for dealing with new shared problems arising from a set of extraregional developments.

Realist explanations fared relatively well in explaining the rise of governmental demand for regionalism as a response to external challenges stemming from the shifting configuration of political and economic power. In the late 1980s, the strengthening of European regional integration and the emergence of North American regionalism led to power re-alignments, which, in turn, prompted Western Pacific countries to respond with their own regionalist project as a vehicle to increase their collective political bargaining leverage vis-à-vis extraregional actors. The development of regionalism in other parts of the world was clearly a major trigger for the creation of APEC. However, APEC was not created as a counterbalancing force against other regional groupings as the conventional realist might expect. Rather, it was designed

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<sup>2</sup> As noted in Chapter 3, the concept of “nesting” is from Vinod V. Aggarwal. For an application of the concept to the CMI, see Grimes, “East Asian Financial Regionalism in Support of the global Financial Architecture? The Political Economy of Regional Nesting,” 353-380.

primarily as a means to prevent the emergence of closed regional groupings and “to facilitate wider global processes” by espousing the concept of open regionalism.<sup>3</sup>

Another motive behind the creation of a regional grouping that realist-oriented perspectives focuses on was the new challenges from the U.S. hegemon. The initial Australian initiative and the subsequent Mahathir’s EAEG proposal that did not include the United States reflected closely the conventional realist logic of balancing against the challenge from the U.S. hegemon. However, the actual APEC project followed the neorealist institutionalist logic of constraining the U.S. behavior within a multilateral setting. In the case of APT, realist-inspired analysts explain the formation of the APT as a response to a growing Chinese power. Certainly the rise of China provided a long-term motive for creating a regional mechanism to deal with the new challenges that it has posed. However, the APT was not characterized by “balancing” against a rising power in a conventional sense. Rather, the APT was designed to embed an increasingly powerful China into a regional mechanism.

The second explanation that focuses on the rise of intraregional economic transactions provided the economic logic of regionalism. However, it failed to explain the timing for the growth of governmental demand for a regional mechanism. ASEAN’s concerns over the political implications of an Asia-Pacific regional institution were a major obstacle for creating such an institution. It was not until regional governments faced challenges at the global level that governments realized the need for an intergovernmental regional forum. There was not enough evidence to support the expectation of the liberal perspective that the demand from private sectors for an intergovernmental mechanism altered the previously reluctant governments’ preferences in favor of regionalism. In the case of APT’s formation, contrary to the expectation of the liberal perspective, the APT was created exactly at the time when the level of intraregional trade declined.

The third explanation, based on a constructivist approach, did not provide a satisfactory explanation, either. This perspective sees the formation of regionalism as a response to the development of regionalist ideas or regional identity. From this perspective, the formation of APEC can be viewed as the result of cumulative effects by activities of non-governmental bodies in developing and promoting regionalist ideas over extended periods of time. However, this perspective failed to explain the timing for regional institutional creation, because earlier

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<sup>3</sup> Higgott, "The Theory and Practice of Region: The Changing Global Context," 22.

proposals for creating Asia-Pacific regional institutions in previous decades simply failed to realize. Unlike the abundance of Asia-Pacific regionalist ideas, there were few proposals for creating a regional institution among only East Asian countries. The notable exception was Mahathir's EAEG proposal put forward in the early 1990s, which gave rise to a lot of controversy among policy elites not only in East Asian countries, but also in the United States. Yet it was only after the financial crisis that many East Asian leaders spoke of the emergence of a sense of East Asian identity. However, there was not enough empirical evidence to support the existence of a firm East Asian identity.

The fourth explanation, which emphasizes defensive motives of regional states for using regionalism as a means of dealing with a set of extraregional challenges, was strongly supported by the empirical analysis of the formation of both APEC and APT. The empirical analysis of the formation of APEC showed that in the late 1980s, many Western Pacific countries were increasingly concerned about the prospect of emerging regional blocs and the resultant potential collapse of the liberal trading system. In other words, the governmental demand for an Asia-Pacific regional mechanism was triggered by the defensive motive of "loss aversion" rather than a clear sense of potential gains. Although advocates of an Asia-Pacific regional organization had outlined the expected benefits of reducing transaction costs and enhancing market activities, regional governments did not perceive the urgent need for the creation of an intergovernmental mechanism. It was not until governments perceived the potential threats to ongoing regional and global market activities that they recognized the benefits of a regional mechanism as a device to avoid the potential losses.

In the case of APT's formation, it was the Asian financial crisis that triggered the urgent governmental demand for a new East Asian regional mechanism. The development of the APT was formed as a collective response to the East Asian region's vulnerability to the negative consequences of unregulated global forces, manifested by the Asian financial crisis. Policy elites in East Asia viewed the newly formed APT as a device to minimize the risks associated with a rapid movement of short-term capital. In this sense, it can be argued that at the initial stage of forming the APT, the East Asian leaders were more concerned with the elimination or management of "public bads," rather than the provision of collective goods.<sup>4</sup> In other words, the

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<sup>4</sup> Nicola Phillips points out Latin American countries' desire to minimize "public bads" such as financial volatility and market failure. Nicola Phillips, "Governance after Financial Crisis: South American Perspectives on the

development of the APT was spurred more by “common aversions” than by “common interests.”<sup>5</sup>

Furthermore, the crisis not only revealed the inadequacy of the existing regional arrangements such as ASEAN and APEC, but also led East Asian leaders to recognize that the global institutional arrangements such as the IMF do not protect the interests of the East Asian countries. Therefore, the APT was considered a way to reduce the region’s over-reliance on external actors. Nevertheless, as has been often noted, like other regionalist projects in the current wave of “new regionalism,” the APT does not aim to insulate the region from the external world. Rather, the post-crisis development of East Asian regionalism can be best viewed as a regional mechanism to provide a “buffer” between individual national economies and the vagaries of the global financial system.<sup>6</sup> In short, the demand for both APEC and APT was driven by defensive motivations to protect domestic interests threatened by extraregional challenges.

The supply-side aspect of regional institution-building explored *how* regional arrangements came into existence, analyzing the actual political process by which the demand for the creation of regional institutions translated into their supply. This stage of analysis focused on two questions. The first question assessed the relative importance of major and non-major powers in the process of constructing a regional institution. At the initial stage of institutional creation, the analysis of the process of creating both APEC and APT highlighted the entrepreneurial roles played by weaker powers, such as Australia and ASEAN members as a group, in proposing the respective regionalist project. The question was not *what* material resources leaders had, but rather *how* they employed leadership. Policy processes and strategies mattered.

This contradicts the expectation of the neorealist perspective that generally posits that the creation of a multilateral institution is led by either a single regional hegemon or a core group of

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Reformulation of Regionalism," *New Political Economy* 5, no. 3 (2000): 391. For discussions on the concept of “public bads,” see also Nicola Phillips and Richard A. Higgott, “Global Governance and the Public Domain: Collective Goods in a ‘Post-Washington Consensus’ Era,” *CSGR Working Paper* No. 47/99 (1999); Bobrow and Boyer, *Defensive Internationalism: Providing Public Goods in an Uncertain World*.

<sup>5</sup> Stein, “Coordination and Collaboration: Regimes in an Anarchic World,” 125-126.

<sup>6</sup> Ba, “Contested Spaces: The Politics of Regional and Global Governance,” 205; Helen E. S. Nesadurai, “Introduction: Economic Security, Globalization and Governance,” *The Pacific Review* 17, no. 4 (2004): 478; Miles Kahler, “Economic Security in an Era of Globalization: Definition and Provision,” *The Pacific Review* 17, no. 4 (2004): 485-502.

powerful states. However, once APEC and APT got off the ground, more powerful states played an increasingly important role by proposing some important initiatives in both regional arrangements. Nonetheless, powerful countries' attempts to transform those regional forums into their preferred types of institutions were far more constrained than the neorealist perspective would assume.

The second issue is concerned with respective roles of state and non-state actors. The empirical analysis of the process of creating APEC and APT showed that, although governments were certainly the main architects of the both regional arrangements, non-governmental actors did play a modest but an important role in shaping the institutional make-up and evolution by providing important policy ideas and recommendations. In the case of APEC, there were ample sources of information and ideas from the existing non-governmental organizations like PAFTAD and PECC when government officials needed them. On the other hand, there were no such bodies organized on an East Asian basis prior to the formation of the APT. However, the East Asian region has also seen the growth of many nongovernmental groups to support the APT process. In particular, the East Asian Vision Group (EAVG) (1999 – 2001) provided important policy recommendations, although the group itself was created by a governmental initiative and disbanded after the completion of the mission. Several of its recommendations were implemented in the APT process. Therefore, it is wrong to assume that the process of regional institution-building is exclusively in the hands of states. Nonetheless, the intergovernmentalist claim that states retain the control over the basic course and speed of regional institution-building holds true for both APEC and APT.

The analysis of the institutional forms that APEC and APT took showed that, contrary to the neorealist expectation, the institutional forms of these regional groupings are not designed in favor of more powerful states. Since ASEAN's resistance was the major obstacle to creating an Asia-Pacific regional institution, the other APEC members initially allowed ASEAN to shape the institutional form of APEC to protect their interests against the more powerful members of APEC. Consistent with realist perspectives, relative power considerations were at play in crafting APEC's institutional design. However, the disproportionate influence of ASEAN in shaping the initial form that APEC took requires other explanations.

The rational institutionalist perspective also proved unsatisfactory in the sense that empirical findings show that both APEC and APT are not designed to maximize the efficiency of

institutional functions. Rather, there is ample evidence that both of them are designed to protect the interests of weaker powers. For example, the employment of consensual decision-making procedures not only slows the process of negotiations, but also makes it extremely difficult for members to reach any substantial agreement, because any member that is not comfortable about an initiative can veto it. The adoption of such norms as flexibility and voluntarism are deliberately designed to allow each member government to have a certain freedom of action rather than to ensure compliance with agreements. Moreover, as demonstrated, some members have attempted to enlarge the membership of the regional group for political reasons such as to make the grouping inefficient and to dilute the influence of a particular country.

While sociological institutionalists rightly point to the impact of regional norms and ideas, they leave the issue of competing norms and ideas unanswered. APEC members were united in the sense that all APEC members generally support the idea of market-led regional integration. They also support the idea that an open and liberal multilateral trade regime is required for sustaining economic growth and stability in the region. However, there emerged serious disagreements over the issue of how trade liberalization should be pursued under the APEC program. For example, although APEC espoused the principle of open regionalism, the U.S. government challenged it by calling for applying the principle of reciprocity to trade liberalization. Many Asian governments, on the other hand, insisted on the principle of non-discrimination and unilateral liberalization. Asian and Western members of APEC are also divided over their preferred modalities of cooperation. Whereas Western members pressed for a more legalistic and rule-based approach, Asian governments favored consensus-based decision-making procedures based on informal consultations. The persistence of the contestation between competing norms and principles proved a major obstacle to APEC's institutional development.

Historical institutionalists emphasize the path-dependent nature of institution-building. In fact, the findings suggest that the institutional forms of both APEC and APT are highly influenced by the experiences of preexisting institutions. The institutional form of APEC was built upon the experiences of ASEAN and nongovernmental forums, such as PAFTAD and PECC. APT was created on top of ASEAN, retaining the centrality of the ASEAN Way toward regional cooperation.

### 8.3 THE PROSPECT OF ASIAN REGIONALISM

What are the future prospects of regionalism in the Asia-Pacific and East Asia? What are the policy implications that this dissertation suggests? As indicated in the introductory chapter, the emergence of Asia-Pacific and East Asian regionalist projects is a relatively new phenomenon. Given the long absence of regular policy channels in the Asia-Pacific and East Asian regions in the previous decades, the establishment of such forums at the intergovernmental level itself is a major achievement. However, there are at least four major obstacles to the development of regionalist projects in the Asia-Pacific and East Asia. The first obstacle to the development of both APEC and the APT is the lack of consensus among members with regard to the general principles, objectives, and modalities of cooperation of the forums. As discussed in Chapters 5 and 7, empirical analysis of the institutional preferences in both institutions showed a considerable degree of divergence among key members. Since both APEC and the APT operate by consensus, any substantial disagreements can stall initiatives. As illustrated in the mini-case study in Chapter 5, the U.S.-sponsored EVSL initiative stalled because of disagreements between its advocates and many Asian opponents. The mini-case study in Chapter 7 showed that Japan's proposal for the Asian Monetary Fund did not materialize primarily because of U.S. and Chinese objections. Both cases illustrated that the presence of strong "negative demand" translates into "negative supply" in blocking an initiative.

Second, internal conflicts among members can be a major obstacle to the development of regionalism in the Asia-Pacific and East Asia. Historical antagonism still exists between Japan and other Asian countries, especially China and South Korea. Coupled with the resurgence of nationalism in many countries in Asia, including China, South Korea, and Japan, the "history problem" can hinder regional cooperative processes. The cancellation of the three Northeast Asian leaders' meeting in 2005 in protest against Japan's Prime Minister Koizumi's repeated visit to the Yasukuni Shrine is a case in point. Mutual mistrust and suspicion among Asian countries can potentially derail regionalist projects. Furthermore, it is often noted that there is competition for regional leadership between China and Japan. Although regional competition does not necessarily impede the regional process as long as states do not obstruct rival's initiatives, it can potentially disrupt the regional framework if such competition escalates into a vicious cycle.

Third, the surge of bilateral free trade agreements (FTAs) can complicate multilateral arrangements at both the global and regional levels. The proliferation of bilateral free trade agreements since the mid-1990s is indeed remarkable. Bilateral trade agreements not only divert bureaucratic resources away from regional and global trade negotiations, but also lead to what Jagdish Bhagwati calls “spaghetti bowl” effects, which create crisscrossing preferential trade arrangements with different tariff rates and rules of origin.<sup>7</sup>

Fourth, the U.S. attitude toward East Asian regionalism remains an important factor that can affect the development of the APT. U.S. opposition toward any initiatives within the Asia-only grouping would make it difficult for some countries like Japan to support the initiatives. Although the U.S. government did not oppose the formation of the APT, the U.S. government might change its attitude and obstruct the development of the APT process. Some U.S. officials are increasingly alarmed by the likelihood that China could use the Asia-only forum as a device to increase its regional influence at the expense of U.S. interests.

#### **8.4 FUTURE RESEARCH AGENDA**

There are at least three sets of tasks that researchers need to tackle. The first two sets of issues are concerned with relationships among different types of intergovernmental arrangements formed at various levels in different regions of the world and in different time periods. Intergovernmental agreements can be formed at a range of geographic scopes, involving different number of actors; they can be bilateral, sub-regional (such as the Greater Mekong Region), regional (such as the EU and APT), interregional (such as APEC and ASEM), and global multilateral (such as the WTO). However, the relationships among them are not entirely clear. For example, does the rise and fall of the WTO trade negotiations correlate with waves of states’ interests in regionalism? What does the recent surge of bilateral free trade agreements (FTAs) imply for global and regional institutional arrangements? Do bilateral or regional FTAs

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<sup>7</sup> Jagdish N. Bhagwati, "U.S. Trade Policy: The Infatuation with Free Trade Areas," in Jagdish N. Bhagwati and Anne O. Krueger, eds., *The Dangerous Drift to Preferential Trade Agreements* (Washington, D.C.: AEI Press, 1995).

become stepping stones or stumbling blocks for global trade negotiations?<sup>8</sup> Why do states choose one policy channel over others? These questions require further investigation for a better understanding of regional and global dynamics.<sup>9</sup>

The second issue is concerned with the temporal dimension of regional institution-building. Although this dissertation touched upon the sequence of regional institution-building, more systematic research needs to be done to analyze the impact of preceding regional institutions on the subsequent creation of institutions. The existing literature often analyzes the creation of a regional institution in isolation from other pre-existing institutions in the region. However, institutions are not created in an institutional vacuum. If we focus on the Asia-Pacific region, we can address such questions as these: How has ASEAN influenced the institutional form that APEC took? What roles did ASEAN's Post-Ministerial Conference (PMC) play in creating the ARF? How did internal differences within APEC encourage the creation of APT? How has the formation of ASEM contributed to the subsequent formation of the APT process? The central aim of this research would be to underscore the salience of the temporal dimension of institutional analysis by demonstrating the impact of the sequence of regional institution-building.

The third set of issues is concerned with institutional *effects*. This dissertation focused primarily on institutional creation and evolution, leaving the issue of institutional effects out of the scope of investigation. Nonetheless, the question of whether these regional institutions matter remains an important one. Specifically, did regional arrangements such as APEC and APT make any difference in terms of interstate relationship among members? If so, when and how did they matter?

The literature on international institutions has shifted its attention from the question of *whether* institutions matter to the question of *how* they matter in affecting the behavior of states.<sup>10</sup> Furthermore, scholars of institutions have started to tackle the issue of whether different

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<sup>8</sup> This question has gained a wide policy and scholarly attention since the surge of regional arrangements in the early 1990s. See Jagdish N. Bhagwati, *The World Trading System at Risk* (New York: Harvester Wheatsheaf, 1991).

<sup>9</sup> Vinod K. Aggarwal and Min Gyo Koo have developed a typology of different modes of trade management. See Vinod K. Aggarwal and Min Gyo Koo, "Beyond Network Power? The Dynamics of Formal Economic Integration in Northeast Asia," *Pacific Review* 18, no. 2 (2005): 189-216; Vinod K. Aggarwal and Min Gyo Koo, "The Evolution of APEC and ASEM: Implications of the New East Asian Bilateralism," *European Journal of East Asian Studies* 4, no. 2 (2005): 233-261.

<sup>10</sup> Lisa L. Martin and Beth Simmons, "Theories and Empirical Studies of International Institutions," *International Organization* 52, no. 4 (1998): 729-757.

types of institutions have different effects on state behavior.<sup>11</sup> Scholars of comparative regionalism have just started to address not only why different regionalist projects take different forms, but also the issue of whether these different forms have different institutional effects.<sup>12</sup> Moreover, it is imperative to explore how different regional arrangements affect one another. These are extremely complex and difficult tasks that deserve further research.

The concept of a region has recently gained wide attention from both scholars and policymakers. Policymakers in many parts of the world have recognized regional arrangements as an increasingly important component of the foreign policy apparatus to deal with a rapid change in global dynamics. In fact, it is argued that we live in a “world of regions.”<sup>13</sup> The new research agenda suggested above leads the researcher to explore the relationships between different regional arrangements within and across the region and over different time periods rather than studying each regional institution separately. Needless to say, further research on the institutional *effects* of regional arrangements is of great interest not only to scholars but also to practitioners.

The creation of regional institutions is a complex phenomenon. States have various motives to create regional institutions. Yet forming a regional institution is an extremely difficult task that requires careful planning, coordination, and political leadership. As we have seen in this dissertation, Asia-Pacific and East Asian leaders have overcome many formidable obstacles in creating APEC and the APT. Consequently, the creation of these regional arrangements has significantly changed basic patterns of interaction among countries in the Asia-Pacific and East Asia. However, these regional institutions have encountered many limitations. APEC has already suffered from its own institutional crisis with many critics blaming it for a lack of substantive outputs. It is yet to be seen whether the APT will encounter a similar institutional crisis. Creating a regional institution requires a high level of governmental commitment and political leadership; yet sustaining the institution also requires substantial political resources. Whether the regional institution can keep attracting the same level of

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<sup>11</sup> Liliana Botcheva and Lisa L. Martin, "Institutional Effects on State Behavior: Convergence and Divergence," *International Studies Quarterly* 45 (2001): 1-26.

<sup>12</sup> Some scholars have started to engage in these important issues. See Amitav Acharya and Alastair Iain Johnston, eds., *Crafting Cooperation: Regional International Institutions in Comparative Perspective* (Cambridge: Cambridge University Press, Forthcoming).

<sup>13</sup> Katzenstein, *A World of Regions: Asia and Europe in the American Imperium*.

political commitment and resources depends on whether it can serve certain roles for member countries.

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