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Vinod K. Aggarwal, University of California, Berkeley, CA, USA

Vinod K. Aggarwal • Min Gyo Koo
Seungjoo Lee • Chung-in Moon
Editors

Northeast Asia

Ripe for Integration?

Springer

Prof. Vinod K. Aggarwal
University of California
Berkeley Asia Pacific Economic
Cooperation Study Center
(BASC)
802 Barrows Hall
Berkeley CA 94720-1970
USA
vinod@berkeley.edu

Prof. Min Gyo Koo
Yonsei University
Dept. of Public Administration
134 Shinchon-dong, Seodaemun-gu
Seoul 120-749
Korea
mingyo@gmail.com

Prof. Seungjoo Lee
Chung-Ang University
Dept. of Political Science
221 Heukseok-dong, Dongjak-ku
Seoul 156-756
Korea
seungjoo11@yahoo.com

Prof. Chung-in Moon
Yonsei University
Dept. of Political Science
134 Sinchon-dong, Seodaemun-gu
Seoul 120-749
Korea
cimoon@yonsei.ac.kr

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Preface

How will Northeast Asia's economic and security institutional architecture evolve? Predicting the future is always hazardous business, often left to seers and wizards. Yet at the same time we believe that by examining the recent history of Northeast Asia from a theoretically informed perspective, while we may not always correctly forecast the future, this exercise can still provide useful insights for policymakers and academics. To this end, this book examines how critical changes over the last twenty or so years have transformed the institutional organization of the region. Specifically, we consider the impact of what we term the "triple shocks": the Cold War's end, the Asian financial crisis, and the terrorist attacks of September 11, 2001. We examine how the impact of these key changes has played out in the context of China's rise, Japan's economic problems, American neglect of Asian developments, the fall of the Soviet Union and subsequent resurgence of Russia, and the changing dynamics of the two Koreas.

Examination of changes in Northeast Asia's institutional landscape is not new. Yet we believe that this book breaks fresh ground by providing a theoretical framework that facilitates the exploration of key countries' foreign economic and security policies in a comparable manner. By examining the significant variables that influence national responses to these individual shocks, and through consideration of the impact of cumulative changes in the region in the post-triple shocks period, we believe that we can better gauge likely future institutional trends in the region.

The East Asia Foundation (EAF), based in Seoul, Korea, has generously supported this book. With its financial support, we were able to hold a conference at the University of California at Berkeley, co-sponsored by the Berkeley APEC Study Center (BASC), in December 2005. This opportunity to discuss first drafts of our papers, and our subsequent interactions, have greatly benefited from the support of the EAF. It has proven instrumental in allowing us to clarify our thoughts

and assemble this volume. Aside from the academic exchange supported by this funding, this meeting also allowed us to create a network of ties among the scholars who either contributed chapters to this volume or who commented on this work.

Our meeting in Berkeley was extremely fruitful as a result of the comments that the book's contributors received from Crystal Chang, Myung-koo Kang, Jin-Young Kim, Elaine Kwei, Kenji Kushida, Hong Yung Lee, and Jehoon Park. Without their incisive criticisms and suggestions for improvement, this book would have been much the poorer. We would like to particularly single out the help we have received from Seung-Youn Oh, who not only provided logistical and organizational support for the conference, but also lent her expertise as a discussant.

The work of the staff at BASC proved crucial. Three former and current project directors—Jonathan Chow, Edward Fogarty and Kristi Govella—have shepherded the transformation of rough conference papers to carefully edited and structured book chapters. They not only furnished the contributors to this book with the collated comments of the discussants, but more importantly, with their own set of comments that pushed all of us to work harder and meet their high standards. Kristi's management of the publication process has greatly eased the editors' workload. In this task, she has been ably supported by the work of Robert Chen, Cindy Cheng, Ross Cheriton, Nathan DeRemer, Michelle Haq, Vaishnavi Jayakumar, Andrew Kim, and Anne Meng, undergraduates who work at BASC under the auspices of the Berkeley Undergraduate Research Apprenticeship Program.

We would like to thank Niels Peter Thomas of Springer Verlag for supporting the publication of this book. We also hope that this volume will be a valuable edition to the book series entitled *The Political Economy of the Asia Pacific* that Vinod K. Aggarwal is editing for Springer.

We, of course, remain responsible for any errors or omissions.

Vinod K. Aggarwal	*Berkeley, California*
Min Gyo Koo	*Seoul Korea*
Seungjoo Lee	*Seoul Korea*
Chung-in Moon	*Seoul Korea*

Contents

Contributors

Vinod K. Aggarwal is Professor of Political Science, Affiliated Professor at the Haas School of Business, and Director of the Berkeley APEC Study Center at the University of California at Berkeley.

Ellen L. Frost is Adjunct Research Fellow at the National Defense University and a Visiting Fellow at the Peterson Institute for International Economics.

David C. Kang is Professor in the Department of Government and Adjunct Associate Professor in the Tuck School of Business at Dartmouth College.

Saori Katada is Associate Professor in the School of International Relations at the University of Southern California.

Taehwan Kim is Research Professor in the Division of International Education and Exchange at Yonsei University and Managing Director of the East Asia Foundation.

Min Gyo Koo is Assistant Professor in the Department of Public Administration at Yonsei University.

Seungjoo Lee is Associate Professor in the Department of Political Science at Chung-Ang University.

Kun-Chin Lin is Assistant Professor in the Department of Political Science at the National University of Singapore.

Chung-in Moon is Professor in the Department of Political Science at Yonsei University.

Sang-young Rhyu is Associate Professor in the Graduate School of International Studies at Yonsei University and Director of the Kim Dae-jung Presidential Library and Museum.

Mireya Solis is Associate Professor in the School of International Service at American University.

Abbreviations

ABMI	Asian Bond Market Initiative
ABF	Asian Bond Fund
ABM	Asian Bond Market
ACU	Asian Currency Unit
ACFTA	ASEAN-China Free Trade Area
ADB	Asian Development Bank
AFC	Asian Financial Crisis
AMF	Asian Monetary Fund
AMU	Asian Monetary Union
APEC	Asia-Pacific Economic Cooperation Forum
APT	ASEAN Plus Three
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
ASEM	Asia-Europe Meeting
BTA	Basic Telecom Agreement
CIS	Commonwealth of Independent States
CMEA	Council for Mutual Economic Assistance
CMI	Chiang Mai Initiative
CNPC	China National Petroleum Corporation
COMECON	Council for Mutual Economic Assistance
CPR	common pool resource
CSCAP	Council for Security Cooperation in the Asia-Pacific
CSCE	Council on Security Cooperation in Europe
CSTO	Collective Security Treaty Organization
CTBT	Comprehensive Test Ban Treaty
CVID	complete, verifiable and irreversible dismantlement (nuclear weapons)
DMZ	demilitarized zone
DPRK	Democratic People's Republic of Korea

EAEC	East Asia Economic Caucus
EAEG	East Asian Economic Group
EAFTA	East Asian Free Trade Area
EAS	East Asia Summit
EAVG	East Asia Vision Group
EASG	East Asia Study Group
EFTA	European Free Trade Association
EOI	export-oriented industrialization
ESFE	East Siberia and Russia's Far East
EPA	Economic Partnership Agreement
EVSL	Early Voluntary Sectoral Liberalization
FDI	foreign direct investment
FSA	Financial Services Agreement
FSB	Federal Security Service (Russia)
FTA	free trade area/agreement
FTAA	Free Trade Area of the Americas
GATT	General Agreement on Tariffs and Trade
GSP	Generalized System of Preferences
GWOT	Global War on Terror (US)
HEU	highly enriched uranium
IAEA	International Atomic Energy Agency
IAP	Individual Action Plan
IFI	International Financial Institution
IMF	International Monetary Fund
ITA	Information Technology Agreement
ITAR	International Traffic in Arms Regulation
JBIC	Japan Bank for International Cooperation
JGB	Japan Government Bonds
JSEPA	Japanese-Singapore Economic Partnership Agreement
KEDO	Korean Peninsula Energy Development Organization
KORUS	South Korea-U.S. free trade agreement
LWR	light-water nuclear reactor
MANPADS	man-portable air defense systems
METI	Ministry of Economy, Trade and Industry (Japan)

MITI	Ministry of International Trade and Industry (Japan)
MOF	Ministry of Finance (Japan)
MOFAT	Ministry of Foreign Affairs and Trade (South Korea)
MERCOSUR	Southern Common Market
NATO	North Atlantic Treaty Organization
NAFTA	North American Free Trade Agreement
NEACD	Northeast Asia Cooperation Dialogue
NEACI	Northeast Asian Cooperation Initiative
NEASD	Northeast Asian Security Dialogue
NEAFTA	Northeast Asian Free Trade Agreement
NIC	newly industrializing country
NIE	newly industrialized economy
NPT	Nuclear Non-Proliferation Treaty
NSC	New Security Concept (China)
OMT	Office of the Minister for Trade (South Korea)
OSCE	Organization for Security and Cooperation in Europe
PLA	People's Liberation Army (China)
PRC	People's Republic of China
PSI	Proliferation Security Initiative
PTA	preferential trade agreement
ROK	Republic of Korea
RTA	regional trade agreement
SARS	Severe Acute Respiratory Syndrome
SCO	Shanghai Cooperation Organization
SEANWFZ	Southeast Asia Nuclear-Weapon-Free Zone
SEZ	Special Economic Zone
SDF	Self-Defense Force (Japan)
SOC	Social Overhead Capital
SPT	Six-Party Talks
STAR	Secure Trade in the APEC Region
TAC	Treaty of Amity and Cooperation
TRADP	Tumen River Area Development Plan
UNDP	United Nations Development Plan

UNESCO	United Nations Educational, Scientific and Cultural Organization
UNIDO	United Nations Industrial Development Program
WMD	weapons of mass destruction
WTO	World Trade Organization

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

Vinod K. Aggarwal
University of California, Berkeley, CA, USA

Min Gyo Koo
Yonsei University, Seoul, South Korea

1.1 Introduction[1]

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

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

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

[2] The San Francisco system was codified through the 1951 San Francisco Peace Treaty between the Allies and Japan. For more details, see Calder 2004; and Hara 2001.

Yet, seen in comparative regional perspective, Northeast Asia's economic and security cooperation has lacked significant formal institutionalization at the regional level.[3] During the Cold War period, the San Francisco system defined Northeast Asian economic and security relations. Against the background of bitter memories of Japanese colonialism, unresolved sovereignty issues, and ideological divides across the region, the San Francisco system offered America's Northeast Asian allies access to the US market in return for a bilateral security alliance. At the same time, US allies were strongly encouraged to participate in broad-based, multilateral fora in areas of security (e.g., the United Nations, or UN), trade (e.g., the General Agreement on Tariffs and Trade, or GATT), and finance (e.g., the International Monetary Fund, or IMF).

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

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

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

1.2 Northeast Asia's Changing Institutional Map

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

In contrast to the weakness of formal economic integration, the network of Japanese transnational corporations played a key role in forming a virtual economic community. By the early 1990s, under the rubric of the "flying geese" model, Japan exported many of its lower-tech industries to its neighbors, thereby creating concentric circles of investment, with South Korea and Taiwan in the inner circle, and Southeast Asia and China comprising the outer one.[4] Alongside this Japan-centered economic system emerged an informal business network, often referred to as "Greater China," in which Chinese communities in Hong Kong, Taiwan, and elsewhere in Asia promoted trade with, and investment in, China.[5] These informal networks based on corporate and ethnic ties delivered unprecedented rates of growth during the 1980s and the first half of the 1990s. The openness of the US market, natural forces of proximity, and the vertical and horizontal integration of regional economies through Japanese investment and overseas Chinese capital seemed to have produced greater economic interdependence without substantial institutionalization at the regional level.[6]

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

[4] Bernard and Ravenhill 1995; and Hatch and Yamamura 1996.
[5] Ernst 1997; and MacIntyre 1994.
[6] Katzenstein 1997 and 2005.

the proliferation of free trade agreements (FTAs) and currency swap agreements.[7] In a similar vein, there have been various official and unofficial, formal and informal, and bilateral and minilateral dialogues to resolve regional security issues ranging from the rise of China, the Taiwan Straits issue, and the North Korean nuclear crisis. Certainly, the strength and effectiveness of these security fora remain unclear, falling short of filling the organization gap that has persisted in Northeast Asia. Nevertheless, the increasing number of channels for security dialogues and negotiations indicate positive and dynamic processes of exchanging information and opinions, which should be promising signs for regional peace and stability.[8]

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

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

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

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

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

Table 1.1 Modes of economic and security arrangements in Northeast Asia

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

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

*Adapted from Aggarwal 2001. Updated December 2007 with examples

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

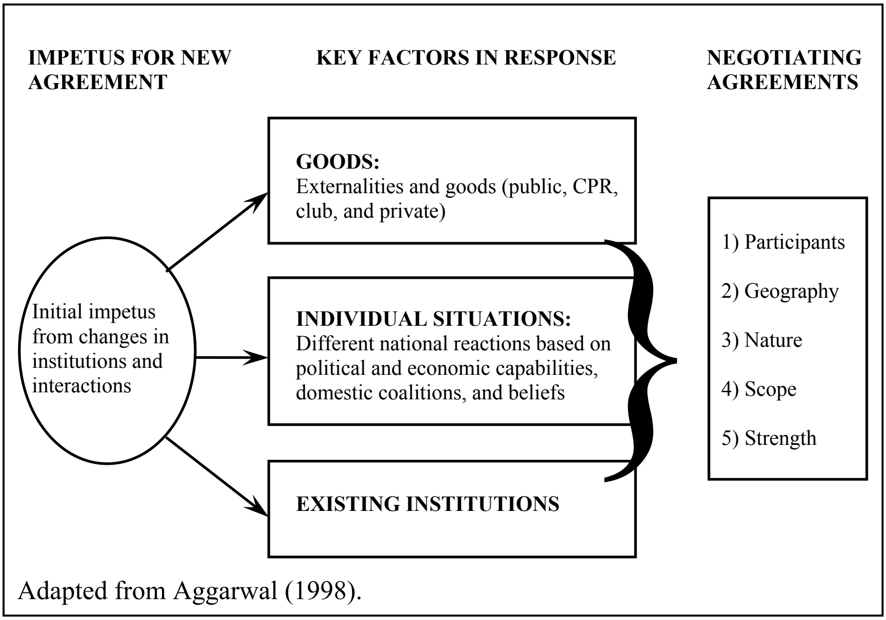

Fig. 1.1 The evolution of economic and security arrangements

The process of a shift from an initial institutional equilibrium to a new one generally comes about with some external shocks that create pressure for change. External shocks may stimulate or impede the

[14] Aggarwal 1998.

supply of certain types of goods that pertain to either economics or security, or both. While there are many factors that might affect national responses to external shocks and subsequent change in the provision of goods, the most significant elements are countries' individual bargaining positions, consisting of their international position, domestic power structures, and elite beliefs. Finally, if countries choose to create new regional institutions or modify existing ones, they must decide whether and to what extent those institutions will be linked to global multilateral institutions. Figure 1.1 illustrates the key elements and process of our institutional bargaining game approach.

1.3.1 The Post-Triple Shocks

In Northeast Asia, the pressure for a shift from traditional to new institutional equilibrium has come about through three major external shocks, including the end of the Cold War, the Asian financial crisis, and the September 11 attacks.

The Post-Cold War Shock

The aforementioned San Francisco system began to undergo a gradual modification from the early 1970s with the inclusion of China and other communist countries, but retained to a remarkable degree the Japan-centered and Washington-dominated form throughout the Cold War period.[15] In the post-Cold War era, however, the fissure in the system became increasingly visible as a result of the changing regional balance of power. In Northeast Asia, the Sino-Soviet-American strategic triangle has now been replaced by a new triangular relationship between the US, Japan, and China. For all the power of the US and Japan, the past two decades have been most notable for China's dramatic rise, and the resultant complexity of the regional power equation does not allow for a single pacesetter.[16]

The Cold War bipolarity in Northeast Asia acted as the source of regional reluctance to institutionalize economic and security relations, but its abrupt end has made it politically easier for Northeast

[15] Calder 2003.
[16] Buzan 2003; Friedberg 2005; and Christensen 2006.

Asian countries to consider institutionalizing their economic and security ties.[17] The end of the Cold War reduced the significance of ideological divisions and has broken down the problem of, in Gowa's term, the "security diseconomy" that had precluded tighter institutional integration between and within capitalist and communist blocs.[18]

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

The contribution of the end of the Cold War to Northeast Asia was more visible in the security issue area. Certainly, the potential problem of a security diseconomy has yet to be resolved in Northeast Asia. There is a deepening concern that China's growing trade surplus with the US and Japan has yielded hard currency with which to buy weapons, foreign investment for the expansion of strategic infrastructure, and technology transfer that may improve Chinese military capabilities. As a potentially dissatisfied rising power, China would most likely challenge the existing regional order if these arrangements continued

[17] Breslin and Higgott 2000; and Ravenhill 2006.
[18] Gowa 1994.
[19] Stanley Foundation 2006.

to favor the US and Japan. Also, China's authoritarian regime is vulnerable to unconstrained ultra-nationalism thanks to its legitimacy deficit. At the same time, however, the presence of a security diseconomy may motivate the three major powers to promote an appropriate minilateral venue for directly or indirectly reassuring each other as well as their neighbors about their security and economic policies, while maximizing their respective national interests.

During the Cold War period, the US opposed an Asian equivalent of the Council on Security Cooperation in Europe (CSCE), primarily due to Soviet support for the idea. The US feared that the Soviet Union would use a multilateral security forum to drive a wedge between the US and its Asian allies. Japan followed the American lead in opposing proposals for establishing regional multilateral security cooperation fora in East Asia. Yet, by 1990, Japan began to fear that its fundamental security interests, including the US alliance, would be seriously undermined if Japan did not participate in the emerging process of the post-Cold War institution building in the region. Against this backdrop, Japan proposed its own initiative for a multilateral security forum – the Nakayama proposal.[20]

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

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[20] In July 1991, Japan abruptly reversed its longstanding opposition to regional security institutions and proposed a minilateral security dialogue within the Association of Southeast Asian Nations (ASEAN) Post-Ministerial Conference. This initiative, known as the Nakayama proposal, represented a bold departure from Japan's conservative regional security policy under America's nuclear umbrella. Although it did not materialize as proposed, the Nakayama proposal did encourage the formation of the ARF by promoting the idea of a multilateral security dialogue connected with ASEAN. See Midford 2000, 367-8, 387.

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

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

The Post-Asian Financial Crisis Shock

The second turning point came in the wake of the Asian financial crisis of 1997–98 followed by the debacle of the 1999 WTO ministerial meeting in Seattle. The financial crisis and the institutional crisis of the WTO revealed a number of shared weaknesses among Northeast Asian economies.[23] With respect to informal market integration, the unprecedented economic shocks proved that the seemingly dense networks of Japanese and overseas Chinese business were quite vulnerable.[24] Asian economies could delay the ultimate bursting of their bubble as long as they were able to find export markets where they could sell the investment-fueled output that vastly exceeded the absorption capacity of domestic consumers. However, the structural problems finally exacted a heavy toll in the closing years of the 1990s. Concurrently, Northeast Asian countries' commitment to a broad-based, multilateral trade regime eroded significantly. Although the July 2004 Geneva meetings restarted the Doha Round of WTO negotiations, the riots in Seattle in 1999 and the failed 2003 ministerial

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

[23] Aggarwal and Koo 2005.

[24] Some scholars go a step further and argue that the impact of the particular pattern of Japanese and overseas Chinese investment contributed to the damaging crisis. The rapid expansion of Japanese and overseas Chinese regional production networks in East Asia in the 1980s and early 1990s began to show a tendency to follow investment fads rather than market demand, creating overcapacity in similar manufacturing sectors such as electronics and automobiles. See Hatch 1998.