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**From the Flying Geese to the Noodle Bowl:
Institutions, Identity and Interests
in East Asian Regionalism**

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List of Abbreviations

- ABMI — Asian Bond Market Initiative
- ACIA — ASEAN Comprehensive Investment Agreement
- ACU — Asian Currency Unit
- ADB — Asian Development Bank
- ADB I — Asian Development Bank Institute
- AEC — ASEAN Economic Community
- AEM — ASEAN Economic Ministers (Meeting)
- AFAS — ASEAN Framework Agreement on Services
- AMF — Asian Monetary Fund
- ANZUS — Australia, New Zealand, United States Security Treaty
- APEC — Asia-Pacific Economic Cooperation
- APSC — ASEAN Political and Security Community
- APT — ASEAN Plus Three (ASEAN, China, Japan, South Korea)
- ARF — ASEAN Regional Forum
- ASCC — ASEAN Socio-Cultural Community
- ASEAN — Association of Southeast Asian Nations
- CAFTA — China–ASEAN Free Trade Agreement
- CEPT — Common Effective Preferential Tariff
- CLMV — Cambodia, Laos, Vietnam and Myanmar
- CMI — Chiang Mai Initiative
- EAEC — East Asian Economic Caucus
- EAEG — East Asian Economic Group
- EAS — East Asia Summit
- ECU — European Currency Unit
- EU — European Union
- FDI — Foreign Direct Investment
- FG — Flying-geese paradigm (or model)
- GATS — General Agreement on Trade in Services
- GATT — General Agreement of Trade and Tariffs
- HST — Hegemonic Stability Theory
- IAI — Initiative for ASEAN Integration
- IMF — International Monetary Fund

IPE — International Political Economy
IPR — Intellectual Property Rights
IR — International Relations
JETRO — Japan External Trade Organisation
MNE — Multinational Enterprise
MFE — Most Favoured Nation
NAFTA — North American Free Trade Agreement
NATO — North Atlantic Treaty Organisations
NMI — New Miyazawa Initiative
NTB — Non-tariff Barrier
OECD — Organisation for Economic Cooperation and Developments
OEEC — Organisation for European Economic Co-operation
PAFTAD — Pacific Trade and Development Conference
PECC — Pacific Economic Cooperation Council
PRC — People's Republic of China
PTA — Preferential Trade Agreement
RCEP — Regional Comprehensive Economic Partnership
ROK — Republic of Korea (South Korea)
RTA — Regional Trade Agreement
SEATO — Southeast Asia Treaty Organisation
SME — Small and Middle-Sized Enterprise
TAC — Treaty of Amity and Cooperation
TPP — Trans-Pacific Partnership
US — United States of America
WB — The World Bank Group
WTO — World Trade Organisation
ZOPFAN — Zone of Peace, Freedom and Neutrality

Introduction

Regionalism has proven to be an increasingly dominant feature of the contemporary world economy and international politics. While this phenomenon has a long history, it has gained an extraordinary pace since the end of the Cold War, which era has seen the rapid proliferation of regional institutions and bilateral and multilateral arrangements both in the economic and political realm. More than 250 regional trade agreements (RTA) have entered into force since 1990, compared to less than 30 in the years between 1957 and 1989 (WTO 2014). Regional forums covering traditional and non-traditional security issues, as well as other challenges requiring transnational management have mushroomed. Students of international relation have begun to conceptualise “a world of regions” (Katzenstein 2005) or the “global order of strong regions” (Buzan and Waever 2003: 20).

East Asia is an especially interesting region of the world in this regard. It had been host to an economic development process of historical scale over the past decades, and has emerged in the 21st century as ‘factory Asia,’ a global centre for manufacturing (WTO and IDE-JETRO 2011: 14–15), and an increasingly important market as well. But while East Asia has become a key region within the globalised world economy, it is also an area where disputes and security tensions continue to dominate the political agenda. In addition, East Asia presents a form of regionness which has proven to be hard to capture through the theoretical lens of international relations (IR) and international political economy (IPE).

On one hand, East Asia has a remarkable track record of regional integration in many respects. Trade and investment flows among East Asian economies have grown rapidly, and the share of intra-regional trade within East Asia rose to about 50 per cent by 2012 (ADB 2014). Regional production networks and supply chains have emerged, crafting an international division of labour within East Asia, which in turn has become the driver of economic growth in the region, as well as the region’s deepening integration into the world economy. The growing economic interconnectedness have even translated into such realms as people-to-people contacts, cultural exchanges, and, most importantly, regional dialogue on political and security issues. This is especially important in a region which is often described as ‘ripe for rivalry’ (Friedberg 1993) instead of cooperation. Since the 1990s, the number of regional institutions and problem-solving forums on both economic and political affairs has expanded, and the scope and the scale of institutionalisation have continued to broaden and deepen.

On the other hand, while the degree of institutionalisation of cooperative processes in East Asia has certainly evolved, it still remained comparatively low relative to other regions of the world. Although the wave of ‘new regionalism’ has not left East Asia untouched, and the post–Cold War era has seen the proliferation of RTAs and the broadening and deepening of other forms of interstate cooperation, East Asian regional institutions remained weak, and regional integration in East Asia has been dominated by market forces instead of state-led initiatives. In addition, political disputes have remained pervasive in the region, limiting the potential for deeper engagement among East Asian nations. This puts the state of the market-led ‘bottom-up’ process of regionalisation into contrast with that of the ‘top-down’ political process of regionalism. A prevalent argument in the constructivist literature is that the low level of institutionalisation in East Asia is a result of ideational forces: relatively young nation states with past memories of colonisation and foreign oppression have been reluctant to give up elements of their sovereignty, and opted for a less formal, more ad-hoc way of regionalism. Realist authors instead emphasise the differences in interests among East Asian states, and contend that there is very little space for cooperation in such a diverse region of the world.

However, these arguments tell only one side of the full story. While they might explain the weakness of East Asian institutions and the laggardness of regionalism, they fail to account for the success of market-led regionalisation, which would not have been possible without some degree of coordination and cooperation on the political front. Market forces need a special set of conditions to flourish, and without domestic and international policies that provided for these conditions, market-led integration would not have been able to attain the level of success and bring the amount of benefits it has.

In this thesis, I attempt to construct a narrative of East Asian regional integration which accounts for the success of this process as a result of a delicate interplay between domestic strategies and institutional changes on the one hand, and global political and economic factors on the other. By doing so, I will follow an essentially holistic and interdisciplinary approach, encompassing mainly the fields of IR and IPE, but to a lesser degree also various strands of economics.

My first hypothesis is that *in the absence of regional institutions and frameworks, economic integration in East Asia has been the result of strategic and institutional features and the changes thereof on the state- and sub-state-level on the one hand, and on the global level on the other*. While ideational forces have prevented the sort of institution-building as in Europe, the growing interconnectedness among national

economies in the region has been achieved as the outcome of the pursuit of self-interests by state- and sub-state actors, which have sought to profit from the opportunities presented by the architecture of the US-led post-World War II international order. The post-war American hegemony in the world economy and Japan's subsequent emergence as a regional economic power had created an environment in which regional trade and investment could flourish, regional production networks could emerge, and East Asian integration could take hold. Consequently, the development strategies of East Asian economies have been based on profiting from international trade, foreign investment and participation in transnational production networks, and states in the region have shaped their domestic institutions to serve this purpose. Hence, the correspondence of structural forces and national economic strategies on the one hand, and the leadership of the US and Japan on the other, have essentially served as substitutes for regional institutions, and made integration possible even though East Asian states resisted institutionalisation on the regional level. Moreover, this process has been augmented and shaped by US strategic and security interests: the US directly and indirectly helped East Asian nations develop so they could serve as bulwarks against communism, and to this end it tolerated to some degree the free-rider attitude these nations displayed in the economic and security realms.

My second hypothesis is that *systemic shocks, mostly (but not exclusively) external, constituted the most important sources of change in the development of East Asian regionalism, both from an institutional and practical perspective*. Changes in the development of East Asian regionalism cannot be conceptualised as results of a linear process of regionalism with a well-defined path, such as the European one. Instead, East Asian states—reluctant to engage in institution-building—chose to endeavour on the development of formal regionalism only in the face of an urgent external systemic pressure to do so. In contrast to the constructivist 'orthodoxy' on East Asian regionalism which defines changes in this process as results of ideational shifts, I argue that material factors played a similarly important role in augmenting the development of regionalism in East Asia.

My third hypothesis concerns the recent development, the current status and the potential future trajectory of East Asian regionalism. I propose that *as the scale of institutionalisation in the East Asian and Asia-Pacific regions broadens, these institutions have increasingly become forums and instruments of power politics*. The reasons for this gloomy outlook concern the effects of the rise of China on the one hand, and the very nature of East Asian regionalism on the other. In contrast to Europe, where interest-based

bargaining has been conducted within institutional frameworks (Moravcsik and Schimmelfering 2003), *de facto* regional integration preceded *de jure* regionalism in East Asia (Abe and Nidhipraba 2008: 2; Völgyi 2011: 188). Thus, a wide host of economic and security interests have developed outside the sphere of institutions. This makes it more problematic to form institutions which can accommodate these—in many ways competing—interests, especially in light of the shifts in power relations in the region. In particular, the rising China is reluctant to engage in institutionalised cooperation which would limit its freedom of choice and constrain both the aims and the instruments of its foreign policy. On the other hand, a number of East Asian nations are reluctant to accept Chinese leadership for China's aims are in many respects contrary to theirs.

It should be noted that certain aspects of these hypotheses have already been explored in the scholarly literature on East Asian regionalism to some degree. In this sense, the factors and processes to be analysed here are far from revolutionary, in fact not even new, additions to the discourse in themselves. Instead, the relevance of this study lies in its intended capacity to synchronise and reinterpret previous scholarship and fit it into a narrative which takes a broader structural view of this phenomenon by taking both material and ideational forces into account across different levels of analysis. The vast majority of students of East Asian regionalism within the discipline of IR have focused on factors which have prevented institution-building in the region. Thus, the core concern of political scientists has been to identify *why* East Asian formal political regionalism has developed in the way it did, and why it has failed to imitate the European experience. In contrast, scholars of IPE and economics have mainly sought to explain *how* exactly (in which way and through which channels) economic development in general, and informal economic integration in particular, took place in East Asia. This thesis attempts to bridge this gap by endeavouring to construct a narrative which can explain *why* economic regionalisation occurred in the way it did, and *how* the political and economic factors in East Asian regionalism are interrelated.

It is also important to highlight what this study does *not* aim to deal with. Regionalism in general, its East Asian manifestation in particular, economic development, transnationalism, globalisation, and the broader international and security relations of East Asia and the Asia-Pacific are each far more complex issues in themselves than what a thesis of this size and scope could analyse in full detail—not to mention in parallel to one another. Hence, important reservations had to be made as to the scope of this study, as well as in regards to its analytical and thematic depth. In general, the aforementioned

issues will be discussed only insofar as they concern the hypotheses of this study. Moreover, the analytical depth devoted to each of these factors will be consequentially limited to what is essential to evaluate the hypotheses. In other words, the theoretical and practical underpinnings of East Asian regionalism, as well as the scholarly discourse on these, will be presented here in a simplified and interpreted fashion to remain within the restrictions in length applicable to this thesis. I will not offer a descriptive historical discussion on East Asian international relations on the following pages, nor will I detail the numerous (mostly failed and half-successful) attempts at institution-building in the region more meticulously than necessary for the narrative. For these aspects are detailed in a wide body of descriptive and historical–analytical literature East Asian regionalism and international relations, including at least one work written at the very institution this thesis was submitted to (Lukács 2010). Moreover, I will not engage in a comparative analysis of regionalisms. The European integration will occasionally be referred to throughout this thesis as a sort of a benchmark to East Asian integration, but this should not be mistaken for any kind of ambition for a comparative perspective.

Given the complex nature of the topic and the enormous amount of research a quantitative method would require, as well as the interpretative nature of this endeavour, I will follow a path of qualitative analysis, mostly by synchronizing and reinterpreting previous scholarship. Nevertheless, previous quantitative research on East Asian regionalism will be relied upon throughout the thesis, and data will be provided to back up my claims.

The plan of the thesis is as follows. The first chapter presents and defines the main concepts used in this study, and reviews theories of regional integration. The second chapter outlines the analytical framework through which the hypotheses will be evaluated. The third chapter analyses East Asian regionalism and regionalisation before the 1990s. The fourth chapter overviews the changes in East Asian regionalism in the post-Cold War period. Finally, the fifth chapter discusses the present state and potential future trajectory of East Asian regionalism. Chapters three and four will be essentially divided into two thematic parts: a descriptive one, and an analytical summary.

1. Theoretical and literature overview

1.1. Definitions

Although regionalism is an increasingly widely researched topic within the fields of IR and IPE, there is indeed very limited agreement in the growing body of scholarly literature on even the most basic concepts of it. The mere definitions of fundamental concepts, such as what constitutes a region, regionalism, regional integration, etc., are contested, as well as the appropriate method and framework for the study of these (Hameiri 2012). These conceptual issues are especially salient in the case of East Asia, which constitutes a form of regionness and a model of integration which is especially hard to capture through the theoretical lens of IR.

The definition of a region is problematic in itself. Regions had traditionally been defined on the basis of geography, but as Pempel (2006: 4) put it, “[a]lmost no region in the world with genuine political and economic significance is so essentialist in its makeup; rarely can any be understood as delimited by simple geographic lines on a map.” While geographic proximity remains an integral part of the term, contemporary students of regionalism regard regions as politically made units (Katzenstein 2005) bound together by material (interdependence, security) and/or ideational (common culture, history, norms) forces. Although such a conceptualisation takes us closer to a more uniform definition of what constitutes East Asia, it fails to delimit the exact scope of the region. Political and economic units in this part of the world include the North- and Southeast-Asian subsystems, a broader one encompassing both sides of the Pacific (Asia-Pacific), as well as a number of diverse intraregional groupings.

The institutional setup of the region reflects this complexity, and resembles a system of concentric circles: in the middle of it stands the Association of Southeast Asian Nations (ASEAN) and its ten member states; the next circle is that of the ASEAN+3 (APT) framework including China, Japan and South Korea; the third circle, the East Asia Summit (EAS) brings to the table the United States, Russia, India, Australia and New Zealand (see Appendix 11); while organisations such as the APEC and free-trade initiatives such as the Trans-Pacific Partnership include (TPP) Latin-American states as well. Overlapping bilateral arrangements make the picture even more complex, which have been described by Baldwin (2008) as beset of a ‘noodle bowl syndrome,’ an unorganized tangle of overlapping bilateral deals.

I cut short these definitional problems here on a functional basis: as this thesis is concerned first and foremost with economic integration in East Asia, I will survey the states which are most deeply embedded into this process: the ASEAN members, China, Japan and South Korea (the APT). Moreover, the role of the US will be given due attention, for it has been an important player in the region both from an economic and security perspective.

Defining regionalism has been equally contested. Followers of realism outright dismiss it as an independent phenomenon. Liberals either define it as functional institutional arrangements, or focus on the constitutive role of sub-state actors in this process. Economists define regionalism as abolishing barriers to the free movement of factors of production. These approaches represent the ‘rationalist’ end of the theoretical spectrum, focusing on the material construction of regionalism. Constructivists on the other hand emphasise the role of identity, culture and other cognitive factors, and follow an ideational approach (Fjäder 2012). Here, I will follow mixed definitions derived from these perspectives. For the very nature of East Asian regionalism is loose and decentralised, consisting of ‘soft’ and/or informal institutions, this investigation would be vitally hampered if it followed a narrow definition of regionalism and integration.

A distinction has to be made between regionalism and regionalisation. I define regionalism here as a process encompassing political, institutional and ideational elements, which creates the environment in which decentralised and informal regionalisation can proceed. More precisely, it is understood here as *a ‘top-down’ political process, in which nation states of a region cooperate to form common principles, rules, norms and institutions for the conduct of their interactions, based both on their material interests and normative identity.*¹ Regionalisation is defined here as *a ‘bottom-up’ process driven by sub-state actors, first and foremost businesses, which creates decentralised transnational linkages between and among states, and contributes to the informal integration of national economies.* Lastly, regional integration, or the integration of national economies is defined as *the increase in the movement of factors of production between states.* As this definition highlights, I treat East Asian integration as an outcome of regionalism and regionalisation instead of an autonomous process in itself, and focus on *de facto*, informal elements of it, in contrast with the usual definition which concerns *de jure*, formal arrangements.

¹ This broad definition largely resembles that of regimes as formulated by Krasner (1982). However, I take a broader view of this phenomenon, and consider ideational variables as well as material ones.

1.2. Theories of regional integration

1.2.1. Economic and security perspectives

Economists generally concern themselves with regional integration, which they define as the process of abolishing barriers to trade in goods, services, capital and labour between national economies. Economic theories of integration argue that the rationale for regional integration rests predominantly on the potential economic gains of such a process. In his classic theory of economic integration, Balassa (1961) asserted that abolishing discrimination on the movement of factors of production fosters competition and specialization, mitigates cyclical fluctuations transmitted through trade relations, and contributes to economic growth. Balassa's theory is based predominantly on Ricardian premises, namely the theory of comparative advantages, which, simply put, holds that through specialization and free trade, each country can produce certain goods at lower marginal and opportunity costs (more efficiently) than others. Thus, if each country specialises to produce goods in which it has a comparative advantage, and engages in trade to satisfy its demand for other goods from countries which have a comparative advantage in producing those, every participating nation will be better off. From Ricardo (1817), to the Heckscher-Ohlin model and its extensions, to the New Trade Theory of Krugman (1979), to 'New New Trade Theories' such as Shiozawa's (2007), the agreement among economists is that the welfare gains from the rise in efficiency of resource- and factor allocation derived from liberalisation and specialization outweigh the potential negative effects.²

These welfare gains, however, are very rarely—if ever—symmetric between participating states. Factors such as the relative sizes and development levels of participating economies, their complementarity or competitiveness, certain sectoral attributes, and national policies have a vital effect on potential advantages, both relative and absolute. In most cases, some actors stand to gain more than others. Under certain circumstances, trade liberalisation might even have a daunting negative effect on an economy. As described by the Vanek–Reinert effect, asymmetrical integration on completely free market terms leads to a gradual deindustrialisation of the relatively weaker economy. This is an especially salient potential problem in East Asia, a region which encompasses some of the technologically most advanced and wealthiest states in

² On the other hand, as Balassa (1961) noted, regional economic blocs might create trade-diverting effects in relation to third parties, which might in fact reduce welfare. This will be touched upon later.

the world, such as Singapore and Japan, but also some of the poorest and least developed ones, such as Laos and Cambodia. Moreover, most East Asian states are developing economies, and, as Chang (2002) noted, nation states tend to protect and promote certain strategic sectors, use interventionist policies, and pursue mercantilism to some degree during their industrial catch-up, which limits the potential scale and scope of liberalisation and integration. Such policies have been pursued by virtually all East Asian states. Although most economists, including Balassa (1961), acknowledge these issues, they show a general disregard for the potential political and distributional issues when dealing with regionalism, and focus on question of efficiency instead, viewing economic integration as a self-serving process on material grounds.

Additionally, security considerations have traditionally been equally—if not more—significant drivers of regionalism. Post-war European integration can be conceptualised as essentially an answer to a geopolitical challenge, the so-called German question, in the context of the Cold War. In this sense, European integration has been a political project, achieved through economic means (Kiss J. 2005). The first and foremost East Asian multilateral institution, the ASEAN, is also a product of political and security considerations. Thus, alliances, security institutions and ultimately a security community can be viewed as essential building blocks of regionalism, which allow for peaceful coordination of international affairs. But multilateralism in the security realm has eluded East Asia, and alliances have been formed in the region on a bilateral basis under the US ‘hub-and-spokes’ system. A pervasive argument is that East Asian security was maintained by the military presence of the US—the so-called ‘*Pax Americana*’—, but even under the supposedly peaceful post-war era, East Asia was the scene of a number of long and bloody militarized conflicts. Although some hold that the region enjoys a ‘liberal peace’ resulting from economic interdependence (Goldsmith 2007; Pempel 2010), contemporary events seem to contradict these assessment, and point to the potential for the re-emergence of security competition in the region.

1.2.2. Theoretical approaches

For the issues outlined above, in the language of game-theoretic approaches to IR and IPE, interstate cooperation in general, and international economic integration in particular, involves a commitment or collective action dilemma, inasmuch as the actors involved are unable to reach a solution which is Pareto-optimal for each of them. Such a situation, the collaboration game, is akin to the prisoner’s dilemma, where there are strong incentives for some participants to defect (Keohane 1984: 67–9). Another type of collective action

problem is the coordination game, which involves multiple equilibria, some of which are optimal to a number of participants, but sub-optimal for others. Moreover, distributional dilemmas occur if a state or a group of states continue to experience repeated sub-optimal outcomes during repetitive coordination games (Mattli 1999: 55). The general position in IR is that there are two possible solutions to these dilemmas: international institutions and leadership (Haggard 1997: 22).

Building institutions, however, has proven to be a problematic endeavour in international relations—just as problematic as finding the theoretical basis for institution formation for scholars of IR. Here I will summarise the basic notions of the different schools of IR on regionalism and regional institution-building, and review their positions on the East Asian experience in this regard.

Followers of realism believe that international regimes and institutions are reflections of the distribution of power within an international system, and are created by a powerful state or a group of powerful states to further their own material interests. In an anarchic world where states are preoccupied with maximising their power to guarantee their survival, institutions are not built on the spirit of cooperation, but on the logic of power (Strange 1982; Grieco 1988). States only participate in regional integration to avoid relative losses that result from shifts in the global distribution of power, and international cooperation is extremely hard to achieve, for states are preoccupied with survival and relative gains instead of absolute ones. Hence, realism does not concern itself with regionalism as an independent phenomenon (Fjäder 2012). Realist observers of East Asia tend to focus on strategic and structural factors hindering cooperation, as well as those which carry the potential for conflict. The few realist observers of East Asian regionalism dismiss the process itself as well as constructivist research on it as an illusion, arguing that it had remarkably little impact on unresolved interstate disputes (Jones and Smith 2002, 2006, 2007), and generally question the utility of such an exercise in an otherwise very diverse region (Leifer 1974, 1978). Instead, most realist writers focus on the conflicting interests of East Asian states and the potential for conflict and security competition in the region (Friedberg 1993; Mearsheimer 2010). This thesis takes a more optimistic and nuanced view of the East Asia. However, the factors emphasised by realists are more than worthy of consideration, and will be dealt with on the following pages.

Moreover, the theory of hegemonic stability (HST)—which is rooted predominantly, but not exclusively, in realist thinking—is worth examining in the East Asian context. Hegemony in the international system is generally defined as the economic

preponderance of a state (Keohane 1984: 32) which creates social structures to advance its interests (Gilpin 1981: 9). In this sense, hegemony combines the two solutions mentioned earlier: it is institution building by leadership. But unlike the basic realist notion cited above, theorists of HST emphasise that other states in the system benefit from this kind of leadership in many regards. For Kindleberger (1973), the hegemon is a leader which maintains an open market for other countries' surpluses, a steady outflow of capital for productive investment, and acts as an international lender of last resort. For Krasner (1982) and Keohane (1984), the power of the hegemon lies in its ability to create regimes, and as such, dictate the norms and rules guiding political and economic relations among nations. Strange (1987: 565) has defined this capability more broadly as structural power, derived from the control of the security structure, the production structure, the financial structure, and the knowledge structure.³ More recent works on hegemony put emphasis on the issue of legitimacy, and the capability of the hegemon to attract a followership (Clark 2009). While it should be acknowledged that the main tenet of HST—that the international system *needs* a hegemon to sustain stability and cooperation—is inadequately tested and empirically challenged (Clark 2009; Keohane 1984; Krasner and Webb 1989; Snidal 1985; Strange 1987), hegemony has been an integral feature of East Asian international relations for the better part of history. As I will argue later on, East Asia had historically been a hegemonic system dominated by China, and in the post-war period US hegemony had important constitutive effects on the region.

Liberal scholars agree with realists on a number of core issues: they consider the international system as anarchic and nation-states as the most important actors in it; and also prioritise material over ideational structures (Fjäder 2012: 91). However, for liberals it is not power or coercion, but shared interests in a world of increasing interdependence that create demand for cooperation and the formation of international rules and institutions (Mitrany 1975). As transnational linkages and cross-border transactions increase, so does the need emerge among states for policy coordination to reduce transaction costs and asymmetries of information (Keohane 1982, 1984). The management of interconnectedness and complexity requires rules and norms to govern interstate relations and bring stability to the anarchic international system (Haas 1982).

³ Another group of thinkers, associated with neo-Gramscianism, regard cultural dominance and institutional power as the defining characteristics of hegemony. According to this view, the hegemon imposes its ideology and world view on the societies and leaders of other states through institutions, justifying the social, political, and economic status quo (Cox 1986).

The aforementioned process creates demand for the formation of international regimes, which are defined as “principles, norms, rules, and decision-making processes, around which actor expectations converge in a given issue-area” (Krasner 1982: 185). The ‘classical’ theories of regionalism were formulated within this paradigm.

The first uniform theory of integration, functionalism, was proposed by Mitrany in the 1930s, who argued that collective governance and material interdependence between states develops its own internal dynamic as states integrate in limited functional, technical, and/or economic areas (Mitrany 1933). The neofunctionalist expansion of this idea holds that cooperation leads to positive spill-over effects: integration in even a single sector or issue-area will lead to an increased number of interstate transactions in other sectors, thus creating demand for integration in those sectors as well. Moreover, neofunctionalists argue, this process requires the foundation of supranational institutions to govern increased interstate interactions (Haas 1958). Another liberal-rooted theory of regionalism is liberal intergovernmentalism, which assumes that states achieve their goals through intergovernmental negotiation and bargaining. This theory holds that cooperation or institution-building is the collective outcome of interdependent rational state choices and negotiations (Moravcsik and Schimmelfennig 2009: 68).

It should be highlighted, however, that these theories are based exclusively on European integration.⁴ In East Asia’s case, neofunctionalism and liberal intergovernmentalism have very limited—if any—explanatory value. Despite a host of shared functional interests, East Asia lacked international institutions almost completely until recently. Even ASEAN, the most prominent regional institution, remained comparatively weak, and had been less than successful in promoting transnational exchanges among its members. The most important states of the region, China, Japan and South Korea, are not members of any regional multilateral arrangement apart from ‘talk shops’ within the ASEAN framework.⁵ Moreover, the widespread spill-over effects neofunctionalists theorised failed to appear in East Asia, even though economic integration in the region reached a substantial degree.

Just like their realist peers, liberals have largely neglected East Asian regionalism, not least because its development have taken a very different path than the institutional

⁴ Although Haas (1975) declared neofunctionalism obsolete after the deadlocks of integration in Europe, later developments confirmed the validity of his theory (Stone, Sandholtz and Fligstein 2001). Similarly, Moravcsik’s theory can be regarded as an adequate framework for the analysis of the EU.

⁵ China is an exception in this regard, as it is the founder of the Shanghai Cooperation Organization. I regard the SCO as of marginal importance and utility.

one envisioned by liberal thinkers (Ravenhill 2008). Moreover, perspectives on East Asia vary significantly within the neoliberal institutionalist paradigm. Haggard (1997) for example argued that higher levels of interdependence in East Asia do not necessarily translate into higher institutionalization, for East Asian countries have a diverse set of economic preferences, and possess the bargaining power to reject external efforts towards institutionalisation. Kahler (2000) and Garnaut (2000) on the other hand predicted the depth and scope of East Asian institutionalisation to deepen precisely as a result of increased interdependence.

In any case, the institutionalist logic of regionalism should not be discredited even in the face of its apparent failure to explain the East Asian experience. Although historically East Asia has taken a very different path from what institutionalism would envision, since the 1990s, demand for norms, rules and institutions have been growing in the region, for increased interaction and overlapping economic arrangements call for international management. In contemporary East Asia, it is not the lack of material interests demanding institutions, but the political factors preventing deeper and legalised forms of engagement that hampers regionalism.

Theoretically driven research on East Asian regionalism under the paradigm of social constructivism has focused exactly on the aforementioned dilemma. Constructivists focus on norms and social structures instead of material forces, and hold that shared ideas create patterns of behaviour that might be cooperative or conflictual, and contend that changes in the norms of international society can create changes in the identities and relationships of states to each other (Wendt 1999). Perhaps the most influential scholar of East Asian regionalism, Acharya (2001, 2004, 2009) has argued that institutional change in Asian regionalism cannot be explained as a product of material forces or strategic bargaining spurred by growing economic interdependence. Instead, it is shaped by norms: Southeast Asia had developed a ‘cognitive prior’, a distinct regional construction of sovereignty based on the shared norm of non-intervention, which has shaped the development path of ASEAN. According to Acharya (2009), this explains why East Asian regionalism has been ‘soft’: evolutionary rather than revolutionary, path-dependent rather than path-breaking, and overall, under-institutionalised. In a similar vein, Ba (2009) argued that ASEAN had produced new social norms, a new culture of regional dialogue, and new social and institutional practices. On the one hand, these led to the emergence of a regional belief that states should settle disputes in a non-violent manner, and should work towards regional solutions. On the other hand, these common norms also

encompass a resistance to institutionalisation, and thus gave rise to a fundamentally different approach to regionalism in East Asian than in Europe.

In short, the constructivist ‘orthodoxy’ states that ideas, norms and values, not material interests, shape East Asian regionalism, but these norms—such as the centrality of non-interference and the resistance to binding commitments—also constrain its institutional development.

Other perspectives on regionalism in general, and East Asian regionalism in particular, include diverse theories of ‘new regionalism,’ which emerged in the post–Cold War RTA boom (Mansfield and Milner 1999). These include theoretical innovations such as the new regionalism approach (NRA), which “seeks to describe this multidimensional process of regionalization in terms of levels of ‘regionness’: the process whereby a geographical area is transformed from a passive object to an active subject, capable of articulating transnational interests” (Söderbaum 2013). I would the NRA as formulated by Hettne and Söderbaum (2000) and Yamamoto (2013) as horizontal theories focusing on regional governance, which assess regionalism as an interaction between four realms: economics, society, security and political governance. The utility of this approach in the case of East Asia is limited however, for it assumes the level of integration to be uniform and closely knit in all of these realms at a given stage. For example, a ‘regional complex’ would mean mercantilism, conflicting societal values, an adversarial balance of power and lack of regional governance, while a ‘regional society’ would mean economic cooperation, consistent values, a security regime and regional governance. The East Asian reality, however, is that the level of integration and the nature of interactions differ significantly across these realms at any given stage. This is not to question the utility of NRA *per se*, but for the particular purposes of this thesis.

Lastly, attempts have been made by scholars working within the English School of IR to conceptualise East Asian regionalism, first and foremost the ASEAN, although most of these attempts focused on emphasising the utility of the English School approach instead of actually analysing East Asian regionalism itself (Narine 2006, Quayle 2010a, 2010b, 2012). Nevertheless, on the following pages I will rely partly on the English School of IR as well, for it is a pluralistic and inclusive tradition, which allows for the inclusion of both materialist and ideational approaches, and thus provides pieces of a functional alternative framework to analyse the East Asian experience.

2. Analytic framework

Most of the theories presented in the previous chapter are based predominantly on European integration, which has essentially been a long and dispute-ridden, but nevertheless continuous and linear deepening and widening of rule-based institutions through binding treaties. In contrast, East Asia's 'soft' integration is seen as the outcome of free-market forces bringing closer economic interaction and interdependence, rather than the result of institutions (Fjäder 2012). The contribution of regional institutions to this process—including ASEAN—was negligible (Ravenhill 2008). On the other hand, global institutions and national governments played a decisive role in creating the environment in which market forces could operate on a regional scale and transnational supply chains could emerge by virtue of business interests (Ravenhill 2010).

Consequently, the analytic framework constructed in this chapter and followed later on throughout this thesis adopts a structural, rather than an institutional, approach to the study of East Asian regionalism. While the framework outlined in this chapter builds heavily on the aforementioned Europe- and Western-centric concepts of IR theory, it will do so in a way that allows for a more detailed study of this specific region. The aim here is not to make a contribution to IR theory or regionalism theory *per se*, but to craft an analytic framework which is adapted to, and thus can serve as a tool to better understand the East Asian experience⁶ and evaluate the hypotheses of this thesis.

The model outlined here aims to focus on the delicate interplay between national strategies and global forces which have structured the East Asian regional environment and made market-led integration possible. At the same time, for I am to develop a dynamic rather than a static or linear understanding of East Asian regionalism, this framework also aims to capture the deeper fundamentals and the nature of the East Asian regional international system by moving beyond solely surveying economic integration. Consequently, the wider international and domestic political, ideational and societal forces at work, and the dynamics and changes thereof, will be taken into account. To craft a model which can explain the workings of these forces, I will follow the path of 'analytic eclecticism', incorporating concepts of different paradigms and traditions of IR.⁷

⁶ Consequently, the framework outlined here has very limited explanatory value for other regions.

⁷ Sil and Katzenstein (2010: 411) defined analytic eclecticism as "an intellectual stance that supports efforts to complement, engage, and selectively utilize theoretical constructs embedded in contending research traditions to build complex arguments that bear on substantive problems of interest to both scholars and practitioners." For, in the words of Katzenstein and Okawara (2001: 154), "[t]he complex links between power, interest, and norms defy analytical capture by any one paradigm. They are made more intelligible by drawing selectively on different paradigms—that is, by analytical eclecticism, not parsimony." In other

The general framework employed here is loosely based on Buzan's (2004) structural reinterpretation of the English School tradition. I distinguish between two dimensions of international society: *political* (interstate society), and *economic* (transnational society).⁸ The political dimension of East Asian regionalism and international relations will be divided into three subdimensions, or levels: *global*, *regional*, and *national*. As outlined earlier, I treat East Asian regionalism and regionalisation here as an outcome of global institutional and structural change on the one hand, and state-level institutional and ideational change on the other. Consequently, I will analyse attributes on these levels which I believe have a constitutive effect on the nature of regional interaction. On the global level, two such attributes will be considered: *global institutions* and *global structural dynamics*. First, as I will later argue, the institutions of US hegemony in the world economy were important driving forces of East Asian regionalisation. Second, global structural dynamics had constitutive effects on both the foreign policy culture and the development path of East Asian nations, as well as the regional structure of East Asia. In fact, I will consider a number of regional events of paramount importance as manifestations of global structural forces rather than East Asian ones. These will include the Korean War, the Vietnam War, China–US rapprochement, and—partially at least—the Asian financial crisis. The former three will be regarded as a result of the global Cold War dynamics, while the latter constitutes an unfortunate episode of asymmetrical interplay between the East Asian and the global financial system.

On the national or state-level I distinguish between material and ideational attributes. The former represent the *relative material capabilities* (power) of actors and the *tangible interests* they pursue by participating in regionalism, which are predominantly advantages in the economic and security realms. The latter focuses on *how*

words, following an analytically eclectic approach involves taking into account factors emphasised by different paradigms, even if those paradigms are theoretically opposed to one another.

⁸ Buzan (2004) identifies a third element of international society, namely the societal aspect of it (interhuman society). While it is certainly true that societies do play a role in regionalism through various channels, it would be beyond the scope of this thesis to include them in the analysis. Moreover, the traditional channels through which societies complement this process, such as a shared (regional) identity or democracy, are at best weak in this region, and the formation of a common identity actually appeared on the political level (at least within the ASEAN), instead of the societal one (see Acharya 2009). One important societal aspect of East Asian regionalism is the apparent rise of nationalism in the region, but most observers agree that this phenomenon is predominantly driven by domestic political actors, instead of grass-roots groups. Another might be the uniformity (or the lack thereof) of homogeneity of the patterns of consumption (or consumer taste) among East Asian nations, which might have an effect on regional production and trade. But most of the export production in the region consists of 'universal' products such as electronics and automobiles, where such factors play

state actors conceptualize the regional order, and what type of foreign policy (culture) they follow.

On the regional level, the *structure*, the *nature*, and the *institutional setup* of the East Asian international system will be considered. I consider these variables as dependent on the aforementioned factors of the global and state-level. The structure of the international system represents the distribution of power among states (or coalitions of states), as well as the structure of regional alliances. The nature of the international system reflects the underlying logic of interaction between actors derived from the aggregate of their national foreign policy cultures. As per the conceptualisation of Buzan (2004), this variable will be categorised here as: asocial, power political, coexistive, cooperative, convergent or confederative. The institutional setup of the region will be analysed based on the depth and scope of regional institutions.

The second dimension, the interstate society will be treated as the sphere where regionalisation takes places by the definition presented in the previous chapter. The state of this dimension is dependent on the (global, regional, and national) political and institutional landscape on the one hand, and on strategies and interests of trans-national sub-state actors, mostly multinational enterprises (MNEs) on the other. This level is where the outcome of regionalism and regionalisation, defined previously as regional integration, can be measured as the increase in the movement of factors of production. Exogenous factors, such as technological progress and the forces of globalisation will also be taken into account.

3. East Asian regionalism before the 1990s

3.1. A (very) brief history of the East Asian international system

While it would be well beyond the scope of this thesis to engage in a detailed discussion on the history of East Asian international relations, it is worthwhile to overview at least briefly the nature and changes of the regional international system and that of international economic exchange prior to 1945, for historical experiences did play an important role in shaping the nature of transnational contacts in the post-1945 period, and also provide a broader systemic context for this study.⁹

A brief look at history shows that Asia was an open region fully involved in the world economic system as far back as pre-modern times. The region had an instrumental role in the global division of labour and its conduct in the world economy was open and outreaching (Sakakibara and Yamakawa 2003: 1). East Asia had extensive and well developed commercial systems long before European powers arrived in the region from the fifteenth century onwards (Dent 2008: 40–42). In fact, the promotion of trade was a leitmotif in the region, and a huge pan-Asian trade network had emerged by the first millennium (Chanda 2006: 61). A maritime trade regime connected East Asian ports not only through trade, but also through migration, finance and technology linkages (Hamashita 1997). Moreover, East Asia was the largest and probably also the richest regional economy in the world prior to the 19th century (Braudel 1992). According to Frank (1998: 166), Asia had the preponderant position in the world economy “not only in population and production, but also in productivity, competitiveness, trade, in a word, capital formation until 1750 or 1800.” Thus, from a historical perspective, the sharp rise in cross-border economic exchange and the rapid economic development in East Asia after 1945 is nothing ‘new’; in fact, it might be conceptualised more appropriately as a return to a long established pattern of international relations in the region.

From a political perspective East Asia prior to Western colonisation was under Chinese hegemony, which took shape in the form of the Tributary System. The Tributary System was a hierarchic international order centred around China, based on the China’s cultural uniqueness and superiority, and organised on the participating states’ cultural proximity to China (Fairbank and Teng 1941; Kissinger 2011).¹⁰ In practical terms, the

⁹ It should be noted that this short section presents a very simplified version of East Asia’s history. Nevertheless, it does provide a basic understanding of the main characteristics of East Asian international relations, and the shifts thereof.

¹⁰ Buzan and Zhang (2012: 25–35) posited that the Tributary System was unique in the sense that the clear acknowledgment of the legitimacy of the authority of Chinese hegemony derived from its cultural

tributary relationship between China and the rest of East Asia involved neighbouring states acknowledging China's cultural superiority and its overwhelming power by paying tribute to China in return for benevolence and protection (Jacques 2009: Chapter 9).¹¹ And even though both China and Japan went through periods of isolationism, and the latter refused to participate in the Tributary System for centuries, trade ties nevertheless persisted in East Asia (Sakakibara and Yamakawa 2003).¹²

However, the Tributary System, and with it the economic linkages among East Asian states, were shattered in the 18–19th century as a result of Western colonisation. In this period the predecessors of contemporary Southeast Asian states became parts of distinct Western empires, and thus there were little to no contact between them (Pempel 2005: 7). Meanwhile, the rising imperial Japan, of which Western colonisation eluded, began to widen its influence and achieved territorial gains starting from the late 19th century. By the 1930s, the increasingly militaristic leadership in Tokyo sought to challenge Western influence in East Asia, and started to exert its dominance over the region under the guise of the 'Greater East Asia Co-Prosperity Sphere' concept, which held that Japan as a superior civilisation and the Japanese as a superior race should be the natural leaders of Asian peoples (Hata 2005; Peattie 2005; Samuels 2007).¹³ But with all the horrors and oppression Japanese colonisation brought to the rest of East Asia, it restored in some way the regional division of labour observed both in earlier and later periods. Although this sort of 'integration' was far from voluntary and rested on violence,

achievements and not from material power. Because of its strong cultural quality, it was a distinctive type of hegemony, which had a certain Gramscian character.

¹¹ In fact, the Tributary System and *Tianxia*, the ideology behind it—literally, 'all under heaven'—, has received increased scholarly attention recently both in and outside China (see, *inter alia*, Zhao 2006; Callahan 2008; Kang 2008; Barabantseva 2009; Chang 2011; Yan 2011; Womack 2012; Larsen 2013; Wang 2013), especially as it had become part of the mainstream discourse in China through the works of Zhao Tingyang on the country's place in, and vision for, the world. Suffice it to say that scholarly perspectives differ significantly on the nature and the organising principles of, and the power relations within, this system. The contemporary relevance of this debate will be touched upon later.

¹² According to Japanese historians, the Tokugawa shogunate, while dismissive of the Tributary System, maintained economic ties with China through the Ryukyu Kingdom (present-day Okinawa).

¹³ The reasons for Japanese policies in the 1930s are numerous. According to Samuels (2007: 13–38), by the 1930s Japanese liberals who dominated the political arena in the preceding period were discredited and undermined by Western racism, economic recession after the crisis of 1929, the politically increasingly active military, and (the fear of) rising Chinese nationalism. Against this backdrop, a number of factions within Japan reached a consensus driven by beliefs such as the Greater Asia Co-Prosperity Sphere on the ideological level, but also by rationalist-materialist motives, first and foremost to take control over the natural resources of the region to provide for the needs of the empire and achieve autarky. Berger (2005) argued that Japan's turn to fascism was a result of the breakdown of domestic political institutions in the face of international challenges. In the early 1930s, the capacities for elite mediation in Japanese politics vanished with the break-up of the 1920s party system, and none of the „narrowly educated” specialist elite groups in Japan was able to monopolise power. Thus, consensus remained elusive and domestic politics was beset with elite conflict. In essence, the political system broke down.

it did resemble the post-1945 market-led and peaceful expansion of regional economic exchange in many ways (Cumings 1984). But Japan's ambitions were put to an end by the United States during the Pacific War, and the fall of imperial Japan in 1945 gave way to another substantial systemic change in East Asia.

However, in the years immediately after the war, the fragmentation of East Asia prevailed, and the division of the region was perpetuated by two intermittent processes: the Cold War and decolonisation (Pempel 2005: 7). Although the US, as the preponderant power in the region and also globally, sought to demilitarise Japan and integrate China into the post-war international order, the emergence of the Cold War, the outbreak of the Chinese civil war, the subsequent triumph of the communists in it, and the Korean War resulted in a profound shift in Washington's calculations. Stabilizing non-communist Asia in the face of China's ideological challenge and military onslaughts, while simultaneously weaning Asia from China's economic attraction, became crucial priorities for the US (Calder 2004: 143). Security and economic considerations were inextricably mixed in American policy. A revived Japan was both a bulwark against communism and a critical element in a reformed world economy (Cumings 1984: 17). This policy resulted in US assistance to its newfound allies, but also led to American-designed and -designated restrictions on their economic ties with communist countries (Shaller 1985). In this sense, the Cold War division and related US policies in East Asia had an ambivalent effect on regional order: on the one hand, they constrained the re-emergence of such a broad regional trade regime which existed prior to colonisation; on the other hand, they stabilised the economies of anti-communist nations in the region and assisted their development, planting the seeds of market-driven regionalisation.¹⁴

Moreover, in East Asia there emerged a third group of countries in the form of the self-proclaimed non-aligned 'Third World' nations (Hara 1999: 518). After the fall of the Japanese empire, Western states sought to recapture their former colonies in Southeast Asia, which resulted in an eventually successful decolonisation struggle for independence in these states. Most of the regional interaction in the post-war years among these states took place under the umbrella of anti-colonialism, and the non-aligned movement proved to be not only the starting point of Southeast Asian regionalism (Hirakawa 2013), but also one of the ideological constraints on wider and broader institutionalised cooperation in East Asia (Acharya 2009).

¹⁴ This thesis is concerned with the US-allied part of the region; communist East Asia will not be examined.

3.2. The emergence and the logic of post-war East Asian regionalism

3.2.1. The reasons for the lack of institutionalisation in post-war East Asia

In many respects, US Cold War interests were similar in Europe and in East Asia: Washington wanted to strengthen its allies so that they could become bulwarks against communism. Yet the practical execution of this strategy differed vastly in the two regions: in East Asia, there emerged no institution comparable to NATO or OEEC, no Marshall Plan, and, consequently, no sort of ‘Asian Economic Community.’ Scholars of international relations have been especially fascinated as to “why is not there a NATO in Asia?” (Hemmer and Katzenstein 2002) In other words, why did multilateralism elude East Asia in the post-war years, and why did the security—but also the economic—structure of the region come to rest on a number of US-centred bilateral engagements instead of a broad multilateral one?¹⁵

From a realist perspective, Crone (1993) argued that this was a result of the ‘extreme hegemony’ of the US. Given the enormous differences in relative power between the US and East Asian states, Washington had no imperative to form a multilateral framework which would have limited and constrained its strategic choices. Regional states had little to no material capabilities to offer to a multilateral alliance, and the US expected most of the states in the region to remain permanently weak. Hemmer and Katzenstein (2002) offered a concurrent constructivist explanation by positing that the lack of multilateralism in Asia stemmed from the lack of a collective identity binding together the states on the two sides of the Pacific. While the US saw its allies in Europe as “relatively equal members of a shared community,” it regarded Asian nations as “part of an alien, and in important ways, inferior community” (Hemmer and Katzenstein 2002: 575). Acharya (2009: Chapter 3) provided both an eloquent critique of the aforementioned arguments and the most detailed explanation for why East Asia failed to endeavour on the path of multilateralism in the post-war years. Acharya argued that instead of US policy, Asian norms were the main reasons for the lack of institutional cooperation in the region. According to this account, Asian nations rejected multilateralism as a result of the emergence of the norms of non-intervention, non-alignment and neutralism among them. East Asian leaders regarded treaty- and institution-based multilateralism in general, and a US-led regional pact in particular, as a

¹⁵ Although attempts at multilateralism had been made with the formation of the SEATO and the ANZUS pact, these alliances did not manage to assume a broader influence.

threat to national sovereignty and regional autonomy, as a scheme that would undermine their newfound independence. More broadly, during interactions in the immediate post-war years, East Asian nations developed a *modus operandi* for their conduct vis-à-vis one another—or, in Acharya's words, a cognitive prior—which, in line with their strong adherence to non-intervention and sovereignty, rested on a preference for informality instead of legalistic cooperation, consensus over majority voting, and non-binding consultative processes instead of formal institutionalisation. These principles were to dominate even formal interactions between Southeast Asian nations, and came to be known later as the 'ASEAN Way' (Acharya 2009: Chapter 4).

In summary, the US, as the preponderant power at the time both regionally and globally, had little interest in constructing a multilateral East Asian institution, while Southeast Asian states, wary of the fragility of their newfound independence and being protective thereof, developed norms among them which would have prevented such an exercise otherwise. Moreover, these norms have proven to be very persistent in Southeast Asia, and thus have a strong contemporary relevance regarding East Asian regionalism, which will be discussed later on.

3.2.2. *The political foundations of regionalisation in East Asia*

While multilateral cooperation eluded the region, transnational economic exchange began to expand rapidly in East Asia from the 1960s even in the absence of regional institutions. But before regionalisation, there was war, and war—both 'hot' and 'cold'—had played an important part in shaping the nature of the East Asian international system in general, and the patterns of regional economic exchange in particular (Stubbs 1999, 2005).

The first such war in case was the Korean War, which solidified the Cold War division, but also played an important role in laying the foundations of economic growth in the US-allied part of the region. In fact, an often overlooked chapter of the 'Japanese miracle' is that Japan's recovery was already losing steam before the outbreak of the Korean War. By 1949, Japan was beset by deflation, declining industrial production and recession. But after the war broke out in 1950, the US military infused much-needed capital into the Japanese economy by virtue of the war-generated demand for supplies (Okita 1951). The effects of the Korean War on the Japanese economy were no short of dramatic. US military expenditures in Japan averaged \$550 million per annum from 1950 to 1960. Between 1952 and 1956 more than a quarter of Japan's imports were paid for by US military purchases. In 1952, for example, 63 percent of all Japanese exports were taken by the war. The boom in demand also advanced Japanese industrial modernisation,

the key to subsequent export recovery. Moreover, the Korean War encouraged the US to provide technology to Japan's fledgling industries. American MNEs became important agents of economic change in Japan by transferring capital, technology, and managerial skills to the country. In a sense, the Korean War's impact on Japan was 'an equivalent of the Marshall Plan in Europe' (Borden 1984: 146; Stubbs 1999: 344; Forsberg 2000: 84–5, 179–85). Japan was not the only East Asian economy profiting from the war: Malaya (Malaysia), Singapore and Hong Kong also enjoyed the financial and economic benefits of it (Stubbs 1999: 341, 349). We will never know if Japan and other East Asian economies would have taken off in the fashion they did were it not for the Korean War. But it remains undisputable that the Korean War played a significant role in assisting Japan's recovery—on which, as I will later argue, much of the region's catching-up and the emerging regionalisation were based on.

The Korean War also paved the way for the accession of Japan and other East Asian economies into the institutions of the US-led international economic order, which happened with heavy US diplomatic support in the face of considerable European opposition (Ryan 1994: 558). As Table 1 summarises, by the end of the 1960s, ten East Asian states became members of the International Monetary Fund (IMF) and the World Bank Group (WB). Similarly, most of them started to become signatories to the General Agreement on Trade and Tariffs (GATT), although it took considerably more time for this latter treaty to take hold in East Asia. It should be noted that at this time Washington was pursuing trade and capital-account liberalisation and financial stability on the global level.¹⁶ Thus, from this perspective, East Asian regionalisation did happen under an institutional umbrella, albeit not a regional, but a global one. Table 1 also shows that the US consumed a large percentage of the exports of Japan, the group of so-called Newly Industrialised Economies (NIEs — South Korea, Taiwan, Singapore and Hong Kong), as well as certain other states in East Asia during their industrial catching-up period. As the ADB (2008: 29) noted, the establishment and the development of the GATT regime slashed developed countries' barriers to manufactured imports, and in this favourable environment, "Asian economies took advantage of a wide range of global opportunities, and their connections with markets both inside and outside the region grew very rapidly."

¹⁶ In fact, Article XXIV of the GATT explicitly states that the establishment of (regional) FTAs and customs unions is only permitted provided that these arrangements do not result in higher trade barriers to third parties "than the general incidence of the duties and regulations of commerce applicable in the constituent territories prior to the formation of such" a customs union or FTA.

	<i>Independence /regaining of sovereignty</i>	<i>IMF/WB- accession</i>	<i>GATT/ WTO- accession</i>	<i>US Share in Exports (per cent)</i>			
				1948-55	1956-65	1966-73	1973-80
<i>Japan</i>	1952	1952	1955	19.8	28.4	30.4	24.3
<i>S. Korea</i>	1948	1955	1967	30.7	28.2	41.4	30
<i>Singapore</i>	1963/65	1966	1973	n.a.	8.9	13.4	14
<i>Taiwan</i> ¹⁷	n.a.	1945	1945/65	n.a.	19	38	24.4
<i>Thailand</i>	n.a.	1949	1982	28	15.3	12	11
<i>Malaysia</i>	1953/63	1958	1957	n.a.	n.a.	13.1	16.8
<i>Burma</i>	1948	1952	1948	0.9	0.5	0.7	2
<i>Philippines</i>	1946	1945	1979	65.7	50.6	40.5	32.6
<i>Indonesia</i>	1949	1954/67	1950	25.9	21.8	15.2	23.3
<i>Cambodia</i>	1953	1969	2004	28.4	12.8	2	n.a.
<i>Laos</i>	1947	1961	2013	0	1	0.8	0
<i>Vietnam</i>	1945/54	1956	2007	26.7	8.7	28.4	n.a.
<i>P.R. China</i>	1949	1980*	2001	n.a.	n.a.	n.a.	11.2

Table 1: East Asian countries under the institutions of US hegemony. *Sources:* International Monetary Fund Direction of Trade Database, IMF, WTO, WB websites, and Barbieri and Keshk (2012).

However, East Asian compliance with GATT rules on trade barrier reduction were limited at best. Japan and the NIEs maintained relatively high tariff rates and other protectionist measures even after becoming members of the global free trade regime, although the level of their compliance improved over time (Ryan 1994). Nevertheless, empirical analysis has shown that the gains derived from membership in the GATT/WTO regime were disproportionately large for the East Asian countries (Martin, Anderson and Pham 2009). These two observations—that East Asia remained relatively protectionist, while derived huge gains from the global free trade regime—are closely linked, and can be considered the result of national economic policies of East Asian states on the one hand, and the US’ tolerance of this free-rider attitude to some degree on the other. This

¹⁷ The Republic of China became a member of the IMF, WB and GATT in 1945, but due to the Chinese civil war and its effects, this membership was eventually not exercised. Taiwan became an observer at the GATT in 1965.

sort of protectionism is hardly a distinct feature of East Asian development.¹⁸ But this did not prevent the emergence of regionalisation. In fact, as I will argue in the next section, they geared their domestic institutions towards a way of economic development which favoured only a partial opening of their economies, but this partial opening in turn created the very environment in which economic development and the expansion of regionalisation could go hand in hand.

This does not mean that political frictions resulting from East Asian protectionism went unanswered by the US. As early as the 1950s, Japan's ballooning trade surplus with the US and the extent of Japan's 'economic nationalism' led to bilateral disputes (Forsberg 2000: 113–162), which persisted for decades. But at least during the 1950s and 1960s, America's security concerns have largely triumphed over its economic ones. And these security interests had further important effects on East Asian development and regionalisation beyond Japan, both directly and indirectly.

Besides Japan, South Korea also benefitted directly from US security interests—as well as Japan's partly American-fuelled recovery. As Lie (1998: 57) put it, “[t]he sources of the transformation of the South Korean economy cannot be found in official economic planning documents or in the wisdom of [the leadership] but in the resurgence of the Japanese economy and the US intervention in Vietnam.” Until the mid-1960s, South Korea's was an underdeveloped economy highly dependent on US aid and based on import-substitution, lagging behind even its northern neighbour's (Haggard and Moon 1993: 55). Washington demanded from the late 1940s that South Korea normalise its relations with its former coloniser, Japan, even in the face of strong anti-Japanese sentiment stemming from the history of Japanese oppression on the Korean peninsula (Cumings 2005: 318). As a result of its own economic difficulties and strong American pressure, Seoul finally agreed to the normalisation in 1965, which resulted in the quick infusion of significant amounts of Japanese capital into the South Korean economy in the forms of repatriations for the colonisation, grants, loans and direct investment, coupled by the diffusion of technological and business expertise from Japan to South Korea. The normalisation treaty of 1965 brought South Korea's incorporation into the 'Japanese economic zone' with it, and marked a turn in its economic fortunes (Cumings 2005: 320–321; Lie 1998: 59–60). Another windfall of foreign cash arrived in South Korea as a result of the Vietnam War. War-related income generated over US\$1 billion between 1965 and

¹⁸ As noted in Chapter 1, nation states historically tended to display protectionism during their industrial catch-up, and East Asia proved to be no exemption in this regard (Chang 2002).

1972 (Pak 1993: 29–37, quoted in Lie 1998: 64). According to estimations, war-linked income amounted for 7–8 per cent of South Korea’s GDP annually between 1966 and 1969, and for as much as 19 per cent of its foreign earnings (Cumming 2005: 321). Moreover, war-generated demand in South Korea, along with Japanese technical and financial assistance, provided a crucial niche for industrialisation and export (Lie 1998: 65–66).¹⁹ Japan also received an influx of American capital as much as US\$1 billion as a result of the Vietnam War, and indirect effects of the war played an important part in the development of Singapore’s economy as well (Stubbs 1999: 344–346).

Moreover, as Stubbs (2005) noted, apart from the direct and indirect economic benefits of these wars, Cold War hostilities had further diffuse effects on the economic fortunes of the region by giving rise to strong state structures, which in turn proved to be essential in coordinating the development policies of East Asian countries. Wars in East Asia provided both incentives and material resources for economic development. Development, in turn, was at least partially a means of state-building and achieving social stability. This does not mean that East Asian economic development happened *because* of war, or that resources allocated to war fighting in East Asia could not have served more productive purposes.²⁰ What it does mean is that Cold War hostilities had a meaningful effect on the course of East Asia’s economic fortunes.

A further political foundation of East Asian economic integration was laid with the formation of the ASEAN by Indonesia, Malaysia, the Philippines, Singapore and Thailand in 1967. While Southeast Asian states were reluctant in the post-war years to step on the path of formal, institutional cooperation, they also came to realise their fragility as small states in an international structure dominated by great power politics, and that guarding against external intervention in, and the fragmentation and division of, the region required some form of regional unity vis-à-vis larger powers (Ba 2009: Chapter 2). And even though the Bangkok Declaration which established ASEAN named mostly economic goals for the organisation,²¹ ASEAN served political aims above all else. The three core reasons for the founding of ASEAN were the five founders’ common fear of communist insurgency, their desire to strengthen their resolve against external powers,

¹⁹ South Korea was also directly involved in the Vietnam War. At the height of the war, nearly 50,000 South Korean soldiers were fighting in Vietnam, and by the time of the withdrawal of South Korean forces in 1972, around 300,000 South Koreans had served there (Cumings 2005: 321; Lie 1998: 62).

²⁰ However, as Lie (1998: 65) noted, “the difference between aid and demand which generates production is critical.” While the former led to state-level corruption, the latter led to self-sustaining production.

²¹ Goals included the acceleration of economic growth, the more effective collaboration among member states for the greater utilisation of their agriculture and industries, and the expansion of their trade.

and to alleviate tensions among themselves (Narine 2006: 201). By 1967, Southeast Asian states had already had two failed efforts at cooperation behind them,²² and they had had persistent territorial conflicts with one another stemming from the era of colonisation. Domestic change in Indonesia and in the Philippines paved the way for the reconciliation among the ASEAN founders, while the war in Vietnam underpinned the impetus for Southeast Asian unity. The lessons which derived from the Vietnam War for the ASEAN founders were twofold. First, it highlighted the potential risks of communist insurgency, a problem which concerned most of the non-communist states in the region. Second, it also underlined Southeast Asian states' long-standing concerns about foreign intervention, and heightened their sensitivity related to their dependence on the US as a stabilising force in the region (Ba 2009: Chapter 2). In this sense, "a historically ambivalent US presence contributed to ASEAN's emergence" (Acharya and Tan 2006: 37).

However, the foundation of the ASEAN had no considerable direct effect on economic regionalisation before the 1990s. The ASEAN's first foray into economic cooperation came a full ten years after its establishment, in 1977, when the ASEAN Preferential Trading Agreements (APTA) were launched, followed by the ASEAN Industrial Projects (AIP) and the ASEAN Industrial Joint Venture (AIJV) initiatives. But due to the high number of exclusions, the APTA proved to be ineffective, and both the AIP and the AIJV ended up as disappointments as well. None of these initiatives had any meaningful effect on the economies of the member states (Dent 2008: 89; Hill and Menon 2010). This signals the ambivalent nature of the early ASEAN, characteristics of which are still persistent today. While the demand certainly arose among founding members for economic cooperation, their strong adherence to the principles of the ASEAN Way prevented the realisation of a meaningful and effective framework to this end. On the other hand, the ASEAN's formation did make an indirect contribution to the process of regionalisation in East Asia. Although the Association failed to solve bilateral disputes among its members permanently, at least it led to the shelving of these long-standing issues of discord, and as such, paved the way for the creation of a peaceful environment in the region. The ASEAN outlined its vision for the region in the Zone of Peace, Freedom and Neutrality (ZOPFAN) declaration in 1971, and at the first summit meeting of the ASEAN 1976, member states signed the ASEAN Concord and the Treaty of Amity and

²² The first, Association of Southeast Asia was formed in 1961 and consisted of the Philippines, Malaya and Thailand, but had little practical value. The Maphilindo (Malaya, the Philippines, and Indonesia) was formed in 1963, but broke down because of the *Konfrontasi* between Indonesia and Malaya.

Cooperation in Southeast Asia (TAC). The Concord and TAC declared the ASEAN's main principles, namely the respect for sovereignty, equality, territorial integrity and national identity; non-interference; peaceful settlement of disputes; renunciation of the threat or use of force; and cooperation among themselves. In the words of Ba (2009: 1), the foundation of the ASEAN transformed the volatile and fragmented Southeast Asia. ASEAN's creation may be viewed "as marking an important turning point in the international relations of the region: an era of highly confrontational politics gave way to a new one characterized by more stable relations and growing cooperation." Thus, as peace is a prerequisite for the expansion of transnational economic exchange, the reconciliation and stability the ASEAN had brought among its founding members served as a building block for their economic growth and participation in East Asian regionalisation, even though ASEAN itself did not play a role of note in the coordination of international economic exchange either among its members, or between its membership and external actors before the 1990s.

Finally, and perhaps most importantly, the US rapprochement with the People's Republic of China, followed by Japan–China normalization and China's gradual economic opening-up from the late 1970s, marked a new stage in the regionalisation process. China entered the stage with abundant resources of cheap labour and a potentially huge market. The rapprochement also solved much of the security dilemma of the Pacific theatre of the Cold War. Animositities in Indochinese countries continued for a number of years, but after the 1970s great power tensions declined in East Asia, and as the region was becoming a much less dangerous place, its potential for prosperity grew.

3.2.3. *The 'flying geese' pattern of East Asian regionalisation*

Having analysed the strategic interests and institutional factors which paved the way for East Asian regionalisation, I now turn to discuss the primary mechanism through which economic interconnectedness began to emerge and deepen in the region: the 'flying geese' (FG) model. The history of this model, the different interpretations thereof, as well as its critiques warrant some deeper discussion, for it constitutes a major element of this thesis.

This model was first developed by Japanese economist Kaname Akamatsu in the 1930s, who formulated the FG theory based on statistical observations related to East–West trade relations, the development patterns of Japan, and the linkages between East Asian countries under the Japanese colonial division of labour. The model intended to explain the catching-up process of industrialisation in latecomer economies through three interconnected aspects: an *intra-industry*, an *inter-industry*, and an *international* one. The

first consists of a basic pattern where a single industry grows, tracing out three successive curves of import, production, and export. The first period is when manufactured goods are imported from abroad. In the second period, domestic production emerges, which is followed by the import of natural resources and machines and tools for production. The third period is of “export industrialisation when an indigenous production system is established” (Akamatsu 1944: 299, quoted in Schröppel and Nakajima 2002: 207). The inter-industry aspect is a variant pattern in which industries are diversified and upgraded from consumer goods to capital goods, and from simple to more sophisticated products. Each cycle, either intra- or inter-industry, repeats the FG pattern enhancing the efficiency and competitiveness of an industry. The intra-industry cycle raises value-added and brings about the growth of an industry. A diversification of production through inter-industry cycles upgrades the structure of industries and exports (Kojima 2000: 379). The international aspect of the model concerns the relocation of industries. Once the three successive stages outlined above are traced out, the export of consumer goods begins to decline, because by this stage those are put into production in less advanced countries. In the place of the decreasing export of consumer goods, capital goods begin to be exported. Over this process, “[t]he countries of the world form an [FG] order from the advanced ... to the less-advanced countries ... The less-advanced [geese] are chasing those ahead of them, some gradually and others rapidly, following the course of industrial development ... The advanced [geese] ... are flying onward, incessantly achieving technological innovations and trying to maintain a certain distance ... from the less-advanced [geese]” (Akamatsu 1962: 15, 17–18).²³ This pattern appeared on a graph as an inverse V-shape, resembling a flock of flying geese, hence the name of the model (Dent 2008: 47).

Akamatsu’s theory was further developed in the post-war era by himself, and was discovered and reinterpreted by other Japanese economists as well. The reinterpretations of the model—combined with Vernon’s (1966) product cycle theory²⁴ and/or with the

²³ As Schröppel and Nakajima (2002: 205, 210) noted, in Akamatsu’s model “the explanation of the emergence of different products and industries does not rely on changes in relative competitiveness due to different factor endowments, as neoclassical theory ... would predict. It is rather the result of demand linkages and complementarities of different products.” Moreover, Akamatsu analysed the international division of labour “as driven by changes in ‘comparative cost structures,’ which are themselves caused by innovation. Instead of referring to production factors, he points to the importance of knowledge as well as linkage effects.”

²⁴ In short, this theory states that the life cycle of a product consists of four stages: introduction, standardisation, maturity, and decline. New products are introduced in an industrialised economy to satisfy domestic demand. In the early stages, the products are manufactured domestically. As demand grows, standardization takes place, paving the way for the relocation of production, especially if foreign demand picks up. Once the standardised product reached the stage of maturity, production is shifted to less

Heckscher–Ohlin theorem²⁵—have been utilised to describe and explain post-war East Asian economic development and regional integration among others by Kojima (1978, 2000), Kwan (1994, 2002), Ozawa (1991), Yamazawa (1990), and Cumings (1984).²⁶ As Kasahara (2004: 2) noted, “[w]ith the increasing interdependence among regionally clustered economies in East Asia being interpreted as a sign of integration, an additional element that the modern [FG] paradigm has presented is a framework for regional integration. Henceforth, the regional group as a whole gradually develops industrial sophistication, as each of the region’s economies benefit from the externalities and linkages arising from transactions among them.”²⁷

Ozawa (1991) reconceptualised Akamatsu’s model as a ‘multi-sequentialist’ one. His model outlined the orderly sequencing of economic activities within and among a group of economies as, first, *product-cycle sequencing* of a particular product or product group, during which the economy follows the trade framework of a product life cycle consisting of import, import substitution, export, and once again import. Second, *intra-industry sequencing*, where the country shifts production and export from the lower value-added, more labour-intensive and less capital-intensive industries, to the higher value-added, less labour-intensive and more capital-intensive industries as a result of its changing factor and technological endowments. And third, *inter-economy sequencing*, during which transfer of industrial activities among national economies along a regional hierarchy takes place. Ozawa argued that MNEs tend to facilitate this type of systemic industrial relocation through FDI, licensing, subcontracting, technical assistance, turnkey operations, market agreements, loans and official economic assistance (Kasahara 2004: 8). Kojima (1978, 2000) developed a ‘catching-up product cycle theory’ by integrating

developed countries. In the final stage of decline, production ends in the innovator country, and demand is satisfied from imports (Vernon 1996; Kasahara 2004: 5–6; Benczes, Csáki and Szentes 2009: 137–141). As Schröppel and Nakajima (2002: 213–215) noted, “[w]hile the descriptive results of both theories with regard to the changes of the actual location of production activities seem similar, the theoretical approaches differ considerably ... The ... FG approach focuses on the sequential development of industries in developing countries, while the product cycle theory looks at the location of the production of a particular product during its life cycle.” Moreover, Vernon deals with an individual firm making decisions on the location of its production, while Akamatsu is concerned with the development of leading sectors (Bernard and Ravenhill 1995: 173).

²⁵ The Heckscher–Ohlin theorem states that a country can gain benefits through international trade by producing and exporting goods that use such factors extensively which it has in abundance, and imports goods that use its scarce factors (Benczes, Csáki and Szentes 2009: 107–108).

²⁶ While the FG model became a prominent narrative among Japanese economists, it did not reach wider prominence until the 1980s, when it became widely popularised through Okita (1985) in East Asia and Cumings (1984) in the West (Kojima 2000: 385; Kasahara 2004: 7).

²⁷ In fact, Kojima (2000: 376) even lamented that from the 1980s onwards the FG model “came to be applied to regional transmission itself while forgetting the importance of the catching-up process.” In any case, for the particular purposes of this study, I will focus on the international aspect of the model.

what he termed ‘pro-trade FDI’ (or trade-inducing FDI) into Akamatsu’s original model, thus supplementing it with two additional stages during which FDI from the lead goose starts to flow into the followers, and then these FDI inflows (i.e. the relocation of production) in turn generate imports to the lead goose from the followers.

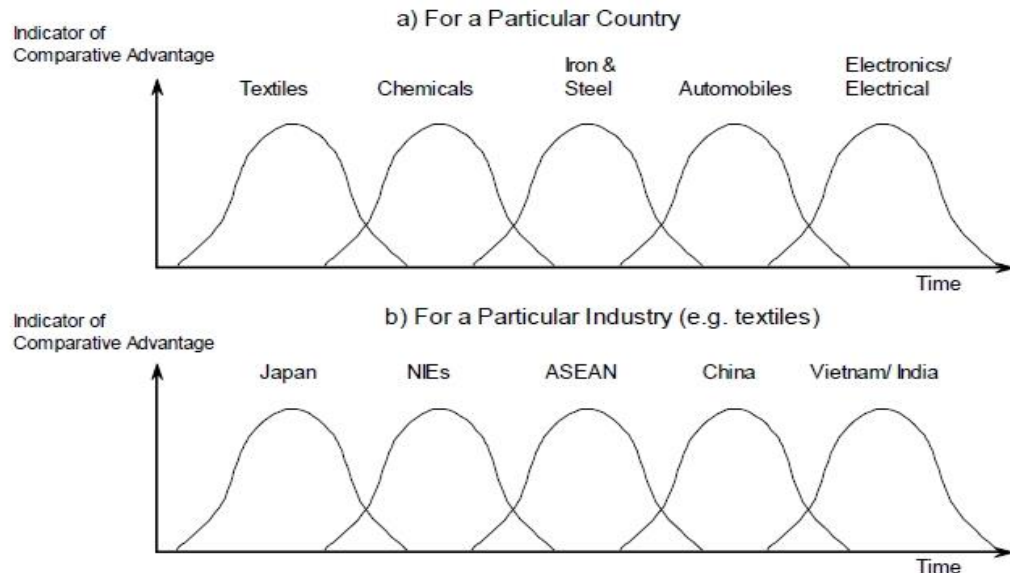


Figure 1: The inter-industry and international aspect of the post-war FG model.

Source: Kwan (2002: 4)

Figure 1 presents the basic post-war FG model. In practical terms, this mechanism was based on Japan’s role as the technologically most advanced economy (the lead goose), and the international division of labour in East Asia developed as Japan had become increasingly specialised in advanced industries while shedding domestic production in sectors in which its comparative advantage had diminished. From the 1960s onwards, Japanese companies started relocating their labour-intensive production (textiles and basic electronics) to take advantage of lower unit labour costs in the less developed NIEs. The NIEs, in turn, upgraded their own industrial structures following the lead of Japan, and as they moved up the value chain over time, these following geese started to shed their outdated industries to neighbouring less developed economies, namely the ASEAN and China, thus creating a three-level pattern of industrial catching-up and development (Fujita and Hamaguchi 2008: 19–20). This process was also augmented by increasing flows of Japanese official development assistance from the 1970s (Kohama 2003; Urata 2003), and extensive international lending by Japanese financial institutions in the region.

This FG pattern led to the creation of a broad regional division of labour through the relocation of production, in which national economies became increasingly interlinked through a mutual dependence on one another’s inputs for manufacturing. This is what Kojima (2000) framed with the concept of trade-inducing FDI: the relocation of

production led to rising trade links among national economies.²⁸ The deepening economic interaction in East Asia was essentially propelled by the activities of profit-maximising and cost-reducing MNEs (Fujita, Kuroiwa and Kumagai 2011: 2–3; Kim and Gokan 2011), which came to organise their production processes and intra-firm structures on a regional basis (Hamilton-Hart 2005: 170).²⁹ East Asian production network development had three general distinctive features: first, production networks were key elements in most of East Asia's economic development, which is unique to its region in the world. Second, they tended to involve multiple countries, while similar fragmented production networks in other regions usually tie together two or three neighbouring economies. This is mostly the result of East Asia's development asymmetries and the heterogeneity of comparative advantages. Third, East Asian networks comprise sophisticated combinations of inter- and intra-trade networked relationships (Dent 2008: 52). Production network development led to the fragmentation of production, and the agglomeration and concentration of manufacturing economies around the region, above all in the automobile and electronics industry (Nishikimi 2008; Fujita and Hamaguchi 2008). An example of the scope and nature of these Japanese-led networks is presented in Appendix 1, which shows the regional production architecture of Toyota. Appendix 2, meanwhile, shows a typical example of MNE operations in East Asia.

3.2.4. The role of domestic institutions

The production network development had been made viable, and once it began, was augmented by a number of technological and domestic factors, such as the reduction in transportation costs, advances in information and communication technology which made remote management of foreign production bases possible, reduction of taxes and tariffs, and reduction of non-tariff barriers (NTB) across the region (Nishikimi 2008; Fujita and Hamaguchi 2008). A vital case in point is that the following geese were able to make use of FDI and base their development on it. As the World Bank (1993) detailed, East Asian nations developed their domestic institutions to support growth, and nurtured domestic firms to make them able to profit from technology transfers and licenses. The emerging economies of the region were able to develop rapidly and engage in the regional division of labour as a result of maintaining macroeconomic stability, sustaining high investment

²⁸ Ando (2011) called it 'network-forming FDI.' Aminian, Fung and Iizaka (2007) confirmed this position in another empirical study, and found that FDI in East Asia is important in explaining intra-East Asian trade (i.e. FDI facilitates trade).

²⁹ For detailed accounts of East Asian MNE strategies, see Hamilton-Hart (2005) and Tachiki (2005).

in human capital, creating stable and secure financial systems, limiting price distortions, and pursuing openness to foreign technology. They promoted an essentially ‘meritocratic’ system of governance, invested in infrastructure development, and, most importantly, liberalised their economies step-by-step. This included unilateral liberalisation starting from the 1980s, which led to heavy tariff rate and NTB reductions (Urata 2006).

NIEs and the rest of the follower geese also provided a broad set of tax- and other incentives for FDI, but at the same time also made sure that domestic firms were able to develop linkages with technologically more advanced foreign companies coming to their countries. The latter is especially important, for FDI inflows in themselves do not necessarily result in development for the economy as a whole. For that to happen, the domestic economy needs to be able to develop linkages, take part in the production process and ‘learn’ management and production techniques from more advanced foreign firms.³⁰ Hence, the importance of the unique feature of deep intra-trade relationships in East Asia is that more firms were able to ride the wave of growth than in other regions. These domestic institutional achievements—which are presented visually in Appendix 3—were not only of paramount importance for the development of the region, but were also necessary for regionalisation to proceed, because Japanese, and later South Korean and Taiwanese MNEs needed the input and incentives these measures had provided.

From a neoclassical perspective, economic liberalisation has provided low-income countries with opportunities to become integrated into the regional production networks, enabling the sequential take-off of industrialisation in these economies (Fujita and Hamaguchi 2008: 20). Yet, the neoclassical narrative in itself cannot explain the complex nature of the East Asian experience, and numerous other approaches have sought to correct this apparent failure. Scholars of new institutional economics focused on institutional underpinnings. Huang (2007: 20) conceptualised rapid East Asian growth as “driven by international competitiveness generated through systematic institutional interventions and innovations ... against prevailing conditions, interests, attitudes and values.” He showed that Japan, South Korea, Taiwan, Singapore and China had very similar institutional setups during their respective high growth periods, and that the competitiveness which translated into this rapid growth was mostly a result of a nationally organized controls and reductions in non-production costs. A somewhat similar explanation for East Asian development was put forward by the developmental state

³⁰ Lecture by Shandre M. Thangavelu at Waseda University, Graduate School of Asia-Pacific Studies, Globalization and Economic Growth course, February 2013.

paradigm, which focused on state–market interactions and identified state-led and state-guided initiatives as the foundations of East Asian industrialisation (Johnson 1982; Woo-Cumings 1999). In fact, even the World Bank (1993) concluded—and, departing somewhat from its prior neoclassical approach, implicitly praised—that East Asian nations employed a set of selective interventionist policies, which included forms of mild financial repression such as interest-rate policies and directed credit, as well as selective industrial promotion and export promoting trade policies.³¹ As noted earlier, East Asian nations remained relatively protectionist. They based their industrialisation on the protection of certain ‘national champions’ in key sectors, as well as the active promotion of the export-led development of these companies. Liberalisation was sequential and reached only sectors in which domestic firms were strong enough to compete with foreign ones, or sectors where foreign input was deemed as necessary for the development of the domestic economy either through trade-related or capital-related inputs. Import tariffs on intermediate inputs were eliminated, but on the condition that all such outputs were exported abroad (Fujita, Kuroiwa, and Kumagai 2011: 1). This sort of protectionism and economic nationalism, coupled with the logic of the FG pattern transmission of industrialisation, led to the creation of a special form of regional economic integration, the specifics of which will be touched upon in the next section.

3.2.5. Critiques of, and supplements to, the FG paradigm

It should be acknowledged that the aforementioned theories, both the FG paradigm and the institutional underpinnings of East Asian growth, are contested explanations, especially in the context of the Asian financial crisis of 1997/1998. Moreover, it should be recognised that these theories seek to explain different things.

As for the institutionalist approaches, the main aim of those is to analyse the fundamentals of economic development in East Asia, not East Asian integration. But while none of these approaches deal with integration explicitly, all of those detail in some way the positive interaction between regionalisation and domestic institutions. In this sense, these different paradigms are more than reconcilable for the purposes of this study, and it is virtually irrelevant which approach one accepts.³² Moreover, most of the critics

³¹ Yet another set of observers highlighted the role of Confucian values and certain situational factors, among them ‘the sense of economic and political urgency,’ ‘an eager and plentiful working force,’ and the role of a ‘meritocratic elite’ in explaining East Asia’s development (Vogel 1991: 83–103). These themes will not be explored here, for they are outside the thematic scope of this study.

³² This warrants some elaboration. The World Bank’s (1993) approach details, *inter alia*, how East Asian nations pursued export-push strategies and employed institutional incentives to woo foreign investment. This is consistent with my argument that East Asian nations sought to take advantage of the international

of these narratives focused on the perceived failure to reflect on the weaknesses of East Asian economies which led to the Asian financial crisis, and argued that these narratives were discredited by the policy errors of East Asian nations.³³ What has to be highlighted here is that these critiques did not dispute that the institutional changes discussed above took place, and did not comment on the relevance of those with regards to economic regionalisation. For the question I deal with here is whether domestic institutional change contributed to the expansion of regionalisation in East Asia, it is at best secondary, if not irrelevant, to the spectre of this particular study how, to what degree and in which way these domestic institutions contributed to financial and economic stability (or lack thereof) of certain individual economies, or the Asian financial crisis for that matter.

The critiques of the FG model warrant more attention. Much of the criticism of the FG paradigm is concerned with its utility to explain the process of East Asian industrialisation, the specifics of its theoretical models in this regard, and its present-day applicability (see Kwan 2002; Kasahara 2004: 13–22). I am not concerned with the specifics of economic development, so the first strand of critiques bear no relevance here. As for the third set of critiques, those certainly possess some merit, since the stagnation of Japan, the rapid rise of China, and East Asia's growing openness and embeddedness in the globalised world economy have changed the nature of East Asian regionalisation. This will be explored later on, but this chapter deals with the fundamentals and the beginnings of East Asian regionalisation, which is an entirely different topic.³⁴

As for the second strand of critiques, it should be acknowledged that, as outlined above, even adherents to the FG paradigm advocate different models of it. Again, it is of

economic architecture. Developmental statism highlights the role of strong and active state institutions in coordinating the activities of the private sector and guiding industrialisation. The Japanese Ministry of International Trade and Industry (MITI), which is the focus of Johnson's (1982) study, actually conceptualised and actively promoted a (Japan-led) regional economic order akin to the FG model, where Japan was to be the producer of high-tech products, Taiwan and South Korea would have produced mid-range products, and Southeast Asia and China would have been bases for low-value-added manufacturing (Kasahara 2004: 11; Hughes 2009: 839–840; Ashizawa 2013). As for the approach of Huang (2007), he argued that the basis for growth in East Asia was international competitiveness achieved through institutional innovation. Again, this is consistent with my argument.

³³ Some even dismissed the 'East Asian miracle' well before the crisis. For example, Krugman (1994: 78) contended that East Asian economies "received a reward for their extraordinary mobilization of resources that is no more than what the most boringly conventional economic theory would lead us to expect. If there is a secret to Asian growth, it is simply deferred gratification, the willingness to sacrifice current satisfaction for future gain." The crux of Krugman's argument is that East Asian development was the result of capital formation and factor accumulation instead of gains in total factor productivity.

³⁴ MacIntyre and Naughton (2005) argued that the FG model presents a correct account of the nature of economic relations among East Asian countries up until 1994, but after 1994 regional economic hierarchies and relations became unstable and more complex than what the FG model would prescribe. Ito and Orii (2000, quoted in Ito 2001: 61–62) found convincing empirical evidence supporting the FG hypothesis.

secondary relevance how precisely these models explain the full reality. It is not my concern here how closely East Asian economies followed the product life cycle or each other's development path, how self-contained or stable the model is, whether it paints an overly positive picture of MNE activities, can it serve as a uniform theory for each East Asian national economy, etc. The lowest common denominator is that in general, the basic FG model presents a factually correct version of East Asian regionalisation: there emerged a broad regional economic interconnectedness and a division of labour in East Asia based on the different specialisations of economies at different stages of their respective development; the relocation of production from Japan and the NIEs through MNEs; and the dissemination of technology and capital from Japan and the NIEs (mostly) through MNEs. There is very little debate in this regard.

Nevertheless, arguments made by Bernard and Ravenhill (1995) should be considered.³⁵ They (1995: 171–172) posited that the FG model fails to capture the complexity of the regional political economy, and that economic integration in East Asia has been driven by the globalisation of production networks, intergovernmental disputes over bilateral economic relationships, and technological change. Instead of the FG–product cycle model, they argued, the diffusion of manufacturing in East Asia was characterized “by shifting hierarchical networks of production linked both backward to Japanese innovation and forward to American markets for the export of finished goods.” First, it has to be accepted that East Asian regionalism is closely linked to globalisation and technological change. As noted earlier, technological factors played an important role in making East Asian integration possible. But—in the vein of dependency theory—Bernard and Ravenhill (1995: 176–177, 207–208) argued that as rapid technological change and the consequent increase in technological complexity had produced greater barriers of entry, steeper learning curves, increased specialisation and a growing reluctance of companies to transfer technology, it solidified the region's dependence on Japanese technology and innovation. In addition, they (1995: 207) noted that Japanese companies—contrary to the predictions of the FG model—were unwilling to vacate sectors in which products reached maturity. While this observation holds only partially true for NIEs,³⁶ it is an accurate account of industrialisation in Southeast Asia and China,

³⁵ It should be noted though, that Bernard and Ravenhill (1995: 174–175) use the FG model and product cycle interchangeably, whereas the reinterpreted FG model is more nuanced than that. Kojima (2000: 384; 392–393) disputed their account of the FG model and most of their arguments.

³⁶ For example, South Korean firms are increasingly challenging Japanese companies with indigenous products in such sectors as automobiles and electronics, and domestic production in Japan in these sectors

where indigenous innovation failed to take hold, and dependence on foreign technology and inputs remained significant. Consequently, in these countries local firms have only been partially able to develop linkages with foreign MNEs and base their technological advancement on those. A second notable observation of Bernard and Ravenhill (1995: 196–197) concerns the spatial configuration of integration: much of the FDI in Southeast Asia and China flowed into export-processing zones, which further limited the scope of backward linkages with the local economy. Dent (2008: Chapter 2) concluded that the regionalisation of production in East Asia have been agglomerated in certain ‘growth polygons’ and industrial districts located around major metropolises. While this is not a unique East Asian feature,³⁷ it should be noted that industrialisation have been concentrated in relatively small and predominantly coastal areas of the region, and only parts of the domestic economies have been integrated into the regional division of labour.³⁸

Even more relevant is the assertion that East Asian regional integration happened under the guise of globalisation. As noted earlier, East Asian economies became increasingly embedded into the world economy through the institutions of the US-led international economic order. Moreover, as Bernard and Ravenhill (1995: 178) pointed out, the volume of the reverse exports to Japan which Ozawa (1991) and Kojima (2000) theorised, were meagre compared to East Asian exports to the US. While this can be attributed in part to the fact that the US market for finished products is much larger than the Japanese, and in any case Japan alone would have never been able to consume all of East Asia’s production, it remains true that Japan kept its economy relatively closed to imports of finished goods and continued to rely on domestic production for a wide range of products. In contrast, as shown in Table 1, the US consumed a substantial percentage of East Asian exports. This is in line with what HST holds, namely that the hegemon generally consumes a hefty amount of other states’ exports and runs a substantial trade deficit as a part of its hegemonic ‘commitments’ (Kindleberger 1973). This does not mean,

declined substantially. Moreover, two of the four NIEs (Singapore and Hong Kong) have become richer than Japan in terms of per capita GDP, mostly through their advances in the services sector.

³⁷ For example, there remain large disparities between sub-national regions in the EU, which is a much more integrated market than the East Asian one.

³⁸ In this sense, diversity has an ambivalent effect on the region: it is both a blessing and a hindrance. On the one hand, the diversity resulted in the heterogeneity of country comparative advantages in the region, which made possible the wider and deeper development of transnational production networks in East Asian than in other parts of the world. But it also resulted in widespread disparity not only within the region, but also on national levels. For example, the rice farmers of northern Thailand, the factory workers of southern Thailand and the financial sector in Bangkok all take part in the regionalised division of labour to some extent, yet their welfare gains from this process differ substantially.

however, that the economic linkages detailed in the previous sections failed to develop among East Asian economies, or that intra-regional trade did not expand rapidly. What it means instead is that much of the intra-regional trade was in fact made up of intermediary goods instead of finished products, and the US was the most important market for the finished goods which were manufactured within East Asian production networks. Figure 3 shows that East Asia's intra-regional trade share has grown steadily until the Asian financial crisis, and recovered smoothly afterwards. It is also clear that East Asia's share in world trade has shown a similarly steady rise. What Figure 3 fails to visualise, however, is that more than a quarter of East Asia's intra-regional trade is made up of intermediate goods³⁹ (Aminian, Fung and Iizaka 2007).

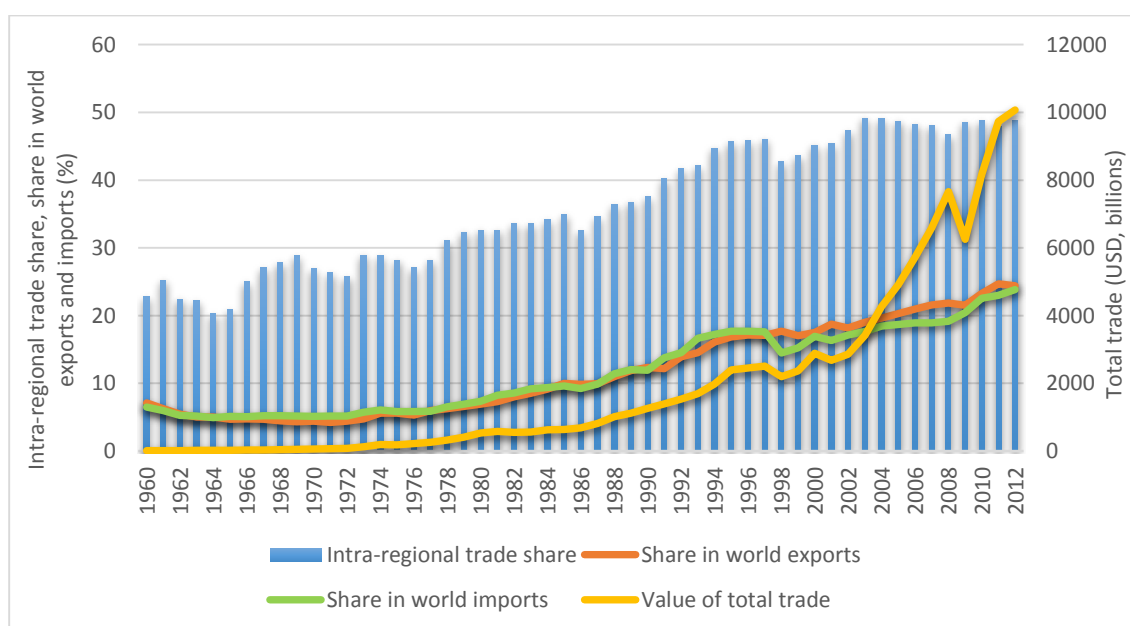


Figure 3: East Asia's total and intra-regional trade. *Source:* Own calculations based on IMF Direction of Trade Statistics, and the UNCTAD statistical database.⁴⁰

Moreover, much of the technology on which East Asian development was based had come from the US. Japanese, Korean and Taiwanese companies profited heavily from obtaining American technology licences, and much of their progress started by improving on the technologies they had obtained from their American partners. Additionally, from the 1990s American companies began to relocate their production bases to East Asia and exported significant amounts of FDI to the region.⁴¹ In this sense, the 'lead-lead goose'

³⁹ Historical data were not available for trade in intermediate goods.

⁴⁰ The formula used for the intra-regional trade share calculations is the following: $((\sum_{sd} X_{sd} + \sum_{ds} M_{ds}) / (\sum_{sw} X_{sw} + \sum_{ws} M_{ws})) \times 100$.

⁴¹ An argument made by Japanese economic historian Hideo Kobayashi is that American firms actually decided to export FDI to East Asia to control production and guard their technologies from falling into the hands of potential future competitors based on their experiences with Japanese and Korean firms. In turn,

in the FG pattern was the United States:⁴² it was through its security commitments the main strategic stabiliser in the region and the supplier of international public goods vital for the development of East Asian states; it was the ‘original’ technology disseminator; it was through aid and war-generated demand (and to a lesser degree through lending and FDI) the main financier of East Asian industrialisation; and it was also the main consumer of the finished goods of East Asian producers.

This, in turn, led to the economic (and to a lesser extent also political)⁴³ tensions between the US and Japan, and subsequently between the US and Korea and Taiwan, which resulted in both qualitative and quantitative changes in the nature of East Asian regionalisation (Bernard and Ravenhill 1995: 179). By the 1970s, the costs of hegemony and the decrease of its relative competitiveness started to overwhelm the US economy, and consequently Washington’s tolerance for the free-riderness of emerging East Asian (and European) economies was waning rapidly. The collapse of the Bretton Woods System and the oil crises of 1973 and 1980 pushed the US on an increasingly (counter-)protectionist path, which culminated in higher trade barriers for Japan, coerced ‘voluntary export reductions’ on (fuel-efficient) Japanese automobiles, and threats of trade sanctions in the semiconductor sector (Ito 1992: 365–380; Zeng 2004: 127–167). These measures resulted in changes in Japan’s trade and investment patterns (Turner and Tuveri 1984), which shifts were heavily augmented by the most important one of the numerous economic realignments coerced by the US in the post-Bretton Woods era: the Plaza Accord. One source of bilateral tension was the yen’s exchange rate, which was kept low to support exports through price competitiveness. Bowing to US pressure, Japan, as well as West Germany, the United Kingdom and France, agreed in 1985 to intervene in the currency markets to depreciate the US dollar and appreciate their currencies. The effects of the Plaza Accord were twofold. First—coupled with the Bank of Japan’s misguided monetary policy—it contributed significantly to Japan’s ‘lost decade.’ As Devine (2010) put it, “decades of undervalued yen had pumped massive amounts of

this is a partial reason for the fact that Southeast Asian and Chinese companies have not been able to craft indigenous industrialisation as mentioned above.

⁴² This is not the argument of Bernard and Ravenhill but my own reinterpretation.

⁴³ The most important political tensions were the frictions regarding Japan’s security role. In fact, the ‘pacifism’ displayed by Japan under the Yoshida doctrine was not (only) a result of an ideational adherence to the renunciation of use of force, but was based (also) on material interests. In short, post-war Prime Minister Yoshida Shigeru sought to channel the nation’s resources towards economic recovery, and to this end was reluctant to give up Japan’s ‘cheap ride’ on US security even in the face of American pressure to do so. This position was further solidified by a number of actors in the Japanese political system, and remained an issue of discord between the US and Japan (Samuels 2007: 38–62).

liquidity into Japan, and when this was met with low interest rates and confidence that the yen could only strengthen, the result was one of the largest asset bubbles in history.”⁴⁴

On the regional level, however, the Plaza Agreement had translated into a boom of Japanese investment overseas, fuelled partly by the appreciation of the yen, and partly by the desire of Japanese MNEs to circumvent US trade barriers through the relocation of production. Moreover, the sharp rise of the yen (which gained 40 per cent in 1985–87) gave a window of opportunity to South Korea and Taiwan, since their price competitiveness rose rapidly in the immediate post-Plaza years. But this in turn led to pressure from the US for currency appreciation and market liberalisation in these economies as well. Consequently, South Korean and Taiwanese FDI exports also rose dramatically in the post-Plaza years to Southeast Asian countries and China, which countries were depreciating their own currencies at the time, had much lower labour costs, and started introducing incentives for foreign investors. As shown in Appendix 4, Japanese FDI to East Asia rose fivefold, and South Korean FDI rose 33-fold in the ten years after the Plaza Accord.

These developments also changed the composition of Japanese FDI: from this point on, FDI in basic manufacturing within East Asia went predominantly to the ASEAN nations and China, while Japanese companies started to invest in the services and advanced manufacturing sectors of NIEs. The revaluation of the yen changed Japanese firm’s procurement strategies as well. As it became cheaper to import components and other inputs from overseas, Japanese MNEs started to regionalise their input procurement, which further spurred the development of regional production networks, as well as the rapid spatial expansion of those into Malaysia, coastal China, and Thailand (Bernard and Ravenhill 1995: 179–183; Kobayashi 2004: Chapter 5; Dent 2008: 47–49). In short, the US’ turn to protectionism in the 1970s and 1980s inadvertently led to the expansion of regionalisation in East Asia. However, in the long run it failed to change the patterns of trade in the Asia-Pacific: the triangular trade relationship Bernard and Ravenhill (1995: 200–205) observed remained in place, as East Asian economies continued to run large trade surpluses with the US on the one hand, and deficits with Japan on the other.

⁴⁴ According to Taniguchi (1993), Japanese leaders intended first to boost both the stock and property markets. Supported by this safety net, export-oriented industries were supposed to reshape themselves so they could adapt to a domestically-led economy. This wealth effect would in turn touch off personal consumption. What really happened was a massive speculative investment boom aided by loose monetary policy, resulting in a large asset bubble, and huge crash just a number of years after the Plaza Agreement.

3.3. Summary: Integration without institutions

I will now turn to summarise and analyse briefly the fundamentals and the major drivers of East Asian market-led integration based on the framework outlined in Chapter 2.

First, global structural dynamics are to be considered. International relations in the post-war era came to be structured by the Cold War between the United States and the Soviet Union. This animosity had several important constitutive effects on the East Asian regional international system. The regional structure came to resemble that of the global one, and was divided between members of the two blocs, namely communist states and US allies. Moreover, a third pole emerged in Asia as a result of the Cold War and colonialism: the group of non-aligned nations consisting of former colonies, which strived to keep a distance (albeit not an equal one) to the two superpowers. Nevertheless, some of these former colonies, especially those in Southeast Asia, became members of the US-allied part of the region through economic and security linkages. The US concluded bilateral security treaties with Japan, South Korea, Taiwan, the Philippines and Thailand under the so-called hub and spokes or San Francisco system (Tow 1999), and Southeast Asian nations fearful of communism came to regard the US ambivalently as both a strategic stabiliser and an external intervener in the region (Acharya 2009). While the relationship between the two main blocs was power political, within the US-allied part of the region—which is the focus of this study—traces of cooperation slowly emerged and endured under the conditions of US hegemony, and this part of the region also extended its scope over the course of the Cold War. Global dynamics played a significant role in shaping the changes in the regional architecture. While the Korean War and the Vietnam War solidified the division between the two blocs, these events also served as important sources for interstate cooperation within the US-allied part. Moreover, Japan–South Korea and US–China rapprochement—both the result of Cold War dynamics—broadened the spatial configuration of this subsystem, and decreased the intensity of the security competition in the region. Similarly, the only meaningful multilateral regional institution, the ASEAN came to being as an answer by Southeast Asian nations to political and security challenges stemming from both the power political nature of Cold War and their post-colonial legacies. The formation of the ASEAN reduced animosity between its members and provided a fertile ground for cooperation among them, regardless how ‘soft’ the institutionalisation of it was (Ba 2009). Structural dynamics also shaped the national structures and the transnational society in East Asia. War-generated demand resulting from the US efforts in Korea and Vietnam strengthened national economies as well as

domestic firms in the US-allied part. Cold War animosities also contributed to the emergence of the ‘strong states’ in the region, for which ensuring external and internal security became interlinked with providing for economic development (Stubbs 2005).

Second, the US also created global institutions to ensure international economic and financial stability, and up until the 1970s maintained a (mostly) open and (mostly) free trade regime. On the national level, the ‘strong’ or ‘developmental’ states which emerged in East Asia sought to profit from this regime, and tailored their domestic institutions and intervened in their markets to serve this purpose through various measures such as promoting industrialisation and exports. These global and domestic institutional features not only allowed, but indeed spurred East Asian companies to update their technologies and, in time, relocate parts of their manufacturing processes to less developed countries in the region to maximise their profits by utilising differences in factor costs across economies. When in the 1970s the US turned to protectionism in the face of the growing costs of the maintenance of the international order, the realignments coerced by Washington inadvertently resulted in a boom in intra-regional investment and in the acceleration of the intra-regional relocation of production.

Although ideational factors on the national level prevented the emergence of broad multilateral institutions in East Asia (Acharya 2009), the institutions of the US hegemony served as substitutes for those. Washington provided its allies with international public goods, maintained an economic order on the global level which shaped regional interactions and contributed to making regional integration possible, and consumed much of East Asia’s production. Under the favourable conditions of US hegemony, Japan emerged on the regional level as a *de facto* informal leader of East Asian economies. Tokyo conceptualised its place at the centre of the East Asian division of labour, and actively promoted the emergence of such an order. While East Asian states would most certainly not accept Japanese political leadership—and during the Cold War Japan did not have such ambitions anyway—they nevertheless came to participate in this regional division of labour to serve their developmental agendas. As a result, an economic regionalisation process took place in East Asia through the agency of profit-maximising Japanese MNEs, akin to the proscriptions of the FG model, albeit—as discussed in the previous chapter—with some notable differences.

In summary, while regional institutions had failed to materialise in East Asia, institutions of the US hegemony and domestic institutional change provided much of the same functions regional institutions would have. As Keohane (1984) noted, the main

function of international institutions and regimes is to lower transaction costs, reduce asymmetries of information, and thereby reduce uncertainty in the international system. Scholars of new institutional economics attribute the same functions to domestic institutions in an economy, and contend that the aim of those should be to reduce uncertainties and transaction costs related to economic exchange, and create an environment which incentivises economic efficiency for market forces to flourish on the national level (Coase 1988; North 2005). In essence, these functions were provided in East Asia on the global and national level, thereby making it possible for cross-border trade and capital flows to flourish, and regional production chains to emerge. Moreover, the distributional dilemmas arising from economic regionalisation were also 'handled' on the national and global level. By employing protectionist measures and step-by-step liberalisation, East Asian states managed to avoid asymmetrical integration into the regional and global economy. These protectionist measures, in turn, were tolerated by the US up until the 1970s, for its security interests overrode economic ones. And even after the US launched a number of protectionist countermeasures itself from the 1970s, these failed to fundamentally change the essential patterns of the preceding period. In short, the distributional problems were essentially levied on the US.

4. Towards institution-driven regionalism? Post-Cold War integration in East Asia

4.1. Systemic shifts at the end of the Cold War

The end of the Cold War and the global systemic change it had resulted in had important transformative effects on East Asian regional integration. A common narrative in the discourse is that in the post-Cold War era, the logic and nature of East Asian integration started to change slowly but definitively from that of market-driven regionalisation to that of politically-led, institution-driven regionalism (Urata 2006). But it was not the end of the Cold War itself, but rather other external events and internal factors coinciding with—and mostly unrelated to—it which created the imperative for this transformative process culminating largely—but not exclusively—within, and around, the ASEAN.

Four such external factors should be highlighted. First, the European integration process played an important role in shaping post-Cold War East Asian interactions. But instead of serving as an institutional example to be followed, Europe in fact contributed to East Asian institutionalisation by becoming a source of worry for nations in the region. The adoption of the Single European Act in 1987 and with it the impending establishment of the European single market, as well as the drafting process of the Treaty of Maastricht and the implementation of an economic and monetary union envisioned by it raised the fears that a solidifying ‘fortress Europe’ would divert trade and investment from, and would be an increasingly powerful competitor to, East Asian economies. Second, East Asian countries followed with similar anguish the process which led to the formation of the North American Free Trade Agreement (NAFTA) in 1994 between the US, Canada and Mexico, especially because it carried the potential risk that the US, their main export market, would increasingly turn to imports from Mexico. Third, the setbacks of the Uruguay Round negotiations within the GATT proved the deficiencies of global-level coordination in trade issues, and gave impetus for the deepening of regional-level cooperation among East Asian economies. Fourth, one set of direct results the end of the Cold War had on East Asian calculations were the political and economic system changes in Eastern Europe. In the face of the rapid economic and political liberalisation in the disintegrated former Eastern bloc, developing East Asian nations feared that this region could emerge as a direct competitor of theirs for foreign investment, and that these changes would shift the US’ economic attention and realign it towards (Eastern) Europe (Hill and Menon 2010: 5; Mattli 1999: 166–168). In sum, these four factors combined—

which were in no case unrelated to one another—raised the fear that East Asia could lose its economic attractiveness and dynamism, and may fall behind other parts of the globe in a world of increasingly intense regional institution-building amidst failing attempts at global coordination.

The shifting dynamics of the regional economic and political architecture also had a profound effect on the institutional changes in East Asian regionalism. Similarly to the external ones, four such intra-regional are notable. The first of these was the rapid growth of the Chinese economy after its opening-up at the end of the 1970s, through which China has emerged to become an increasingly central player in the regional and global economic architecture as a hub for commerce and manufacturing. China's rapid rise posed a challenge for developing East Asia, above all the ASEAN, for China started to emerge as both a competitor for foreign investment (Hill and Menon 2010: 5) and a political force to be reckoned with. Second, Japan's bubble economy burst in the beginning of the 1990s, and Japanese firms subsequently saw the rapid erosion of their erstwhile leadership in key sectors to American competitors (Ernst 2006: 162). While Japan wrestled—mostly unsuccessfully—with its economic problems amidst political inertia, the FG model of East Asian regionalisation began to slowly disintegrate, not least because Japanese companies became increasingly reluctant to export jobs and Japanese banks slowed the expansion of lending to East Asia during the domestic economic downturn (MacIntyre and Naughton: 85–86). Third, the end of the Cold War had a profound effect on the security relations in the region. Gone was the Soviet Union and with it the preeminent common threat which served as the main strategic stabiliser in US–China and China–Japan relations. Instead, new (material) sources of regional tensions arose in the Taiwan Strait, the South China Sea, the East China Sea and North Korea, and misgivings rooted in historical misdeeds began to come to the fore of the international agenda as well. While US military presence remained considerable in the region in light of these challenges (see Nye 1995), the demand for regional solutions nevertheless grew. Moreover, even though some observers have conceptualised the 1990s as America's "unipolar moment" (Krauthammer 1990), the direct involvement of the US in the region nevertheless faltered in the post-Cold War era, and the ability of the institutions of the US hegemony to structure the nature of economic relations have become weaker in East Asia (and also other regions of the world). But while the US' stabilising presence declined and new sources of tensions arose in the region, the end of the Cold War also led to the further spatial expansion of the East Asian economic system by paving the way for the integration

of Indochinese nations (Cambodia, Laos, Vietnam and Myanmar—the so-called CLMV group) into it. This spatial expansion, however, has not been without its problems, and, as discussed later on, one of the main challenges of Southeast Asian institutionalisation has been the integration of the CLMV countries into the ASEAN stemming from the differences of their economic situation and political system relative to the founding members of the Association. Fourth, as the scale of East Asian economies and that of their external transactions expanded, there emerged a need for international frameworks to contain the tensions arising from the rapid structural change in the region (Garnaut 2000: 1), which tensions were detailed in the previous chapter. In addition, the rapid development of the ASEAN countries and the lack of a competing institution in East Asia emboldened them to try to play a decisive role in this process (Mattli 1999: 167).

In summary, these structural shifts realigned the nature and logic of East Asian integration, and consequently the state actors in the region came to conceptualise their interactions differently than before. But even though the demand for institutionalisation certainly grew in light of these external and internal factors, advancing and deepening interstate cooperation in East Asia has not been without its challenges and limits.

4.2. New regional institutions and mechanisms in the 1990s

4.2.1. *The APEC*

The first of these international institutional innovations, the Asia-Pacific Economic Cooperation (APEC) was neither exclusively East Asian, nor was it a legalised framework consisting of binding commitments. But while its utility is at least debated, the APEC warrants attention not only for its endurance, but also because it is an eloquent example of the conflicting material interests and ideational positions of regional stakeholders, which are in turn the primary sources of the laggard and soft nature of institutional cooperation in East Asia.

APEC was not so much a result of the aforementioned systemic changes, but was rather rooted in previous processes aimed at fostering economic regionalism in the Asia-Pacific, namely the Pacific Trade and Development Conference (PAFTAD) and the Pacific Economic Cooperation Council (PECC), both of which were initiatives launched and guided by Australia and Japan.⁴⁵ The original objectives of the APEC were threefold:

⁴⁵ The PAFTAD was established in 1968 as an informal 'Track-II' academic forum for economic issues, which later on brought together Japan, the US, Australia, New Zealand, Canada, and the ASEAN. Similarly, the PECC, established in 1980 by Japan and Australia, and comprising of 23 member committees, is an informal network of individuals and domestic institutions the goal of which is to develop ideas related to regional policy coordination.

to offer regional support for trade liberalisation in the global economy; to promote cooperation among Asia-Pacific economies on trade, investment and other economic issues; and manage the problems arising from growing regional economic interdependence (Acharya 2009: 152–153). But the APEC's objectives, as well as its institutional setting, proved to be issues of discontent among the Asian and Western participants. Australia proposed that APEC be modelled on an OECD-style organisation. This proposal in turn was received coolly by some, and was outright rejected by other East Asian member countries, which preferred a looser, less institutionalised, consensus-building arrangement, in line with their aforementioned normative approach to regionalism⁴⁶ (Garnaut 2000). Consequently, it was the Asian approach that prevailed in the organisational construction of the APEC, and European style, treaty-driven regional integration remained to be avoided. Rather, APEC would foster closer economic relations on a trans-regional scale through inter-governmental consultations and other non-binding mechanisms (Dent 2008: 121–122). East Asian and Western members had different priorities regarding the goals of the organisation as well. While Australia and the US pushed for trade liberalisation within the grouping, and a requirement for reciprocity in this regard was central to Washington's approach, Japan—given that official barriers had not proven to be major obstacles for its companies in the region, and fearful of the political backlash from an aggressive liberalising agenda—instead emphasised APEC's potential to play a role in trade facilitation, and the importance of economic and technical cooperation in encouraging commerce in the region (Ravenhill 2000: 323). Similarly, East Asian developing economies were mostly interested in APEC's work on economic and technical co-operation, or 'ecotech' programmes (Dent 2008: 122).

Nevertheless, the APEC formulated ever more ambitious goals after its establishment in 1989, and its membership continued to expand, incorporating many of the world most important economies.⁴⁷ At the Bogor meeting in 1994, APEC leaders proposed the creation of a 'free and open trade and investment zone' between developed member states by 2010, and by 2020 for the whole of APEC. Later on, Western members called for the establishment of a Free-Trade Area in the Asia-Pacific (FTAAP). However,

⁴⁶ In fact, the ASEAN laid out four explicit conditions for the acceptance of APEC: that it should not deal with political and security issues; it should not lead to the formation of a trade bloc; it should not reduce the importance of existing regional institutions; and that ASEAN's machinery should be the centre of the APEC process (Acharya 2009: 152).

⁴⁷ The founding members of the APEC were Australia, New Zealand, the US, Canada, Japan, South Korea, and the ASEAN member states. Later on, China, Taiwan, Hong Kong, Mexico, Papua New Guinea, Chile, Peru, Russia and Vietnam joined the organisation, until a moratorium was placed on enlargement.

the FTAAP is still a far cry from being established, and although the APEC (2010) itself proclaimed that significant progress has been made towards the achievement of the Bogor Goals until 2010, it remains disputed whether this was a result of the APEC or other corresponding factors (see Bergsten 1997). But in any case, the sort of trade and investment liberalisation envisioned by APEC's Western members was hampered by political inertia within the organisation stemming from the aforementioned differences in interests and priorities, and to date the APEC failed to take on the role its founders wanted it to. In the words of Ravenhill (2000: 319), APEC's failures stem from a lack of consensus over its objectives and how these might best be realized, and the absence of an institutionalized driving force for the grouping. For East Asian members, 'community-building' remains the primary *raison d'être* for the grouping (Soesastro 1998: 95), while Western participant deride the laggardness of liberalisation undertaken under the auspices of the APEC (Bergsten 1997: 10).

Thus, the APEC is in a way a profound example of the nature of East Asian regionalism and the challenges of institutionalisation in the region. It came to existence as a result of the recognition that international coordination in economic issues is vital for the region. But after the protestations of East Asian members, it basically came to follow the ASEAN Way, which in turn prevented it from becoming a deeply institutionalised vehicle for international trade and investment liberalisation. The APEC thus essentially remained a 'talk-shop,' or in other words, a vehicle for 'community-building,' much to the frustration of its Western members.

4.2.2. The ASEAN in the early 1990s

The sudden and substantial systemic changes detailed above led to the emergence of a number of new initiatives within and around the ASEAN. First, Malaysian leader Mahatir Mohamad proposed the plan to establish an East Asian Economic Group (EAEG, later renamed East Asian Economic Caucus – EAEC) in 1990, comprising the ASEAN, China, South Korea and Japan. This initiative was partly motivated by the contentious issues related to the formation of the APEC, as well as the APEC's aim to foster 'open regionalism' and the inclusion of Western countries in that process. In essence, Malaysia wanted to keep East Asian economic coordination within East Asia and among East Asian nations, with the exclusion of extra-regional actors. But this initiative failed partly due to Japan's reluctance to assume the leadership role in the process, and partly due to the explicit opposition of the US. Two years after its failure to create a wider, but exclusively East Asian economic grouping, the ASEAN moved to strengthen cooperation among its

members instead, and in 1992 it enacted the ASEAN Free Trade Area (AFTA), a bold initiative to reduce tariffs and NTBs to intra-regional trade among its membership, and also to spur FDI inflows into the ASEAN. This scheme was based on a Common Effective Preferential Tariff (CEPT) system, which stipulated that tariffs on goods should be reduced to levels between 0 and 5 per cent until 2008, which goal was later moved forward to 2003. The rules of origin were set at 40 per cent of the value of products. To accelerate intra-ASEAN economic integration, in 1995 the ASEAN Framework Agreement on Services (AFAS) was signed. This agreement had two objectives: to eliminate all restrictions to trade in services among member countries, and to expand the depth and scope of liberalisation in services trade beyond those undertaken under the General Agreement on Trade in Services (GATS). In 1998 the ASEAN Investment Area was launched to promote and protect cross-border investment among member states, which was subsequently expanded into the ASEAN Comprehensive Investment Agreement (ACIA) in 2009. Meanwhile, foreign investment continued to flow into ASEAN at an ever increasing pace, and the trade performance of member states improved markedly as well. Moreover, the surge of FDI inflows and trade performance occurred at least partly in response to well-managed macroeconomic policies within the ASEAN countries, thus national economic and trade liberalisation continued to contribute to regional integration (Chirathivat 2008; Dent 2008; Hill and Menon 2010).

These initiatives proved to be more efficient than the ones established in the Cold War period, and resulted in a substantial reduction in tariffs across the ASEAN membership. However, economic integration under the AFTA still proved to be less than impressive. Despite the fact that a large percentage of intra-ASEAN trade became eligible for low or zero tariffs, only a very small percentage of intra-ASEAN trade actually utilised the AFTA preferential rates. This was caused partly by declining margins of preference as most favoured nation (MFN) rates also came down at the same time. Baldwin (2008: 459) argued that the meagre effect of AFTA is a result of the fact that its margins of preference on the high trade-volume goods were too small for firms to compensate for the administrative costs and delay of applying for preferential tariff treatment. Other factors also played a role in the 'failure' of AFTA, such as the lack of private sector awareness, the lack of clarity in the application of the rules of origin, problems with customs procedures, and the lack of dispute settlement mechanisms. Moreover, some ASEAN members even backtracked from their original AFTA commitments, and the progress on the removal of NTBs were meagre, for there was no agreement on what these

entail (Soesarto 2005: 2). In fact, intra-ASEAN trade only grew from around 20 per cent in 1992 to around 23 per cent in 2003, despite the fact that average intra-ASEAN tariff rates declined from 12.76 to 3 per cent in the same period (Mikic 2009: 9, 12; see Appendix 6 and 7). Some sceptical observers even asserted that there existed little scope for mutually beneficial economic exchange among ASEAN member states, for their economies were not complementary, there was meagre demand for integration among market actors, and ASEAN companies competed in the same industrial sectors (Mattli 1999: 169). However, the laggardness of intra-ASEAN trade-creation was not only a result of a faulty institutional setting and competing interests, but also of the fact that it was not the preeminent priority of the Association in itself. As Chirathivat (2008: 94) argued, ASEAN looked at AFTA not as inward looking trade liberalisation, but rather as an investment-driven integration framework that would serve as the ‘training ground’ of local firms for global competition. Thus, what this means is that trade-creation is far from the only goal of ASEAN economic integration, and neither is the main determinant of the success of it.

Just like the APEC, the AFTA is a testament to both an increasing demand for regional coordination in economic affairs and the substantial problems such an endeavour entails. However, as noted above, the AFTA, and more broadly ASEAN economic cooperation itself rests on very different premises from that of the APEC.

4.2.3. The regional security architecture and the ARF process

Apart from facilitating economic cooperation among its members, the ASEAN also endeavoured in the post-Cold War era to construct a regional dialogue on security issues, which, as noted above, have become increasingly important—and worrying—issues on the regional agenda. The embodiment of this effort became the ASEAN Regional Forum (ARF) established in 1994, which shares much of the same traits of APEC in the security realm, inasmuch as it is based on the ASEAN Way and is more of a confidence- and community-building process itself rather than a framework for the solution of regional disputes.

The rationale for the formation of the ARF is disputed among students of East Asian regionalism. The basic realist explanation states that the establishment of a regional security forum was an attempt at maintaining the security engagement of the US in the region in the face of the ascendant China. This explanation builds on Southeast Asia’s historical ambivalence towards US security presence in the region, and holds that the ASEAN countries feared that a decline in US military commitments to the region would

result in the deterioration of the security relations of East Asia. In this regard, the ARF was created to serve as an instrument to maintain the balance of power in the region by keeping the US involved in East Asia and setting up a multilateral framework which would bring to the table the powers of the region under the ASEAN's leadership (Leifer 1996: 19, 53–9; Emmers 2001; Katsumata 2009: 37–8). In the liberal view, the ARF was instead ASEAN's attempt to cooperate tactically with external powers, in particular with China, given that the security policies of China were the most serious concern for the ASEAN countries in the 1990s (Snitwongse 1995: 534; Katsumata 2006: 183). In a somewhat similar vein, Kawasaki (2006) argued that the ARF came to being as an institutional solution for the 'assurance game' that emerged in the post-Cold War Asia-Pacific region. In this account, the central function of the ARF was to play the role of an 'information-clearing house,' through which states of the region reassure each other that they are committed to reaching and staying in a state of mutual cooperation (Kawasaki 2006: 221, 229). In contrast to both aforementioned accounts, constructivists regard the ARF as a mechanism for the transformation of power political thought and behaviour, leading to the formation of a security community in the region (Kawasaki 2006: 226). Acharya (2009: 112–23) argued that the ASEAN reconstructed the emergent (Western) norm of collective security to that of a 'softer' cooperative security agenda to fit its own identity, dropping the more intrusive aspects of the original norm, and universalising the ASEAN approach by inviting all major world powers to the table. In this account, ASEAN's push for cooperative security was due to a realisation that the end of the Cold War required ASEAN to rethink its focus. Helping to create a cooperative security institution promised a new and enhanced role for ASEAN in the Asia-Pacific by occupying the 'driver's seat' of this process. Another constructivist, Katsumata (2006, 2009) argued that the ARF is a 'norm brewery,' a framework for the development and practice of a set of norms associated with security cooperation.

The official aim of the ARF was to serve as a forum for confidence building, preventive diplomacy and the peaceful settlement of disputes, and ASEAN invited among others the US, Japan, China, Russia and the EU to join it⁴⁸ on the condition that they sign the TAC. But just as with the APEC, the wide coverage of the ARF membership, coupled with the loose and soft nature of the institution itself, prevented the sort of security cooperation materialist approaches of IR would expect such an institution to serve. Realist

⁴⁸ The total membership of the ARF consists of 26 countries including North Korea, and the EU. Taiwan is not part of the process, and as a general rule, the Taiwan Strait issues are not discussed at the ARF.

writers asserted that the ASEAN and the ARF had had remarkably little impact on unresolved interstate disputes (Jones and Smith 2002: 103), and this process “could only mask the reality that weaker states could not shape the fates of stronger ones” (Jones and Smith 2007: 184). It has also been pointed out that the ARF essentially neglected preventive diplomacy as well as dispute settlement (Emmers and Tan 2011), and ASEAN-led regional cooperation even proved to be inadequate in facing non-traditional security threats (Caballero-Anthony 2008).

Moreover, the success of the ARF’s confidence-building measures are at least questionable. Presently, the region is dominated by tension among the US, the rising China, a Japan which is in the process of rediscovering the caveats of its long-standing pseudo-pacifist approach,⁴⁹ and a number of ASEAN countries in limbo between China and the US and Japan, not to mention ARF-member North Korea, which continues to be a destabilising force in the region. Moreover, the US hub and spokes system remains largely in place, and is a more dominant feature of the regional security architecture than the ARF could ever aspire to be. However, a portrayal of ARF as a complete failure would be missing the point. Just as the AFTA is not a vehicle for trade-creation *per se*, the ARF is not an institution for dispute resolution. In contrast, just like the AFTA’s main purpose is to strengthen ASEAN’s resolve vis-à-vis external forces, the ARF is a forum for ASEAN to employ the driver’s seat among more powerful external actors. Nevertheless, it remains indisputable that the ARF could not overtake the stabilising role of the *Pax Americana* in the region.

4.3. The Asian financial crisis and its effects on regionalism

As noted above, while the demand for institutionalisation in East Asia arose in the post-Cold War era, and numerous attempts were made at the coordination of economic and security affairs in the region, none of these proved to be especially effective, nor did they follow the Western norm of treaty-based, legalised institutional management. While the latter characteristic of East Asian regionalism have not changed to date, the scope and scale of intraregional institutionalised cooperation nevertheless further expanded after the second part of the 1990s, and the single most important contributor to this process was the Asian financial crisis of 1997/1998.

⁴⁹ I call this approach pseudo-pacifist for the argument made in Footnote 43.

4.3.1. A brief anatomy of the crisis

It would be well beyond the scope of this thesis to analyse the causes of the Asian financial crisis, the anatomy of the crisis itself, or all of the domestic and international changes it led to in great detail, not least because the exact causes and lessons of it have been sources of great scholarly debates. Nevertheless, it is important to sketch a brief glimpse of the crisis and its regional aspect, for it is conceived as a major turning point in East Asian regionalism.

Suffice it to say that the institutional strength and prudence displayed by emerging East Asian economies in their industrial- and macroeconomic policies failed to materialise in the financial sector. Financial regulation and supervision, as well as corporate governance showed severe weaknesses in most of the developing economies of the region, and their bond and equity markets failed to develop in parallel with their real economies.⁵⁰ In addition, most of the countries involved in the crisis followed a faulty sequence of financial deregulation and capital account liberalisation,⁵¹ and were trying to maintain the ‘impossible trinity’ of a fixed exchange rate, free capital mobility, and an independent monetary policy. Moreover, a double mismatch (maturity mismatch and currency mismatch) emerged in some of these countries, which the weak and underdeveloped financial sector was not able to transform. In short, the oversight and the governance of the financial sector were weak, ineffective, ill-suited and vulnerable in emerging East Asia in the 1990s. These vulnerabilities became especially pronounced when large amounts of short-term portfolio investment—fuelled by the economic success of East Asia—started to flow into these countries, mostly denominated in US dollars. First, the domestic financial sector was unable to allocate these resources effectively, and most of the excess capital ended up in non-productive, speculative schemes, first and foremost in real estate. Second, this brewing economic bubble was made worse by the heavy vulnerability these countries had to endure due to being exposed to external forces as a result of the high amount of debt denominated in US dollars. Third, while most East Asian countries pegged their currencies formally or informally to the US dollar, much of their real economic activity was tied to the currency of their main trading partner, Japan.

⁵⁰ Ironically, this was at least partly the result of macroeconomic prudence. Since most East Asian state ran a balanced budget, they were in no need to issue government bonds. Without government bond rates serving as benchmarks, it was difficult to develop a sound corporate bond market (Ito 2001: 67–8).

⁵¹ The textbook sequence of liberalisation states that trade liberalisation should precede financial liberalisation, domestic financial deregulation should precede external financial liberalisation, and direct investment liberalisation should precede portfolio investment and bank loan liberalisation (capital account convertibility). Thailand, South Korea and Indonesia did not follow this sequence.

Hence, the depreciation of the Japanese yen in 1995–1997 had a strong negative effect on the price competitiveness of other nations in the region, depressing their growth rates. A related issue was that given their domestic problems noted in the section 4.1, Japanese financial institutions started to curtail their lending in East Asia and collect and repatriate the debt they could. The capital flight was exacerbated by the US Federal Reserve, which started to raise interest rates in the second part of the 1990s, making more risky East Asian investment less attractive. These developments weakened the already vulnerable financial sectors of East Asian states substantially. By 1997, Thailand became unable to maintain its currency peg to the dollar, but after it resorted to floating the baht, it collapsed. Strong contagion from the baht crisis spread all over the region, the primary victims of which were South Korea and Indonesia, but virtually all economies in East Asia suffered to some degree the consequences of the crisis⁵² (Ito 1999; Ito 2001: 64–85; Sundaram 2009).

The conclusion to be drawn from the crisis for the purposes of this paper are twofold. First, as noted in Chapter 2, the Asian financial crisis can be conceptualised as a result of an asymmetrical interplay between the volatile global financial markets and the weak East Asian domestic financial institutions and regulations in the absence of a regional (and weakening global) financial governance. Thus, the very forces that made East Asian growth and regionalisation possible, in turn proved to be behind the demise of a number of East Asian economies in the 1990s. Second, this reflects the shift in the nature of East Asian integration, and the problems of the absence of regional coordination in the face of a rapidly changing and increasingly interconnected and complex international structure, both regional and global. Both the crisis itself and its aftermath showed that the market-led integration which brought substantial benefits to East Asian economies had run its course in light of these structural changes, and led to the recognition that more coordination on the regional level is essential for the maintenance of the economic dynamism of the region. However, in spite of this recognition, enhancing regional cooperation was not without its challenges, and even the financial crisis failed to change the main underlying characteristics of East Asian regionalism.

4.3.2. Institutional responses: EAS, CMI, and beyond

By 1997, the regional position of the former informal leader of East Asian regionalisation, Japan, was weakened both from a material and normative aspect. As a result of its domestic financial and economic problems, Japan became less and less capable of

⁵² Again, it should be stressed that this is a very simplified and far from complete account of the crisis.

exercising a central role in East Asian economic affairs in a way it previously had done, and its position as an exemplary model of development to follow for other economies in the region was undermined by the apparent policy failures of both the public and private sectors in Japan. However, in spite of these developments, Tokyo made efforts to recover and strengthen its leadership role in the aftermath of the crisis, and while these efforts were at best half-successful, they came to serve as important building blocks for the future trajectory of the region in profound ways.

The first Japanese initiative floated in 1997 was a plan for an US\$100 billion Asian Monetary Fund (AMF) to handle the crisis. At the time, the AMF was the most important regional economic initiative that Japan had ever made.⁵³ Japan's motives behind the plan were numerous. First, it felt partly culpable for the crisis as many of its banks had made substantial levels of bad loans, which had contributed to the region's financial vulnerabilities. Second, despite its problems, Japan was still the region's pre-eminent financial power, and thus it felt the onus of perceived expectation from other East Asian countries to provide some kind of solution to the crisis. Third, Japan's push behind the AMF proposal was also a test of its regional leadership (Dent 2008: 155). In this latter sense, Japan—after its reluctance to back the EAEG/EAEC initiatives due to American pressure—was by this time entertaining the idea of assuming regional leadership without the US in the room (Lincoln 2004: 156–7). Tokyo certainly touched a nerve with the AMF proposal in more than one way. First, demand for regional—and non-Western—solutions was high. Some East Asian leaders—most notably Prime Minister Mahatir of Malaysia—blamed Western speculators for the outbreak of the crisis, and the initial American disinterest in the crisis renewed concerns about the lack of US policy engagement with the region. Japan itself also became increasingly dissatisfied with the global financial regime, which led to its pronounced activism for substantive reform. However, the AMF proposal was quickly criticised and dismissed by the US, as well as China (Lincoln 2004: 147, 213–4; Hamilton-Hart 2006: 117), which started to emerge as a regional rival to Japan. Washington feared that the AMF would undermine the IMF, and its establishment would result in a loss of American structural power and influence over the international financial system⁵⁴ (Higgott 1998). As a result of US protest, the

⁵³ The plan was based on pooling together the foreign exchange reserves mostly from Japan, China, Hong Kong, South Korea, Singapore and Taiwan, although Japan proposed to make the majority contribution.

⁵⁴ Lincoln (2004: 214) argued that while Asian officials blamed US pressure for the failure of the AMF proposal, it was a bad idea to begin with, for American and European lenders played an important role in East Asia, and excluding them from the resolution of the crisis would have had detrimental effects.

countries most heavily affected by the crisis—Thailand, South Korea and Indonesia—received bailouts from, and had to undertake structural reform under the auspices of, the IMF. These programs, in turn, were designed to bring the financial systems of these countries in line with global (i.e. Western) standards (Hamilton-Hart 2006: 114–115). But the involvement of the IMF led to stringent criticism of the conditionality of its bailout packages, and the initial mistakes of the IMF program further exacerbated concerns about unfair American intrusion and pressure, and even some fears that the reforms undertaken under the IMF’s mandate would in fact give additional benefits for American firms in East Asian markets (Lincoln 2004: 147). In sum, as Breslin and Higgott (2000: 338) put it, the crisis produced a “sharpened interrogation of the benefits of globalization and specifically the utility of the ‘Washington Consensus’”, which, in turn, began “changing the basis for regional organization in general and the articulation of regional responses to global financial disorder in particular.”

But even though the AMF proposal failed, Japan launched another scheme in 1998, the ‘New Miyazawa Initiative’ (NMI) named after Japanese finance minister Miyazawa Keiichi, whereby US\$30 billion of extended liquidity provision was being offered to East Asian economies if they again found themselves in financial crisis.⁵⁵ The NMI was received warmly by East Asian countries, not least because it had no conditionality attached to it apart from a vague notice that it was being made available ‘in line with IMF policies.’ In essence, “the Japanese government was doing unilaterally what it had intended the AMF to do, although on a considerably smaller scale.” (Lincoln 2004: 216–7; Dent 2008: 156). Furthermore, in 2000, the finance ministers of the ASEAN, Japan, China and South Korea agreed to set up a system of bilateral currency swap agreements between their central banks as an extension of the NMI, which came to be known as the Chiang Mai Initiative (CMI). In the following years, a total of 16 bilateral arrangements were signed, and by 2007 these bilateral CMIs amounted to US\$82.5 billion⁵⁶ (Dent 2008: 157–60). In 2009—as a reaction to the Lehman Shock in 2008—the participating states signed on to the multilateralisation of the CMI, which came into effect in 2010. Moreover, a decision was made in 2012 to expand the multilateralised CMI to US\$240 billion. Hence, even though broader plans for regional financial cooperation such as the

⁵⁵ In the end, around US\$21 billion of the fund was utilised by five regional economies, namely Indonesia, South Korea, Malaysia, Thailand and the Philippines

⁵⁶ Moreover, the CMI system also included an information exchange and early warning mechanism on short-term capital movements; a dialogue framework for reforming the international financial architecture; and regularised meetings between finance ministers (Dent 2008: 157–60).

AMF were thwarted by the US, East Asian economies did endeavour on a path towards tighter financial cooperation as a result of the crisis (or, taking into account the recent global financial crisis, crises), and while these schemes were far from revolutionary, they, nevertheless, provided some added security to the regional financial system.⁵⁷ In fact, some even argued that the multilateralisation of the CMI scheme can be seen as a *de facto* step towards the establishment of the AMF, although this looks less and less likely in the face of present regional political tensions between Japan and China (Grimes 2011). Apart from the CMI, two other schemes for regional financial coordination have to be highlighted. The Asian Bond Market Initiative (ABMI) was launched in 2003 by the same states to facilitate market access and enhance market infrastructure. More broadly, the ABMI provided East Asia “with the opportunity to utilise the region's huge financial resources for promoting its own regional financial stability and economic development, rather than investing in, or diverting these resources to other regions or countries” (Dent 2008: 161). The second was the concept of an Asian Currency Unit (ACU), which first emerged as an idea in 1999, but was formally proposed in 2006 for the first time by Japanese economists as a regional currency basket, similar to that of the former European Currency Unit. To date neither the ACU, nor a more ambitious Asian Monetary Union proposal (similarly an idea of Japanese economists) has come closer to being established.

The burgeoning financial cooperation described above has essentially come to existence within another new regional political framework which emerged after the crisis: the APT. In part, this framework born out of the Asia-Europe Meeting (ASEM). The participants of the APT framework first started a sort of informal coordination within the ASEM, for it was essentially a bilateral-like meeting of Asian and European nations, where both groups felt the need to express a somewhat uniform position. Hence, ministers from the ASEAN, China, Japan, and South Korea started to meet before the ASEM to coordinate their views. In a sense, the ASEM was a turning point in terms of East Asian regionalism in itself: it “marked the first time that Asia was meeting as Asia” (Ba 2009: 200; Lincoln 2004: 156). Another impetus for the APT came from a proposal by Japan in 1997 for a Japan–ASEAN summit meeting, to which the ASEAN asked to invite South Korea and China to avoid appearing like discriminating against them (Dent 2008: 153).

⁵⁷ For a critique of the NMI and CMI, see Lincoln (2004: 221–4). It also has to be noted that even though East Asian economies avoided a currency crisis during 2008–2010, a ‘near-crisis’ in South Korea was managed predominantly through help from the US Federal Reserve, instead of the CMI (Grimes 2011).

The first APT meeting took place in 1999, and this forum became the first distinct East Asian institution, as well as, undoubtedly, the most important one.

Subsequently, the APT framework has been supplemented by the East Asia Summit since 2005. The EAS was first composed of the APT plus Australia, New Zealand and India, which states were invited to become participants in this process at the behest of Japan and Indonesia. The underlying aim of Japan was predominantly (geo)political: Tokyo wanted to enlarge the East Asian frameworks with like-minded (i.e. democratic) countries which it thought would be its partners in offsetting the rising influence of China in the ASEAN Plus process. In 2011, the EAS was further enlarged with Russia and the United States—one Chinese and one Japanese ally. In fact, the establishment of the EAS marked not only the spatial expansion of the ASEAN process—and debates about the exact scope of East Asia with it—but also a *de facto* leadership struggle between Japan and China within the region (Nabers 2008: 12). This will be picked up in the next chapter.

In summary, suffice it to say that while the Asian financial crisis severely dented both the performance and the prestige of East Asian economies, it also acted as a catalyst for further integration and cooperation in the region (MacIntyre, Pempel, and Ravenhill 2008). In essence, the calamity which ensued as a result of the crisis translated into a flurry of ideas and action for regional solutions, which have been incremental, but nevertheless substantial given the previous lack of institutionalisation in East Asia. However, the broadening of institutionalised cooperation led to the internalisation of (geo)political debates, which in turn might hamper this process in the future.

4.3.3. *The ASEAN after the crisis: Towards the ASEAN Community*

Similarly to the acceleration of its wider East Asian engagement, the ASEAN moved to deepen economic integration between its members as well. In response to the crisis, the ‘ASEAN Vision 2020’ was declared in 1997, confirming the goal of deeper integration, and the Hanoi Plan of Action was adopted in 1998 to this effect, moving forward the realisation date for the AFTA to 2002. In the second part of the 1990s, the ASEAN also enlarged its membership: in 1995 Vietnam, in 1997 Laos and Myanmar, and in 1999 Cambodia joined the Association.⁵⁸ This contributed to the enhancement of the ASEAN’s clout in East Asia and the Asia-Pacific. At the same time, it also complicated economic integration. First, the CLMV countries were poor and severely underdeveloped countries.

⁵⁸ Brunei joined in 1984. However, as Brunei is a small, oil-rich country, its accession did not have the same profound effects on integration as did the accession of the CLMV countries.

This had a number of consequences for their integration into the AFTA and the regional economy as a whole. Most importantly, they could not meet the AFTA obligations, and had to be given certain opt-outs related to, and extended time-frames for, tariff reduction and trade liberalisation, which weakened the overall structure of the AFTA. In addition, the CLMV countries were more reliant economically on China than the ASEAN or other East Asian economies. They joined the regional division of labour relatively late, at a time when both the ASEAN and Japan had serious economic and financial problems of their own. Hence, their integration into the regional economy was more asymmetrical than that of the original ASEAN economies, and neither the ASEAN nor Japan had the appropriate resources to fully alleviate the distributional problems arising from this, although they have been investing relatively heavily into the CLMV since the late 1990s. Second, the domestic political systems of these countries posed a challenge to both the ASEAN and its non-interference principle. The CLMV countries were not only poor and backward economies, but also had authoritarian and oppressive domestic political regimes. As a result, some (relatively) more liberal-minded ASEAN members—to varying degrees, Indonesia, Malaysia and Thailand—called for the transformation of the non-interference principle into ‘constructive intervention’ (or ‘friendly criticism’) and ‘flexible engagement,’ which would entail the promotion of democracy and good governance in the CLMV countries. But these initiatives did not enjoy broader support, and ASEAN failed to depart from its doctrine of non-intervention in a significant way (Acharya 2009: 122–134). However, some researchers argued that even though the principles of (Westphalian style) sovereignty and non-intervention had prevented the ASEAN from deeper engagement, the Association indeed had undergone somewhat of a ‘reluctant liberal turn’ recently, mostly as a result of demand for transparency and good (better) governance by sub-state actors (the civil society) in individual nation states, especially the Philippines and Indonesia (Dosch 2008).

Nevertheless, debates about norms and collective identity did not hamper the deepening of ASEAN institutional framework. After the AFTA was finally in place by 2002, the organisation declared the ASEAN Concord II in Bali in 2003, outlining the ambitious goal of establishing an ASEAN Community by 2020, resting on three pillars: the Economic Community (AEC), the Security Community, later renamed Political and Security Community (APSC), and the Socio-Cultural Community (ASCC). In 2007, the ASEAN moved this date forward to 2015, while at the same time adopted so-called ‘Blueprints’ for the implementation of these Communities. Moreover, the ASEAN

Charter was signed in 2007 and went into effect a year later, setting up the clear rules and the institutional framework of the organisation, as well as giving a legal personality to ASEAN.⁵⁹ For the particular purposes of this paper, I will focus here on the AEC exclusively.

The AEC has four broad, and no less than 147 sub-goals. First, it aims to establish a ‘single market and production base’ within the ASEAN, based on the free flow of goods, services, investment, capital and skilled labour. To this end, the AEC aims to eliminate tariffs and NTBs, and also plans to achieve customs integration, a wide-range of harmonisation measures, and the overall liberalisation of ASEAN economies. Furthermore, the AEC Blueprint identifies eleven priority integration sectors, in which integration should proceed at an advance pace (see Appendix 8). Second, the AEC aims to establish a ‘highly competitive economic region’ within the ASEAN, aided by the enhancement and harmonisation of competition, intellectual property rights (IPR) and taxation policies, as well as the development of infrastructure and e-commerce among member states. Third, the ASEAN strives for ‘equitable economic development’ among its membership with the Initiative for ASEAN Integration (IAI), which is an assistance program for the less developed members launched in 2000, aimed at reducing the developmental gap between Southeast Asian economies, especially between the CLMV and the rest of the ASEAN. Fourth, the ASEAN set out the goal to become integrated firmly into the global economy, in part by exercising a coherent approach towards external economic relations, in part by enhancing its participation in global production networks.⁶⁰

In addition, the Association issued the Master Plan for ASEAN Connectivity a year later, so as to create a ‘well-connected ASEAN, that would contribute towards a ‘more competitive and resilient ASEAN.’ The Master Plan identifies three areas of connectivity: physical (transport, information and communications technology, energy), institutional (trade, investment and services liberalisation and facilitation, mutual recognition arrangements, regional transport agreements, cross-border procedure and capacity-building programmes), and people-to-people connectivity (education, culture,

⁵⁹ In fact, the ASEAN had assumed a legal personality a year before the EU did in 2009.

⁶⁰ The implementation of the AEC was conferred upon the ASEAN Economic Ministers as the Ministers-in-charge of Economic Integration in the Council of the AEC. This Council was created by the Charter to ensure implementation, coordination, and submit reports and recommendations to the ASEAN Summit. The ASEAN Sectoral Ministerial Bodies were referred to operate under the purview of the Community Council to help implementation and cooperate in their respective fields.

tourism). All three are essential for the realisation of the AEC (and also the APSC and ASCC), and the Master Plan carries a rather ambitious agenda to realise its goals, especially given that the lack of physical infrastructure is a key hindrance in ASEAN integration. Nevertheless, the ambitions of the AEC are coupled by much ambiguity. This will be explored in the next chapter.

4.4. Brewing the noodle bowl: bilateralism and its caveats

While the ASEAN did establish an FTA among its membership, as noted above, its effects were rather meagre on intra-ASEAN trade. Moreover, even though institutionalised financial cooperation took root in East Asia after the 1997/1998 crisis, a multilateral free trade arrangement comparable to the AFTA failed to materialise on the broader East Asian scale. Instead, since the end of the Cold War, East Asian nations—following the path of least resistance, similarly to other regions of the world except for the EU—have endeavoured on a path of concluding an increasing number of bilateral FTAs either with intra- or extra-regional partners. It should be noted that this wave of bilateral (new) regionalism is partly a result of the fact that regional production networks continued to diversify and deepen in East Asia. While the Japanese-led hierarchical economic order discussed in the previous chapter underwent important transformations, transnational production networks crafted by MNEs remained at the centre of East Asian economic integration. In the words of Baldwin (2008: 449), “East Asian corporations set up ‘Factory Asia’ and they are running it now.” East Asian value chains continued to grow, and developing countries in the regions became more deeply integrated into those in the post-Cold War era. Through this process, the value added by developing countries in goods manufactured within the East Asian production networks rose dramatically, and value shares became more evenly distributed among regional economies in key sectors such as electronics (Wang, Power, and Wei 2009). The efforts aimed at institutionalisation in part were motivated by the desire to reap larger benefits from regionalisation and in fact accelerate this process. In this sense, this process of bilateralism followed the basic logic outlined by neoliberal institutionalism, which states that increased transnational linkages will result in a demand for institutionalisation (MacIntyre and Naughton 2005: 98; Kawai and Wignaraja 2009: 5). On the other hand, bilateral efforts were also motivated by the setbacks of trade liberalisation on the global level, the difficulties of concluding a broad regional multilateral FTA, as well as the numerous internal and external structural factors noted in the first section of this chapter. The sheer scope of East Asian bilateralism is best reflected by numbers: as of 2013, 257

FTAs were signed in the region, with 109 in effect. 189 of those 257 were bilateral, and 68 plurilateral (Urata 2013b).

However, bilateral FTA-activism resulted in what Baldwin (2006) described as the East Asian ‘noodle bowl,’ an unorganised tangle of overlapping bilateral trade deals, as shown in Appendix 5.⁶¹ The FTA figures cited above attest to this sense of disorganisation, which created a delicate situation for regional economic integration. A distinction has to be made between the political and economic underpinnings, as well as the results of this process. On the economic front, it was feared that this process would result in a chaotic trading environment and a rise in transaction costs (Bhagwati 1995, 2008), and would present challenges for broader regional and global integration (Kuroda 2006a, 2006b, cited in Kawai and Wignaraja 2009: 6). However, it was underscored empirically that the FTA-activism which led to the ‘noodle bowl syndrome’ did not carry the aforementioned negative economic effects with it (Kawai and Wignaraja 2009), and substantially more firms utilised the FTA preferences under these tangled arrangements than the ones created by the AFTA.⁶² On the other hand, the presumed positive effects of these East Asian arrangements are at best questionable. As noted by Ravenhill (2010: 192–3), this East Asian ‘noodle bowl’ consists predominantly of Preferential Trade Agreements (PTA), which are rather limited in scope and cover only a very moderate percentage of goods and services trade among regional economies, while exclude basically all ‘sensitive’ (i.e. protected) sectors of participating economies. Moreover, these arrangements generally fail to cover ‘WTO Plus’ areas of deeper integration, such as IPR, investment, competition policies, government procurement liberalisation, environmental and labour standards, etc. In this sense, East Asian bilateralism shows the same traits and suffers from the same limitations as multilateral cooperation in the region: it consists of rather small and cautious steps towards institutionalisation, which cautious steps in turn seem to yield only very marginal—if any—benefits.

However, the political aspect of East Asian bilateralism is more interesting, because its potential effects are more profound, especially the motivations for the creation of the ‘noodle bowl.’ Baldwin (2008: 453–465) distinguished between three phases of

⁶¹ The term ‘noodle bowl’ was first used by Haruhiko Kuroda, then president of the ADB (and the current governor of the Bank of Japan), in a speech in 2006 as an analogy on Bhagwati’s (1995) concept of ‘spaghetti bowl’ (Bhagwati 2008: 63). However, it was Baldwin (2006, 2008) who offered a systematic treatment of the phenomenon and popularised it in policy and academic circles.

⁶² According to Kawai and Wignaraja (2009), 22 per cent of firms surveyed by them made use of FTA preferences. In contrast, less than 3 per cent of the intra-ASEAN trade benefited from AFTA’s preferences (Baldwin 2008: 459).

East Asian trade liberalisation, with each resting on different political–economic motivation. The first, as noted in the previous chapter, consisted of unilateral tariff cuts in the 1980s, which were undertaken by East Asian economies in competition for investment related to development (or, as worded earlier in this thesis: to take advantage of the opportunities presented by the architecture of the international economic order). The second phase was one marked by the emergence of the—eventually ineffective—AFTA and APEC on the one hand, and the acceleration of unilateral liberalisation on the other in the 1990s. Baldwin’s third phase of ‘real’ (institutional) regionalism, starting in the 2000s, led to the formation of the ‘noodle bowl.’ A common and so far in this thesis unexplored feature of the second and third phase is that—apart from the various other factors analysed here already—they were largely motivated by the rapid rise of China.

After its opening-up and domestic reforms, China entered the regional division of labour armed with hundreds of millions of low-wage workers, which accelerated the erosion of core nations’ comparative advantage in labour-intensive production, while simultaneously expanded the attractiveness of offshoring. Thus, China became an increasingly dominant player in the rapidly expanding regional production networks, which in turn triggered a ‘race to the bottom’ by ASEAN economies to compete with China for investment from Japan and the NIEs (Kuchiki 2003; Baldwin 2008: 454–7). Another important transformative aspect of China’s opening-up in the 1990s was the emergence of regional Chinese business networks, which developed in parallel with the Japanese ones, albeit these two were very different in nature. Unlike the Japan-led FG-model, the Chinese networks bound together ethnic Chinese businesses in ‘Greater China’ (the PRC, Honk Kong, Taiwan), as well as other states in the region with considerable Chinese minorities (Malaysia, Singapore), creating a pattern of informal firm-level integration (MacIntyre and Naughton 2005: 87–90).

China’s role in facilitating the essentially defensive–competitive pattern of East Asian liberalisation was further elevated after the Asian financial crisis. China’s economic stability during the crisis gave it a big boost in its competition for new jobs and factories. But even more important was China’s accession into the WTO in 2001. Regional states feared that Chinese WTO membership would externally entrench the pro-market reforms which transformed China’s regional economic role, and would further heighten the attractiveness of China as a location for FDI. Furthermore, apart from its ‘passive’ role as an emerging competitor, China also played an active part in facilitating the FTA-proliferation in East Asia with its proposal for a China–ASEAN FTA (CAFTA)

in 2000. This scheme, which was eventually signed in 2002 and came into effect in 2010, triggered a ‘domino effect’ across the region, for other nations—most notably Japan and South Korea—feared that preferential liberalisation between their major markets would create discriminations against their goods (Baldwin 2008: 462–4). Subsequently, both Japan and South Korea negotiated and signed their own FTAs with the ASEAN, and concluded further bilateral economic partnerships with certain ASEAN member states.⁶³

As Ravenhill (2010: 199–200) noted, “[t]he explosion of PTAs in the region has been driven by a ‘political domino effect’,” and “[o]nce the PTA bandwagon started rolling, competitive regionalism became the name of the game.”⁶⁴ Of particular significance in this process was the rivalry between China and Japan for leadership in East Asia. China’s proposal for the CAFTA was designed to assuage ASEAN fears that Southeast Asian economies would be the principal losers from China’s accession to the WTO. It also “served to place Tokyo on the defensive,” for trade liberalisation for Japan posed higher potential economic costs, and thus a bigger domestic backlash (Ravenhill 2010: 200).⁶⁵ However, as Baldwin (2008) argued, this process created fragility instead of coordination in East Asian regionalism. While MNEs continue to run Factory Asia as ‘mid-level managers,’ the top-level management (international institutions) is still lacking. The fragility arises from three facts: first, each East Asian economy’s competitiveness is heavily dependent on the free flow of intra-regional trade; second, the aforementioned unilateral liberalisation is not WTO-bound, and is not susceptible to WTO discipline or

⁶³ It should be noted that FTAs concluded under the auspices of ASEAN—the AFTA, the CAFTA, and the treaties with Japan and South Korea, as well as further ASEAN+1 FTAs with Australia, New Zealand and India—are essentially webs of bilateral deals instead of multilateral agreements. Under this system, participating economies conclude deals vis-à-vis one another, which are different in their scope, coverage and rules of origins, and provide for the ‘sensitivities’ of each state. The advantage of these frameworks lies in their capacity to essentially sidestep economic issues which would be particularly hard to negotiate on a multilateral level. However, this also results in considerable disadvantages: first, as noted earlier, the coverage of these agreements is rather meagre; second, they contribute to the ‘noodle bowl syndrome’ instead of solving it, for the vast differences in each treaty add to the chaotic nature of the East Asian regional trade environment (see Urata 2013a).

⁶⁴ Ravenhill’s (2010) argument goes further by positing that the main drivers of FTA-proliferation in East Asia were potentially diplomatic gains instead of economic ones. Baldwin’s (1993) original theory argued that rising interdependence as a result of regionalisation creates demand for FTAs. FTA creation in turn triggers to a ‘domino effect,’ because states seek to offset the potential discrimination arising from FTAs of which they are not members, thus conclude further FTAs themselves. In contrast, Ravenhill (2010) argued that East Asian FTAs were relatively unimportant in their economic effects, and that demand for liberalisation from domestic firms was meagre, hence the economic rationale for the domino effect was not considerable. Instead, East Asian states are seeking to maintain and strengthen their political-diplomatic standing and ties in the region through these arrangements.

⁶⁵ The main reason for this is that most of developing Southeast Asian economies are large exporters of agricultural products, while the Japanese domestic agricultural sector is heavily protected and politically important, for the Japanese election system is biased towards the rural areas.

other forms of international management, thus can easily be reversed; third, regional institutions remain weak and unable to control potential economic tensions.

So far, trade tensions eluded East Asia, largely for the fact that the FTAs in place did not result in widespread discrimination (Baldwin 2008: 470; Ravenhill 2010). But the competitive nature of East Asian regionalism, the emerging geopolitical tensions and the shifting power relations in the region, and the ASEAN Way of soft institutionalisation combined pose significant challenges for the management of the aforementioned fragilities on the one hand, and carry risks for the regional economic order on the other. These themes will be examined in the concluding chapter.

4.5. Summary

In the post–Cold War era, the nature of East Asian regional integration underwent a fundamental realignment, and the logic of this process changed substantially. This is hardly surprising given the fact that, as detailed in Chapter 3, East Asian integration in the Cold War era was built on a rather specific and special set of domestic and international conditions—all of which changed with the end of the Cold War.

On the global level, the significance of the institutions of the American hegemony, which served as the main sources of institutional management in the Cold War era, declined substantially. While East Asian economies continued to accede the WTO, as global liberalisation stalled, they ultimately turned to regional and bilateral solutions.⁶⁶ However, the importance of US dominance in the world economy should not be underrated. First, financial and capital account liberalisation was an essential part of the US-led economic order, and this process did play a constitutive role in the most important regional economic event of the post–Cold War era, the Asian financial crisis. Second, the triangular trade relationship described in the previous chapter did not change fundamentally: the US remained the largest market for East Asian finished products. Third, even though the Cold War ended, the American security alliance system remained firmly in place in East Asia.

Global structural dynamics continued to be important constitutive elements of East Asian regionalism. The end of the Cold War division and rampant economic

⁶⁶ Two exceptions should be noted. First, China's WTO accession had a profound effect on regional economic affairs. However, the realignment China's rise resulted in was more of a result of China's national policies than international institutions. Second, the WTO Information Technology Agreement of 1996 liberalised trade in electronics, which were the most important components of Factory Asia. Hence, liberalisation related to the key goods manufactured within the regional production networks happened on the global scale.

regionalism in other parts of the world spurred East Asian nations to display at least some form of unity to protect their economic interests. In this sense, the emerging institutionalisation of East Asian regional integration was first and foremost the result of external structural shocks. As Beeson (2003: 251) put it, East Asia has been marked by a form of ‘reactive regionalism’ in which regional initiatives were designed to mediate and moderate external influences.

On the domestic front, the core economic interests of both state and sub-state actors remained unchanged. However, the structural shifts noted above changed the ways in which these interests manifested on the regional level. The structure and nature of the East Asian regional system in the post–Cold War era reflects somewhat of an ambivalent state of affairs: on one hand, cooperation through institution-building strengthened significantly; on the other hand, competition became an equally important feature of the region in the era, both from an economic and political standpoint. The distribution of power shifted in important ways: Japan’s capacity for leadership was weakened by its domestic problems, the rising China became an increasingly influential player in the regional arena, and the US retrenched somewhat from its former pivotal role. Instead, the ASEAN, which strived to strengthen its internal unity and resilience, emerged as the third core in the regional political economy. In fact, the ASEAN came to resemble a sort of a ‘non-aligned’ centre of gravity between Japan and China, and utilised its increasing institutional power to reserve itself the right to employ the ‘driver’s seat’ of East Asian regionalism. While its material capabilities were weaker than that of Japan’s and China’s, the ASEAN successfully manoeuvred politically between the two states striving for regional leadership, and became the *de facto* normative leader of East Asian regionalism.

As outlined in this chapter, three broad processes of regionalism emerged in East Asia in the 1990s: the first entailing the multilateralisation of intraregional cooperation in financial matters; the second resulting in the proliferation of mostly bilateral FTAs;⁶⁷ and the third one concerning the deepening of cooperation within the ASEAN. As noted above, the first and third of these processes were predominantly the result of extra-regional factors and structural shocks, while the second process was driven by both intra- and extra-regional dynamics. All of these processes shared the same traits and caveats. The economic effects of institutionalisation in East Asia were at best meagre, as institution-building remained cautious and sidestepped potentially conflicting issues. On one hand,

⁶⁷ As noted above, the FTAs concluded within and around the ASEAN can be described as bilateral in nature.

this was an advantage. The main principles of the ASEAN Way remained entrenched in Southeast Asian states' foreign policy conduct, and thus continued to serve as the normative framework guiding interactions between and among East Asian actors, which rendered it impossible to advance a 'European-style' regional institutionalisation agenda which would have resulted in binding arrangements. Instead, the cautious and step-by-step nature of institutionalisation was the only way possible for the region (this is what Acharya termed path-dependence). On the other hand, for the very nature of the ASEAN Way principles prevents strong 'top-level management' in the region, the institutions which were crafted under these principles failed to answer much of the challenges effectively they were created to solve in the first place. While 'real regionalism' did start to spread its roots across East Asia, regional integration continued to be driven by the agency of MNEs, and the principal mechanism which bonded the economies of the region together remained the expansion and diversification of transnational production networks.

In summary, the basic mechanism of integration remained unchanged in East Asia. But the power relations and the regional manifestations of domestic interests shifted substantially. External structural changes forced East Asian nations to craft common responses, yet these responses were only partially able to solve those challenges. Perhaps the most important feature of post-Cold War East Asian regionalism was the emergence of the 'noodle bowl syndrome,' which is essentially a manifestation of the fact that domestic interests—the correspondence of which served as the principal bonding force among diverse East Asian economies in the Cold War era—started to diverge in the region, and competition became more intense. And while the main aim of regional institutions would be to control the tensions arising from competition, in East Asia institutionalisation—apart from strengthening internal resolve against external factors and common vulnerabilities—essentially internalised those tensions, and institutions became vehicles for competition instead of a solution for it.

5. The present status and potential future trajectory of East Asian regionalism

As described above, East Asian regionalism advanced from a process driven by market forces in a favourable international environment created by corresponding national interests, to one characterised by increasingly complex and competitive international institutions, national interests, and identities. In this concluding chapter, I will sketch a brief picture of the most important forces at play in East Asian regionalism today, and the potential effects these forces will have on the future trajectory of this process.

5.1. The effects of the rise of China

The most pivotal contemporary process in IR and IPE both regionally and globally is the rise of China.⁶⁸ Due to the rapid growth of its economy, China has become a key trading partner for states in the region, and assumed an increasingly central position in regional production networks (Wang Jiangyu 2011). This has created a situation where East Asian states are increasingly dependent on China, which in turn resulted in the increase of Beijing's political leverage vis-à-vis them. Consequently, observers often contend that China will emerge as the preponderant power in East Asia in the coming years.

These observations are not without merit, but it would be a vast overstatement to talk about the potential reinstatement of Chinese hegemony in East Asia as of today. As Tables 2 and 3 show, although China's gravitational pull in the economic realm has certainly elevated it to a key player in region, its clout, while certainly strengthened especially after 2008, remains limited, and is generally on par with that of Japan and the US in trade and weaker than that in FDI.⁶⁹ Moreover, China is at the lower end of international value chains and is heavily reliant on, and vulnerable to, foreign inputs, technology transfers and access to overseas markets (Lardy 2011; Lin 2011; World Bank 2013), which severely constrains its structural power and its capacity to exercise control over regional production, trade and investment. China has become East Asia's 'final assembly centre' by producing final goods from East Asian parts, the primary export markets of which goods are the US and the EU (Völgyi 2011: 189). Thus, China's position within the East Asian economic system differs substantially from Japan's: while Japan has been at the core of the East Asian production network hierarchy, China is most certainly not.

⁶⁸ The rise of China is a very complex issue in itself, which cannot be fully explored within the framework of this thesis. Thus, only the aspects most relevant to East Asian regionalism will be entertained here.

⁶⁹ It is noteworthy that the largest source of FDI for the ASEAN is the EU, an extra-regional actor.

	Japan		China		US	
	2001-12	2008-12	2001-12	2008-12	2001-12	2008-12
<i>S. Korea</i>	11.2	9.9	18.9	20.2	11.9	9.7
<i>Brunei</i>	31.1	32.2	5.6	6.7	4.1	1.4
<i>Cambodia</i>	2.5	2.4	11.1	12.8	23.7	18.7
<i>Indonesia</i>	15.6	14.3	10.7	12.3	9.5	7.9
<i>Laos</i>	2	2.2	13.6	16.1	1	2.8
<i>Malaysia</i>	11.4	11.4	10.7	12.7	14.8	11.1
<i>Myanmar</i>	4.9	5.3	54	51.7	1	1.2
<i>Philippines</i>	18.8	17.8	8.2	10	18.6	15.1
<i>Singapore</i>	5.4	4.8	9.7	10.3	8.6	7.2
<i>Thailand</i>	15	14	10.6	12.1	10.7	8.7
<i>Vietnam</i>	11.3	11.1	15.8	17.4	11.5	11.6
<i>ASEAN</i>	15.5	14.5	13.4	15.4	14.6	12.4

Table 2: Japan's, China's and US' share in East Asian countries' trade. *Source:* Own calculations based on data from the IMF Directions of Trade Statistics database.

	Japan	China	US	EU
<i>Share in ASEAN FDI inflows</i>	14.7	4.3	10.8	26.7

Table 3: Japan's, China's, US', and EU's share in ASEAN FDI inflows, 2005–2010. *Source:* ASEANstat.

But in any event, China's regional policy deserves thorough attention and scrutiny, because if projections related to the future changes in economic power are to be believed, the gravitational pull of the Chinese economy will continue to expand over the coming decades. The Asian financial crisis was the watershed moment in China's East Asia policy. Before that, Beijing was preoccupied with its relations with great powers; afterwards, it started to focus on its East Asian neighbours, and engaged regional institutions in a more active manner to further its interests (Wu 2009). China has been most active in the area of economic arrangements. Apart from the CAFTA, it proposed a Northeast Asian FTA and an East Asian FTA in 2002, and went on to conclude bilateral economic agreements with Thailand, Singapore, Taiwan and New Zealand over the past decade. China's appetite for trade agreements is hardly surprising, given that its economic development, and consequently also its domestic political stability, is dependent on trade.⁷⁰ There are

⁷⁰ Beijing defined its 'core national interests' as (1) safeguarding the basic system and national security, that is, the stability of the leadership of the Chinese Communist Party (CCP) and that of the socialist system; (2) national sovereignty, territorial integrity, and national unification (the unification of Taiwan and Mainland China); and (3) sustained and stable economic and social development (Swaine 2011; Wang Jisi 2011). The third of these is essentially tied to international economic exchange. The first core interest is indirectly tied to it, for the main legitimacy of the Chinese Communist Party is economic development.

two distinct characteristics of the Chinese approach. First, China follows a multi-track approach, as it pursues both bilateral and multilateral frameworks simultaneously. Second, it starts from a low starting point to resolve ‘easy’ issues quickly, and offers concessions for political goals, before moving towards deeper initiatives. Thus, China seems to be pragmatic and gradual in this regard (Wang Jiangyu 2011). It has been suggested that increased economic integration with China might not be in the interest of other regional countries, as they are competitors for foreign investment. Yet even though China emerged as a winner in this competition, other East Asian nations benefited from the rise of their exports to China in the process (Ravenhill 2006). In this regard, China and the region reached a ‘win-win solution’ in economic terms.

However, strategic calculations play an important role in China’s trade policies. Two strategic issues will be discussed here briefly: security competition and regional leadership. As for the former, China’s rise has been coupled with the rapid modernisation of its armed forces and increasing assertiveness in its foreign policy, especially in territorial disputes on the South China Sea and the East China Sea (Swaine 2010; Friedberg 2011).⁷¹ In general, China has been pursuing a strategy which centres on delaying the resolution of the disputes, as Beijing strives to consolidate its claims vis-à-vis weaker states (Fravel 2011: 292). Beijing insists on ‘solving’ these disputes bilaterally instead of within multilateral institutions or frameworks, and also rejects international arbitration (Xinhua 2014). China’s growing power and assertiveness led to balancing and hedging strategies by other nations. Japan’s normalisation (its renewed activity in national defence and international security) is fuelled by China’s rise (Hughes 2009), and more recently the Philippines and Vietnam also started to develop their capabilities as a result of the perceived Chinese threat. The US’ reaction to China’s rise, the so-called ‘pivot’ to Asia—which includes relocating 60 per cent of America’s naval capabilities into the region—has the potential to inflame security competition to a substantial degree. In addition, the South China Sea dispute is also important because it presents a dilemma for the ASEAN: ASEAN members more tied to China economically oppose taking a united stand vis-à-vis Beijing, while the members involved in the dispute look for support from their peers. This has created tensions within ASEAN lately (see Barta 2012).

⁷¹ The South China Sea disputes involve China, Indonesia, Malaysia, the Philippines and Vietnam, and concern the ownership of groups of islets and the boundaries of Exclusive Economic Zones. The East China Sea dispute between Japan and China concerns the ownership of the Senkaku/Diaoyu islands. It is beyond the scope of this thesis to analyse these disputes in detail. Suffice it to say that these issues are central to the political environment of the region.

It has been noted above that a competition for regional leadership emerged between Japan and China, as the latter started to deepen its engagement with the ASEAN, and became a dominant economic power in the region (Nabers 2008; Dent 2009; Park 2012). China's economy is more open than Japan's, giving Beijing a better position for leadership, as regional states can benefit from access to the Chinese market (Beeson 2010). On the other hand, security concerns related to China's rise give leverage to Japan and the US, and these countries remain important partners for ASEAN countries to hedge against China (Komori 2006). This ambivalence between the economic and the security architecture complicates East Asian IR substantially, especially as it creates a 'side-taking dilemma' for some states in the region, which are heavily reliant on China (Ling 2013), even though they might not accept its potential regional leadership.

It has been suggested that "Asia's past will be its future," and that Asian nations are prone to bandwagoning on China instead of hedging or balancing against it, which will eventually lead to a formation of a hierarchic but stable international system in the region under Chinese hegemony (Kang 2008). Similarly, Jacques (2009) asserted that China's behaviour towards, and conception of, the region is bound to be heavily influenced by the legacy of the Tributary System, and China is increasingly likely to conceive of its relationship with East Asia in terms of a tributary-state, rather than nation-state, system. There are reasons to be sceptical about such assertions. First, as noted above, China's structural power is not comparable to its economic clout, which limits its capabilities to transform the regional order substantially. Second, while China's economic clout will continue to expand in the coming years, a domestic crisis in China—either economic or political—cannot be excluded as a possibility, and should such a situation ensue, China's international influence would suffer dearly. In fact, there are a number of structural problems in the Chinese economy which make a new wave of domestic reforms an urgent necessity (see Lardy 2011). But these reforms would entail relaxing the Communist Party's control over the economy, which is a more than sensitive issue of Chinese elite politics. Third, as China is heavily dependent on foreign inputs, external markets and the freedom of international economic exchange, it is not in Beijing's interest to cause a disruption in these, and while its assertiveness is certainly on the rise, China also seeks peace and stability in its neighbourhood so it can continue its development. Fourth, as shown in Tables 2 and 3, China's economic position within East Asia is far from preponderant presently, and Japan and the US are still at least as important as China for other East Asian economies. For these reasons, as Subramanian (2011: 121) put it,

“[a] form of dominance that naturally inspires followership and which might be necessary to create or build systems and institutions ... might possibly elude China for some time.” The main paradox of Chinese power is that China will become the largest economy in the world while still being a developing country. Consequently, its interests will remain largely domestically-oriented and related to its own development, as well as constrained by its external reliance.

This does not mean that the transformative effects of China’s rise will not be of paramount importance. First, as noted above, both Japan and the US crafted a response to China’s rise in the form of military normalisation for the former and the pivot for the latter.⁷² While its material capabilities for leadership certainly waned in the past two decades, Tokyo is far from ready to give up its key role in East Asia (Gilson 2012), and even though China enjoys a better position than Japan when it comes to trade agreements, Japan remains an important actor in international finance and FDI- and technology export in the region. Moreover, Japan has put significant effort into balancing China in Southeast Asia: in his first year in office, Prime Minister Shinzo Abe visited all ten ASEAN member states, offered substantial economic and security assistance to those, and ushered Japanese MNEs to further expand their operations in the region. The US, meanwhile, remains a key market for Factory Asia, and runs a trade deficit with all but three regional economies. Furthermore, as the pivot announced in 2011 attests to, Washington is determined to keep China’s rise in check, and aims to play a decisive role in East Asia through its structural power and alliance system. In short, China’s rise led to a strategic rivalry in East Asia, and as a result, the nature of the East Asian international system is backtracking from cooperation towards power politics.

Second, it should be highlighted that China is conceived by some observers as an “increasingly realist, narrowly self-interested nation, seeking to maximize its own comprehensive power” (Shambaugh 2011: 24), which “has essentially learned to employ liberal institutional and social constructivist means for realist purposes” (Li 2010: 123). And even though its structural and institutional power is relatively meagre, China does possess increasingly strong means to advance its self-interests. In short, China shows a lack of leadership, while it exerts systemic externalities internationally (Subramanian 2011). Moreover, in Buzan’s (2010: 30–32) words, China is a ‘reformist revisionist’ state: one that accepts some international institutions for a mixture of calculated and

⁷² For a more detailed analysis of China–US and China–Japan rivalry by this author, see Mészáros (2011, 2014) and Matura and Mészáros (2013, 2014).

instrumental reasons, while resists and wants to reform others, and also wants to change its status within the international society. In summary, China cannot be expected to build institutions and regimes in East Asia presently, but it is increasingly adept at utilising existing ones to exert its influence, and undermine ones which might constrain it in pursuing its domestically-oriented goals.

5.2. ASEAN: The AEC and beyond

In this increasingly competitive regional environment, of which great power rivalry is becoming a defining feature, the ASEAN—in line with the very interests it was founded to protect—strives to maintain its central position in East Asian regionalism, and the most important instrument for this is the AEC.

As noted above, trade-creation is far from the primary goal of the AEC. According to Balassa (1961), the goal of integration, *inter alia*, is to ensure a sufficiently large market; increase bargaining power, reduce external vulnerabilities; and counteract trade-diverting effects of other integrations. In fact, it is very clear from the AEC Blueprint that the ASEAN is more preoccupied with ‘strengthening its resilience’ and crafting a ‘single market and production base of competitive economies,’ than with creating trade among its membership. What the ASEAN is aiming for is, first, to lure in foreign investment by creating a large enough market for goods and services; second, to provide a breeding ground for ASEAN companies and enhance their competitiveness; and third, to deflect trade and investment towards the ASEAN. Importantly, the AEC was mostly motivated by external factors: the crisis of 1997/1998, the burgeoning of FTAs and PTAs in East Asia and globally, the rise of China and India as large economies and potential competitors for investment, and the ASEAN’s aim to remain at the centre of gravity in East Asian and Asia-Pacific integration have all played a pivotal role in forcing the ASEAN to act (Chirathivat 2008).

However, the AEC presents a puzzling, if indeed ambitious, plan for economic integration. First, it aims to create a ‘single market,’ which is akin to a step between a common market (as it involves the liberalisation of factor movements) and an economic union (as it aims for a substantial degree of harmonisation among member states, although this is more technical than policy-oriented), but it does not aim to create a customs union in the process. Second, the ASEAN is trying to reach this bold aim the ASEAN Way: instead of setting up supranational bodies and legally binding institutional frameworks for regional economic management, it plans to create a soft, consensus-driven framework

with an intergovernmental dispute settlement mechanism and vague obligations.⁷³ Third, as the main sources of growth in the ASEAN are trade and inward FDI, the ASEAN is reliant on, and vulnerable to outside forces in maintaining its economic prosperity. Most of the investment comes from outside the ASEAN; most of ASEAN trade are with outside countries; most products manufactured inside the ASEAN are made by foreign firms; and the markets for these products are mostly outside the ASEAN. Additionally, most of the ASEAN's main trade and investment partners are larger, and/or more developed economies. Fourth, the highly diverse nature of ASEAN economies poses a challenge to economic integration. The developmental divide within the ASEAN, the divergence in political systems and economic policies and the different interests of the member economies might prevent the ASEAN from filling the AEC with meaningful subject.

As a result of this diversity and divergence (see Appendix 10), the AEC faces both a commitment and a distributional dilemma.⁷⁴ The former was evident in the slow, imperfect and dispute-ridden implementation of the AFTA. Simply put, member states try to defect from market liberalisation to protect their industrial sectors.⁷⁵ The latter became evident during the standard harmonisation process and in the problems generated by the developmental gap between the ASEAN-6 and the CLMV countries after the enlargement of the organisation. In the first case, the lack of 'focal point' (i.e. leadership) produced problems. In the second aspect, the least developed member states have to bear substantially higher costs in the integration process due to their lesser competitiveness (Yoshimatsu 2008: 30–42) and higher tariff levels (Dent 2008: 89). ASEAN economies are generally not complimentary, and although this might be beneficial from the viewpoint of economic efficiency (Balassa 1961), the increased competition resulting from market liberalisation carries high costs, especially for the CLMV. This problem is further complicated by the fact that the ASEAN lacks the capacity to compensate for these negative effects, which is closely tied to its lack of leadership. Although from time to time, one or another member state—most notably Singapore and Thailand—has played an instrumental role in agenda setting and coordination in the ASEAN, none of them possesses the capacity to be a driver of integration. The problem for the ASEAN is

⁷³ It is striking that apart from tariff reduction and elimination, and to a lesser extent sectoral liberalisation, for which clear deadlines are present, the AEC Blueprint largely lacks numerical targets and benchmarks for much of its policy goals.

⁷⁴ A further source of disparity is the vastly disproportionate nature of FDI inflows into the ASEAN. See Appendix 9.

⁷⁵ Particular disputes involved the automotive industry of Malaysia and the reluctance to eliminate tariffs on petrochemical products by the Philippines.

twofold in this regard. First, its richest members—Singapore and Brunei—are the smallest ones, and its least developed members have the largest populations. Consequently, ASEAN has no capacity to offer substantial technical and financial assistance to its least developed members to ease the costs of market liberalisation.⁷⁶ Second, the very nature of the ASEAN Way presupposes an opposition to leadership, inasmuch as it stresses consensus and is of an anti-hegemonic character. Incidentally, the one country which might have the potential to aspire for ASEAN leadership, Indonesia, is also the one with the most anti-hegemonic foreign policy.

The loose integration style of ASEAN increases the importance of collective action problems, because the member states can defect easily from cooperative commitments for the purpose of short-term gains (Yoshimatsu 2008: 18–19). The ASEAN's decisions are more akin to 'guidelines' than strict rules. Implementation is left to member states, and perhaps the greatest deficiency of the ASEAN's institutional setup is the weakness of enforcement, given the lack of a supranational body to supervise implementation and enforce compliance with ASEAN directives. Dispute settlement is provided for, but is more of an intergovernmental–political process than a legal–judicial one, thus is less effective and less strict. As Yoshimatsu (2008: 25) pointed out, ASEAN have made progress in commitment problem areas.⁷⁷ But commitment issues remain, and are unlikely to go away. Even constructivists, who are generally optimistic about the ASEAN's prospects, contend that the ASEAN Way might halt progress in integration beyond a certain point (Aggarwal and Chow 2010; Ba 2009). While studies by a number of think tanks recommended supranational bodies to manage the AEC, these calls were not heeded by the ASEAN (Schwartz and Villinger 2004; Hew and Soesarto 2003).

⁷⁶ Although equitable development plays a central role in the AEC Blueprint, and the ASEAN is trying to accommodate the potential harms to the CLMV countries partly by exploring avenues—such as the IAI or the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy—for some sort of limited assistance, partly by allowing said countries a number of extra years to comply with tariff reduction goals, these initiatives can offer only very limited, and far from sufficient, assistance to the needy members. Most of the development projects in the CLMV countries as financed by China and Japan, or institutions such as the ADB.

⁷⁷ ASEAN members have gradually developed feasible enforcement mechanisms by intensifying the centralised nature of the organisation, albeit without veering into supranationalism. The ASEAN has strengthened the role of the Secretariat markedly, as well as the dispute settlement mechanisms of the organisation. Moreover, some member states, most notably Singapore and Thailand, came to play a 'focal point' role in resolving coordination problems resulting from accelerated regional integration and market liberalisation. They provided leadership in standard harmonisation, and has sought to implement initiatives to bridge, or at least ease, the negative effects of the developmental gap among the membership. Moreover, nearly all of ASEAN's institutional capabilities, which are required for the operation of a single market, have been enhanced to some extent (Yoshimatsu 2008).

Additionally, external forces and the very nature of the AEC have the potential to deepen these commitment problems. ASEAN economies are deeply engaged with, and tied to external actors—China, Japan, the US, and the global economy as a whole. The lure of these external forces might provide further incentives for defection. First, the more developed ASEAN countries are likely to have a strong incentive to pursue a faster liberalisation agenda. If that does not suit the ASEAN as a whole, then they might pursue bilateral arrangements with extra-ASEAN countries instead, thus hurting the ASEAN integration and ASEAN-centrality. This has already happened to some extent in the case of Singapore and Thailand. Second, less developed members wary of the potential costs of fast liberalisation might turn to outside forces as well. China is especially important in this regard, as the CLMV countries already have strong—and asymmetrical—ties with it.

Thus, the coordination of interests remains an issue at large. For this to be bridged, the AEC, quite simply, has to deliver substantial benefits to its members for them to remain committed to it and refrain from defection. A recent equilibrium analysis has concluded that the AEC would yield economic benefits comparable to the advantages of the EU, as well as a substantial rise in ASEAN's international bargaining power. But it is also clear that countries which have closer linkages with external actors (generally the more developed members of the ASEAN) are stand to gain more (Petri, Plummer and Fan 2012). At the same time, it was also argued by Ravenhill (2008) that other arrangements provide a better alternative for some member states, evidenced by the fact that some of the bilateral PTAs that ASEAN countries negotiated with extra-regional partners go further in removing barriers than ASEAN's own arrangements.

This is especially vital for—as detailed in the next section—there are a number of multilateral FTA plans under discussion within East Asia and the Asia-Pacific. These might have the potential to 'absorb' the AEC. On the other hand, if the ASEAN maintains a common voice in the economic area, it will have the capacity to be at the forefront of these initiatives—just as it did in other regional cooperation areas in East Asia and the Asia-Pacific—instead of becoming a victim of them. Thus, the success of the AEC can largely determine whether ASEAN centrality can be maintained in East Asia.

5.3. The global economic crisis and the dissipating noodle bowl

On a final note, two recent occurrences have to be discussed briefly: the global financial crisis of 2008, and the efforts for multilateral FTA-creation in East Asia.

As detailed by Emmers and Ravenhill (2010: 23), in contrast to the Asian financial crisis, the global crisis "has had little impact on East Asian regionalism, influencing

instead the process primarily in an indirect fashion.” The most prominent result of the crisis, as noted earlier, was the deepening of the regional financial cooperation through the multilateralisation of the CMI (Chin 2012). A number of other multilateral initiatives were proposed after 2008 to strengthen East Asia’s common voice and resolve, but these failed to lead to anything substantive. Moreover, despite the American origins of the crisis, the traditional allies of the US in the region continued to lobby for it to play a central role in the regional institutional architecture. The effects of the crisis were handled through nationally driven institutional responses instead of international ones, and post-crisis proposals have been driven more by a perceived shift in power distribution (i.e. China’s rise) than by any renewed sense of regional vulnerability or common identity (Emmers and Ravenhill 2010). The reason for which the post-crisis proposals have failed is inherent in the nature of the occurrences they have been proposed to solve in the first place: the increasingly competitive nature of East Asian international relations and international political economy discussed above. Moreover, Beeson (2011) theorised that even though the crisis strengthened China’s position vis-à-vis the US, Beijing’s growing global role is likely to limit the attention it gives to purely regional issues, which would (further) constrain its capabilities for regional leadership.

On the other hand, the crisis did prove that the so-called ‘decoupling’ thesis, the notion that the East Asian region has become a self-contained economic entity with potential to maintain its own growth dynamism independent of the economic outlook for the traditional developed market economies, is wrong (Athukorala and Kohpaiboon 2009: 1). As Athukorala and Kohpaiboon (2009: 41) showed, the region’s dependence on the rest of the world for its trade expansion has in fact increased over the time. In essence, while intra-East Asian exports continued to expand at a rapid pace, intra-regional imports (i.e. consumption) did not follow this pattern (Völgyi 2011: 188). While the effects of the crisis were much more moderate in East Asia than in North America and Europe, the export contraction resulting from the drop in demand in the American and European economies reverberated across the region, showing both the increasing interdependence within East Asia and the region’s continued reliance on external markets for its prosperity.

An obvious solution for the vulnerability which arises from this would be the facilitation of intra-regional consumption through the deepening of the regional free trade regime.⁷⁸ In fact, as Baldwin (2006) theorised, the noodle bowl syndrome creates demand

⁷⁸ Of course, this can only be a partial solution, for the relatively weak consumption within East Asian economies is mostly the result of domestic policies.

for the multilateralisation of FTAs in itself, so as to bring clarity to the chaos of overlapping arrangements. There are two broad and ambitious projects under negotiation to this end, the first being the Regional Comprehensive Economic Partnership (RCEP) among the ASEAN+6, the other being the US-led Trans-Pacific Partnership (TPP) among twelve countries on both sides of the Pacific.

These initiatives are of different origin, scope and aim. The guidelines and objectives of the RCEP negotiations were declared in 2012, and formal negotiations started in May 2013, with an aim to complete them by the end of 2015. A key principle behind the RCEP is that negotiations “will recognise ASEAN centrality in the emerging regional economic architecture.” The RCEP aims to support and contribute to economic integration, equitable economic development, and strengthening economic cooperation among participating countries. The issue coverage of the negotiations include trade in goods and services, investment, economic and technical cooperation, IPR, competition and dispute settlement (ASEAN 2012). Hence, the RCEP is an initiative centred around the ASEAN and based on the ASEAN Way, and it reflects and embodies the ASEAN member states’ main priorities.⁷⁹ Furthermore, as Dupont (2013) noted, the RCEP is a response to the factors challenging ASEAN-centrality and a scheme to ensure that ASEAN remains in the driver’s seat of East Asian regionalism.

In essence, the RCEP is an attempt to untie the noodle bowl of the ASEAN+1 FTAs concluded by the Association with the members of the ASEAN+6 framework, which all have different rules of origins and coverages, as well as vastly different tariff elimination measures. In this regard, the potential effects of the RCEP might be quite substantial if it would succeed in consolidating the chaotic ASEAN+1 FTAs, even though its liberalisation agenda is not very ambitious. However, the main challenge of negotiations stems exactly from the fact that the existing agreements the RCEP seeks to consolidate are vastly different, and the preferences and priorities of participating states are rather diverse. Fukunaga and Isono (2013) argued for 95 per cent tariff elimination, which is higher than the average for the ASEAN+1 FTAs.⁸⁰ Itakura (2013) concluded that the RCEP would yield substantial benefits to certain ASEAN member states,

⁷⁹ In part, the RCEP also reflects Japan’s preferences. Tokyo prefers what is calls ‘comprehensive economic partnership agreements’ to FTAs, with the former including investment facilitations and protection measures. Japan is not very keen on trade liberalisation given that a number of its politically sensitive sectors are heavily protected, but it pursues investment liberalisation given the high levels of its FDI export.

⁸⁰ For example, the ASEAN–India FTA entails only 78.8 per cent tariff elimination. There are other significant differences among these FTAs, which are detailed in Urata (2013a) and Fukunaga and Isono (2013).

especially Vietnam and Cambodia, but only marginal benefits across the board compared to the current ‘noodle bowl’ situation.⁸¹ In any case, at the time of the writing of this thesis, there is not much concrete information regarding the specifics of the RCEP. In short, both the success of the negotiations and the RCEP’s potential effects are questionable as of today.

The TPP is a whole different breed of FTA. This process started in 2006 between four small countries (Brunei, Singapore, New Zealand and Chile), and was essentially hijacked by the US after 2008. Since then, a further seven countries joined the negotiations from both sides of the Pacific, including Australia, Canada, Mexico, and most recently Japan in March 2013.⁸² The TPP is a much more ambitious project with a comprehensive coverage including not only market access, services and investment, but also labour, environment and cross-cutting horizontal issues such as regulatory coherence, competitiveness and business facilitation, development and SMEs.⁸³ Petri and Plummer (2012: 6) calculated that the TPP would result in combined income gains of 0.49 per cent for the ‘TPP-track economies,’ 2.84 per cent for the countries pursuing both the RCEP and the TPP, and a negative income effect of 0.28 per cent for East Asian economies which are not participants of the TPP process. They (2012: 9) concluded that the TPP and the RCEP combined promise substantial, widely distributed benefits for economies on both sides of the Pacific.

One of the main premises of the TPP is similar to that of RCEP: to “tame the tangle of PTAs and be a potential stepping stone to achieving the goal of liberalizing regional trade on a non-discriminatory basis” (Capling and Ravenhill 2011: 553). But the practical differences of the two initiatives are numerous. First, while the RCEP follows ASEAN’s preferences, the TPP is geared towards the priorities of developed countries, and has little to offer to developing ones.⁸⁴ Second, the TPP envisions a higher level of trade liberalisation than the RCEP. Third, the RCEP is a stepwise, gradual process, while the TPP is a single undertaking. This makes the RCEP theoretically easier to negotiate, but this initiative will take more time to become a deeper and thus a more effective vehicle for regional integration. Fourth, the RCEP is more flexible and offers special treatment to certain participants, while the only deviation the TPP allows for from its stricter and

⁸¹ This simulation was of course based on assumed levels of tariff elimination.

⁸² China and South Korea also expressed interest in joining the TPP process.

⁸³ Presentation by Shujiro Urata at Waseda University, Graduate School of Asia-Pacific Studies, Asia-Pacific Economic Studies course, July 2013.

⁸⁴ In fact, Vietnam is the sole developing member of the process.

broader rules is the staging of commitments.⁸⁵ Lastly, but most importantly from the perspective of the regional political economy, these two arrangements rest on conflicting strategic premises: while the RCEP aims to strengthen ASEAN-centrality, the TPP has essentially become a vehicle for the renewed engagement of the US in the region (Capling and Ravenhill 2011: 21). Furthermore, some observers argued that the main tenet of the TPP is the exclusion of China from US-led Asia-Pacific integration, but while this is certainly an important aspect of the process, the evidence supporting the notion that the US strives to ‘contain’ China with the TPP is far from conclusive (Solis 2013).

However, there are reasons to be sceptical about the TPP’s economic impact (see Capling and Ravenhill 2011), as well as the potential success of the negotiations. Japan’s inclusion into the process was essentially a double-edged sword: on one hand, it broadened the scale of the TPP substantially and raised hope that the relatively closed Japanese economy will step on the path of deep liberalisation after all; on the other hand, Japan’s participation made negotiations—especially the ones between Washington and Tokyo—increasingly difficult, as there are significant gaps between the two sides mostly related to agricultural tariffs. The process remains far from its conclusion after a bilateral agreement was not reached during US President Barack Obama’s visit to Japan in late April this year. Moreover, the TPP does not enjoy broad support in the US Congress, and Obama failed to receive a fast-track authority from the legislature as of yet.

Finally, the relationship between the two initiatives should be taken note of. As noted earlier, these processes are supposed to be parallel to one another, for APEC leaders formally agreed in 2010 that these two tracks—the Asian track of RCEP and the Pacific track of the TPP—will be pathways to the FTAAP.⁸⁶ Yet the aforementioned vast differences between the two initiatives makes this aim at least questionable. In essence, the very same differences of interests and identities which structured the dispute-ridden formation of the APEC remain in place today, and based on information available at the time of the writing of this thesis, it would be hard to conceive the merger of these two agreements.

⁸⁵ Presentation by Shujiro Urata at Waseda University, Graduate School of Asia-Pacific Studies, Asia-Pacific Economic Studies course, July 2013.

⁸⁶ A third proposed ‘pathway’ of the Asia track is the China–Japan–South Korea FTA. However, given the state of political affairs between Japan and China, and Japan and South Korea presently, it is safe to say that the chances for the conclusion of such a trilateral FTA in the near future are negligible.

Conclusion

There are two widely accepted notions in the scholarly discourse on East Asian integration: that this process started off as market-driven regionalisation, and that in the 1990s, and especially after the Asian financial crisis, it has begun to morph into institution-driven regionalism. The most important conclusion to be drawn from the discussion presented in this thesis is that neither of these assertions hold true exactly, or at least not without very severe reservations. First, East Asian integration did start as a market driven process, but focusing solely on the agency of MNEs in it would be missing the important point that these MNEs needed a very special set of domestic and international conditions to be able to operate on a regional scale, and that these conditions were provided by state actors. Second, it is indisputable that a flurry of institutionalisation has taken place in East Asia since the end of the Cold War, but it would be a vast overstatement to posit that the contribution of regional institutions to integration has been very significant. Evidence shows that it has been marginal at best, and it is at least questionable that the balance between MNE agency and institutions in this regard shifted substantially towards the latter.

One question arises from the aforementioned two assertions. If East Asian regionalism was only partially market-driven, but it was more market-driven than institution-driven, then something is missing from the puzzle: what exactly was the main driving force behind this process? The first hypothesis of this thesis posited that *economic integration in East Asia has been the result of strategic and institutional features and the changes thereof on the state- and sub-state-level on the one hand, and on the global level on the other*. As discussed in Chapter 3, even though ideational factors related to the legacy of colonisation prevented the emergence of multilateral institutions in East Asia, various global and national factors propelled the emergence of regionalisation: the US' strategic–security interests during the early stages of the Cold War, the demand generated by the Korean War and the Vietnam War, the global institutions of the American hegemony—the GATT, the IMF, the WB and the Bretton Woods System—the *Pax Americana* and US–China rapprochement served as important building blocks for the regional environment in which economic growth and transnational economic exchange could expand. On the national level, states channelled their resources into nation-building, crafted strong and effective state institutions to bring about economic development, undertook step-by-step liberalisation, and took advantage of the architecture of the

international economic order by free-riding on the US. Under these conditions, profit-maximising MNEs from the region's preeminent economy, Japan, started to create transnational production networks to take advantage of the differences in comparative advantages across the region, which led to the emergence of the so-called 'flying geese' pattern of regional development. In essence, the functions of regional institutions—to lower transaction costs, reduce asymmetries of information, and thereby reduce uncertainty—were provided on the global and national level, and the distributional costs of regional integration were mostly absorbed by the US. Nation states in the region wanted the same thing: economic development. And in this sense the diverse nature of East Asia was a blessing, for up until the 1990s, each country in the region could develop hand in hand, in an almost symbiotic fashion, utilising (and creating) their respective comparative advantages.

This correspondence of national interests under favourable global conditions changed due to structural shifts in the 1990s. The second hypothesis of this thesis is relevant in this regard, which stated that *systemic shocks, mostly (but not exclusively) external, constituted the most important sources of change in the development of East Asian regionalism, both from an institutional and practical perspective*. The emergence of new regionalism in other parts of the world, the stalling of the GATT's global liberalisation agenda and China's rise came to be perceived as threats to the economic dynamism of the region. East Asian nations began to craft multilateral institutions in the 1990s to protect their interests and bring about regional coordination. A further impetus for this process came from the Asian financial crisis, which brought to the fore the vulnerabilities of certain regional economies. But as discussed in Chapter 4, these institutions were weak and soft, following the ASEAN's principles of consensus and confidence-building, instead of legalisation and binding commitments. A parallel development has been the rapid proliferation of (mostly) bilateral FTAs, based largely on the same premises as multilateralism in the region, but also displaying the same constraints: due to the limited scope and coverage of these arrangements, they have failed to result in substantive and qualitative changes in the nature of East Asian integration. Moreover, even though the importance of global institutions waned in this period, and the GATT/WTO regime certainly experienced severe difficulties in moving forward, it still played an essential constitutive role in East Asian affairs: China's WTO-accession in 2001 exacerbated the on-going structural shifts, while the WTO Information Technology Agreement of 1996 liberalised trade in the most important sector for East Asia, namely

electronics. On the other hand, rampant bilateralism led to the so-called noodle bowl syndrome, an unorganized tangle of overlapping bilateral deals. While this did not have substantial detrimental effects on regional integration, neither did it result in positive ones. Institutions did emerge in East Asia due to systemic pressures, but transnational production networks crafted by MNEs continued to dominate the regional economy, and the utilisation of FTAs by MNEs remained low. FTA proliferation also failed to change the external trade relations of the region: even though East Asia emerged as 'Factory Asia,' the main consumer of its products remained the US (and Europe). East Asian intra-regional trade continued to expand, but most of this expansion has been in parts and components trade, not in finished products.

However, intraregional leadership dynamics have undergone a qualitative change over the past two decades. Japan, the former *de facto* informal leader of East Asian integration lost its preponderant position in the regional economy due to its domestic problems and China's rise, and a competition for leadership emerged between Tokyo and Beijing. At the same time, the US retrenched from the region politically in the 1990s, while the ASEAN came to promote itself as the central actor in East Asian regionalism. Then, in 2011, the US announced its comeback to East Asia with the 'pivot,' making the leadership-noodle bowl of the region even more complex. The third hypothesis of this study posited that *as the scale of institutionalisation in the East Asian and Asia-Pacific regions broadens, these institutions have increasingly become forums and instruments of power politics*. The best example for this is the EAS, where Japan strived to invite as many like-minded liberal democracies as it could find in the neighbourhood to counter China's rising influence. At the time of its launch, the EAS was expected to become the most important regional forum—today, however, it is not much more than a mere talk-shop. Not only the aforementioned leadership dynamics confirm this hypothesis, but also the very foundations of the noodle bowl. For the noodle bowl was a result of a political domino effect of competitive regional arrangements, through which state actors in the region strived to score advantages vis-à-vis one another. The most important domino was that of the CAFTA, which were followed by an increasing number of initiatives.

The rather complex Figure 4 presents a visual summary of the factors and the interactions thereof which were analysed in this thesis through the framework outlined in Chapter 2.

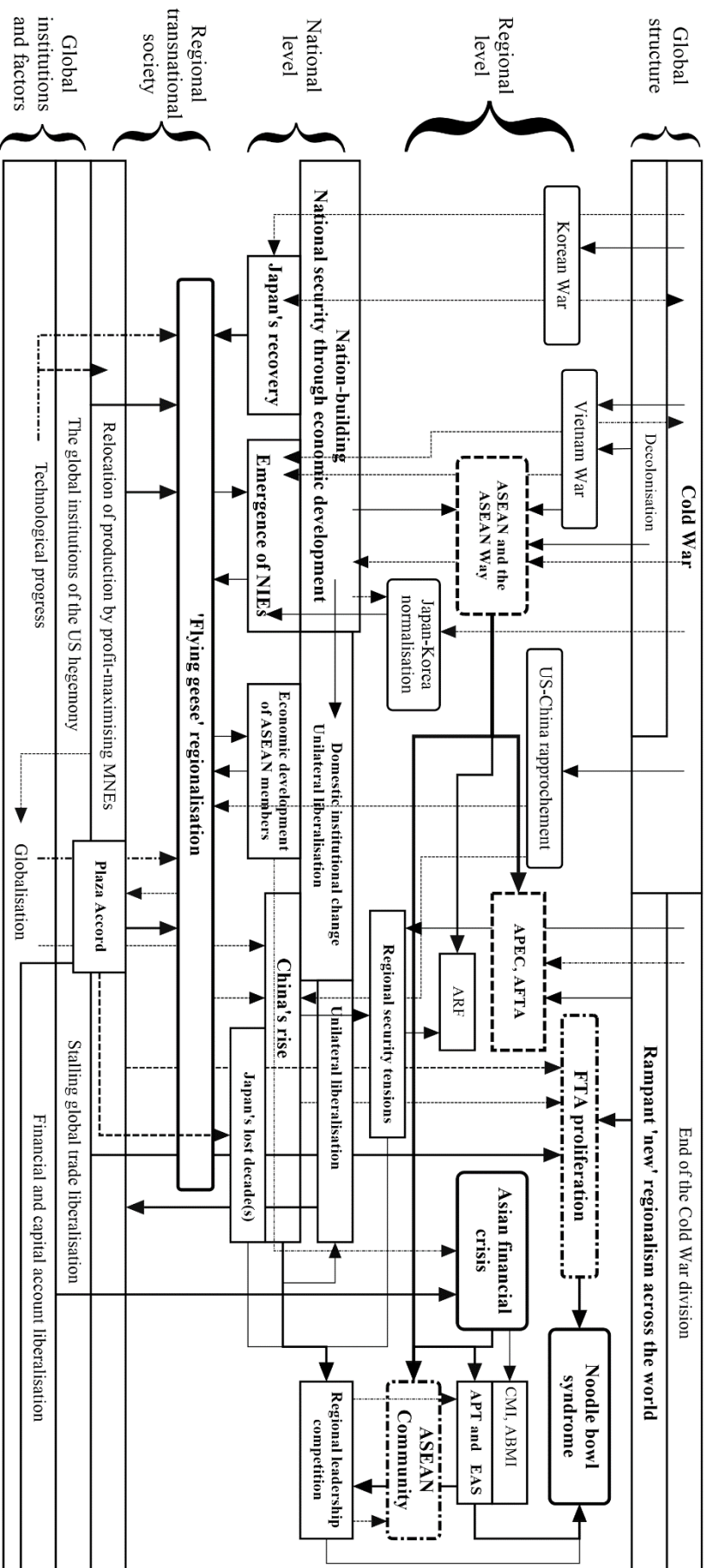


Figure 4: Main factors of East Asian regional integration, and the interactions thereof

An obvious question left to be answered: what does the future hold for East Asian regionalism? Of course, such a question cannot be answered definitely, but there are a number of key issues and potential scenarios to highlight. The first such issue is the noodle bowl syndrome. As noted above, much scepticism is warranted with regards to the potential of the RCEP and the TPP, not to mention the planned eventual merger of these initiatives. On the other hand, the TPP is a vitally important political goal both for Prime Minister Abe and President Obama: both the Japanese and the American leader see the TPP as a fundamental instrument in reviving their ailing economies. If concluded successfully, the TPP would be a game changer in East Asian and Asia-Pacific integration, for it represent a new level of liberalisation in these regions. Consequently, the TPP might actually trigger a new domino effect, and countries outside it could be forced to either join it or speed up and deepen their respective liberalisation efforts, such as the RCEP. This process could be augmented by huge bilateral FTAs, especially ones with the EU.⁸⁷ This is of course a wildly optimistic scenario, which should be taken with caution.⁸⁸

Second, regional leadership dynamics will be a key constitutive force in East Asia's future. Where will the Japan–China competition lead? Can ASEAN centrality be maintained? What will be the role of the US? As Park (2014) noted, Japan and China are regional powers of similar weight today, and their relationship with regards to East Asian regionalism shows traits of both 'competitive coexistence' and a 'blocking power relationship.' The former can have positive effects, for it entails competitive region-building, where the two leader aspirants try to outbid one another. The latter, as evidenced in the case of the EAS, can impede the development of East Asian regionalism (Völgyi 2011: 205). There are strong reasons to predict that as the China–Japan strategic rivalry deepens, these two traits will be parallel to one another, and will form what I would call a 'game of attraction:' both states will try to increase their respective influence in the region through benevolence,⁸⁹ but simultaneously block the other's advances in every way possible. The outcome of such a process will certainly not be positive.

The future of ASEAN centrality is hard to fathom. Some argue that ASEAN is, or is becoming increasingly irrelevant (Ravenhill 2008; Yamagake 2010, cited in Yamamoto 2013: 26), while others posit that ASEAN has the potential to spread its vision for

⁸⁷ South Korea already signed an FTA with the EU and the US, and Japan is negotiating with the EU.

⁸⁸ An even more optimistic scenario would entail a global wave of noodle/spaghetti-bowl multilateralisation driven by such initiatives as the TTP and the Transatlantic Trade and Investment Partnership.

⁸⁹ Of course, China's advances will be constrained by its territorial disputes, while Japan's by its relative decline.

international society into the East Asian (Ba 2009) and even to the global level. It was argued that the ASEAN Way constitutes an alternative paradigm to the dominant Western liberal approach to global governance, and that China has given its support to ASEAN's approach (Stubbs 2008).⁹⁰ I believe both of these assertions misses the nature of ASEAN centrality. ASEAN has not emerged as the centripetal force in East Asian regionalism as a result of its material, ideational or institutional power, but because it is the prey the great powers of the region are fighting for. Given that its membership constitutes most of East Asia, ASEAN *has to be* involved in basically each and every broader regional institution for those to qualify as East Asian regional institutions in the first place. Recognising its leverage stemming from this, ASEAN has used regional institutions to further its values and elevate its own conduct as the *modus operandi* in East Asian regionalism. As long as the ASEAN is able to display any sort of unity in regional affairs, its 'driver's seat' is not in danger. And, as argued earlier, the main determinant of ASEAN unity will be the success of the AEC. On the other hand, the renewed interest the US is showing in East Asian affairs might prove to be a double edged sword: while Washington strives to moderate the potential detrimental effects of China's rise, it presents ASEAN states with a side-taking dilemma, which in turn might further fuel the strains which have emerged within the Association in relation to its ties vis-à-vis China. And if China-US rivalry would become an integral feature of the regional and/or global international system, the potential scope for regional cooperation would certainly diminish.

In essence, a glaring paradox of East Asian international relations is the disconnection between economic integration (interdependence) and political-security relations in the region.⁹¹ A core assumption of liberal IR theory is that increased interdependence has a pacifying effect on political relations (see, *inter alia*, Polachek 1980; Polachek, Robst, and Chang 1999; Oneal and Russett 1999). It is safe to assume that the competitive nature of regionalism and the shifts in relative power in the region (i.e. China's rise) contributed to this discord. It was also suggested that Japan and China experience rivalry within interdependence, akin to the situation between Germany and

⁹⁰ In fact, China's concept of 'harmonious world' shows a striking resemblance to the ASEAN Way. It would be unreasonable to assume, however, that China's acceptance of the ASEAN approach stems from anything other than its calculated self-interest. In many ways, China finds itself in the same position globally today as Southeast Asian nations found themselves at the time of the formation of the ASEAN: it is wary of, and deeply disturbed by (Western) interference in its domestic affairs. Additionally, China's rhetoric often does not match its actions, and it is very likely that China will change its vision for international order as its interests dictate it.

⁹¹ Another way in which East Asia disproved liberal expectations is, as noted in Chapter 1, that increased interdependence did not lead to widespread spill-over effects.

the United Kingdom before the First World War (Buszynski 2009). In any event, further research is needed to untie the background of this phenomenon.⁹²

On a concluding note, it should be duly acknowledged that this thesis, as noted in the introduction, presented a simplified and interpreted account of East Asian regionalism. Although an abundance of related factors were analysed, some important elements of this process were not, such as, *inter alia*, societal aspects, nationalism, domestic political developments, etc.⁹³ For regionalism, as most, if not all, international processes—may those be economic or political—is a two-level game (Putnam 1988) in nature, domestic factors should be investigated thoroughly to get a more nuanced picture of it. But such an endeavour would be an undertaking beyond the scope of a Master's Thesis.

⁹² For a possible explanation of this discord in the case of China–US relations, see Mészáros (2014).

⁹³ Relevant issues presently include Chinese and Japanese nationalism, contested recent elections in Malaysia and Cambodia, the political turmoil in Thailand, or Brunei's introduction of strict sharia laws.

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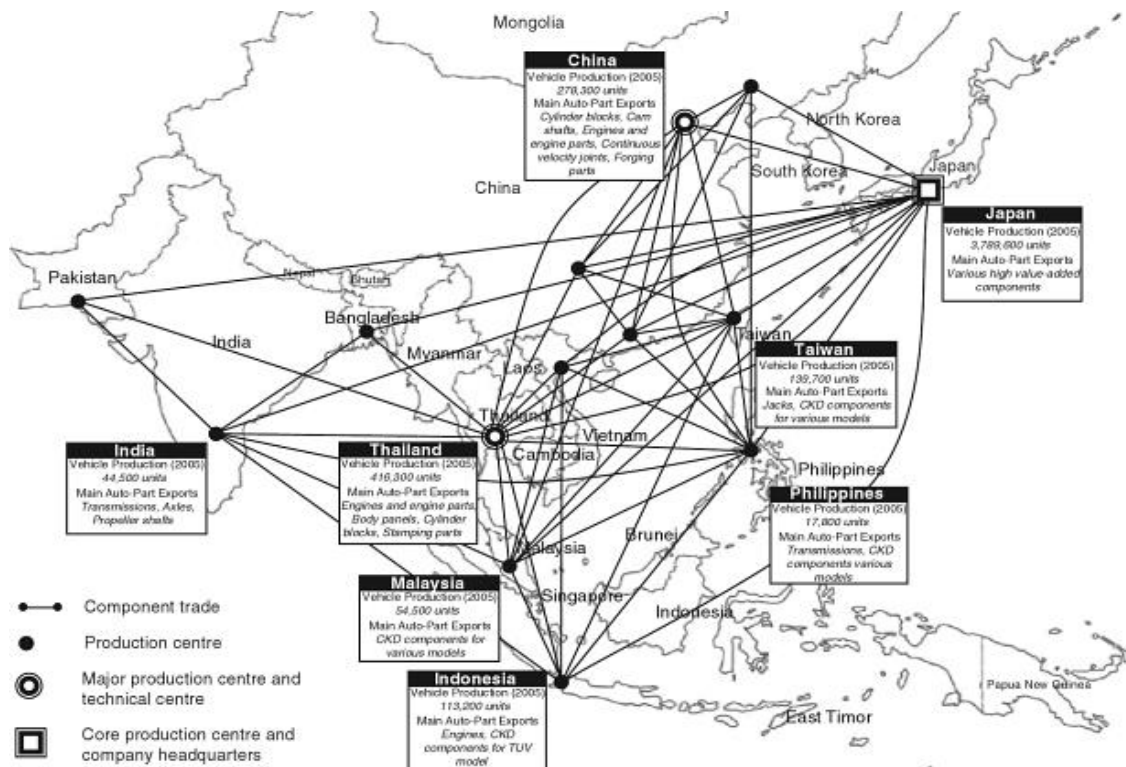
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Appendix



Appendix 1: Toyota's East Asian production network. *Source:* Dent (2008: 57).

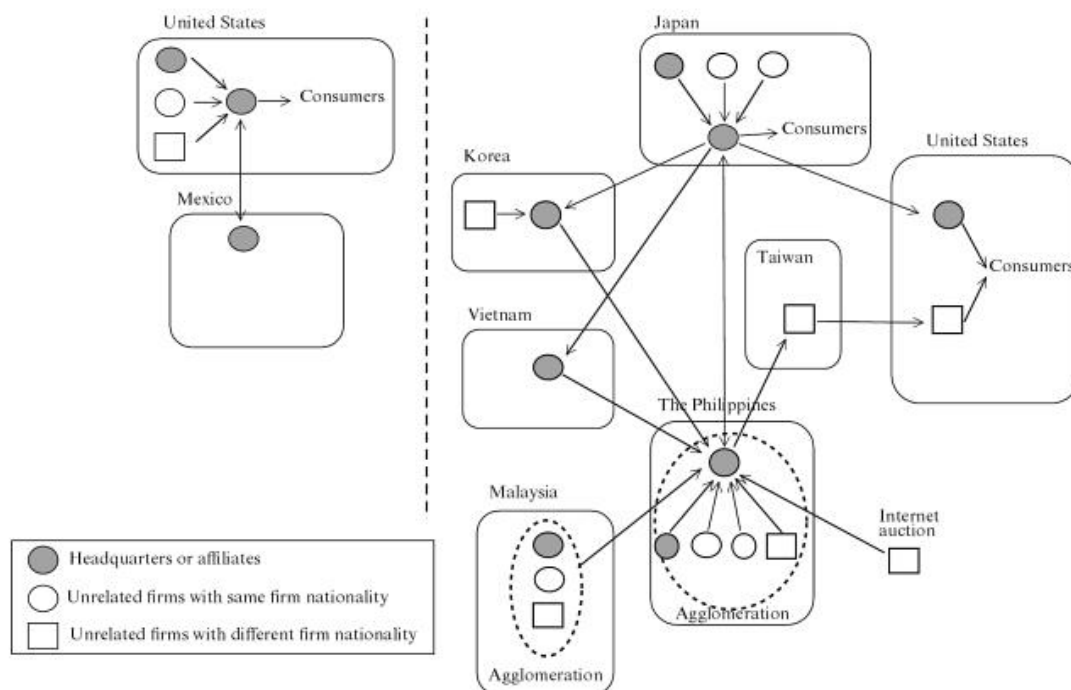
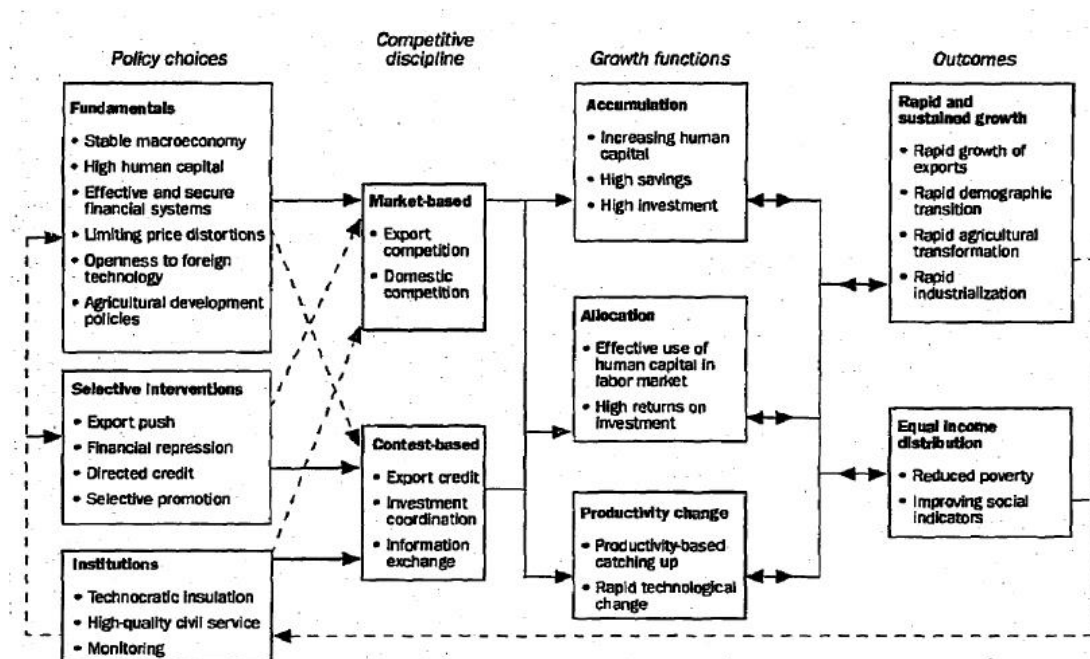
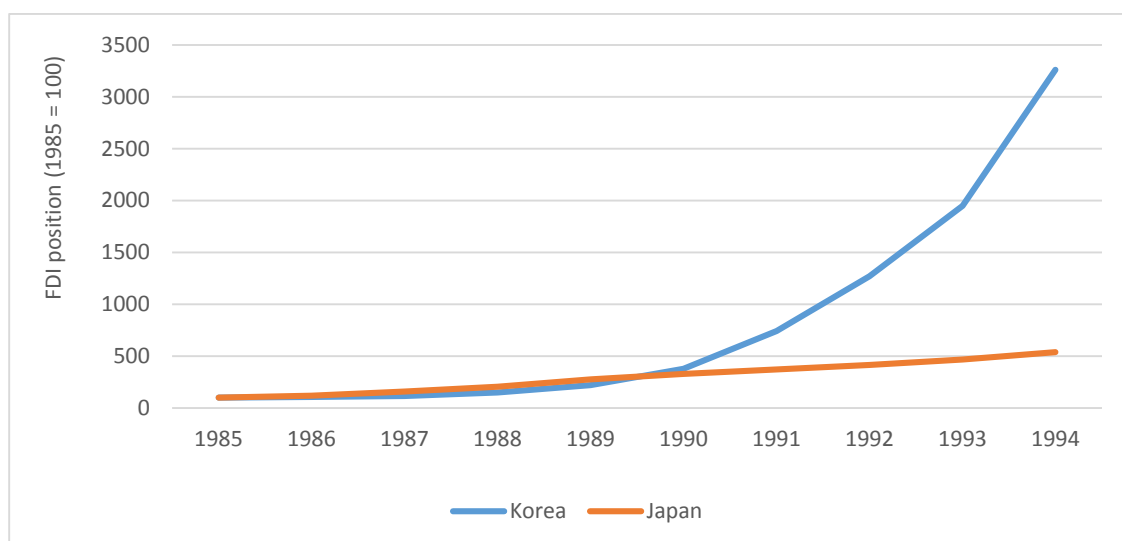


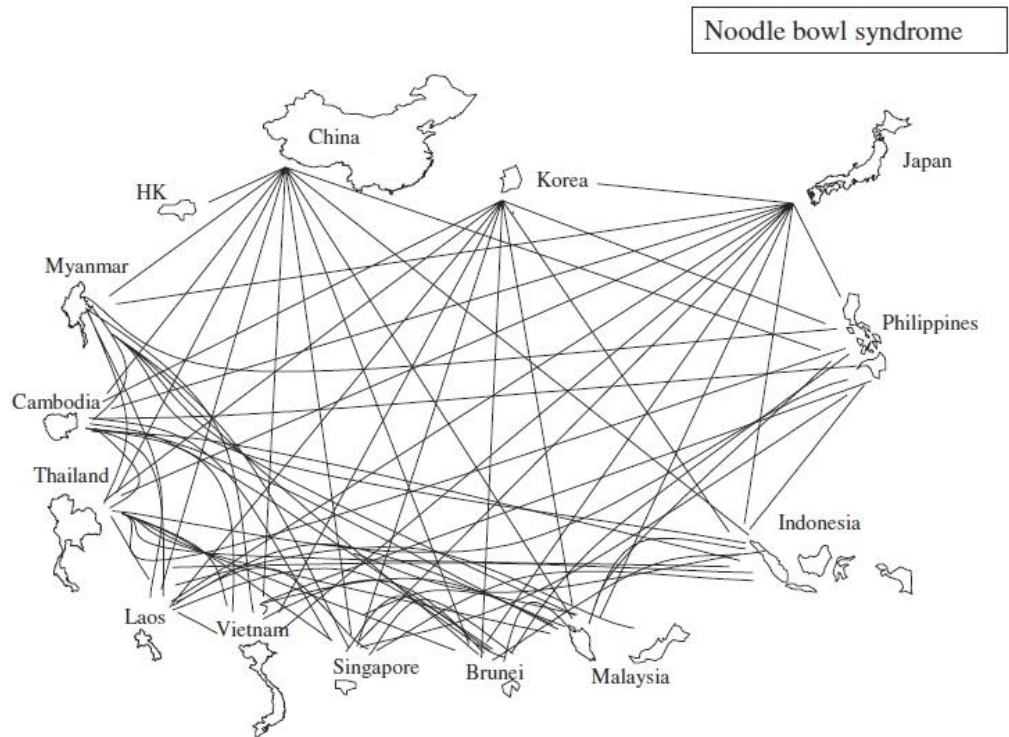
Figure 2: Example of typical East Asian MNE operation, contrasted with North America. *Source:* Ando (2011: 101)



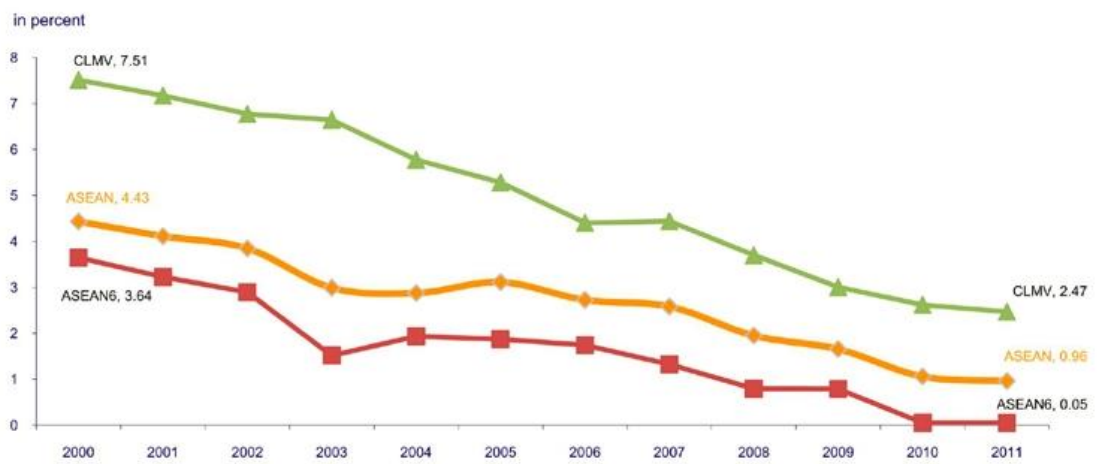
Appendix 3: The main features of the economic policies and institutions of East Asian economies. *Source:* World Bank (1993: 88).



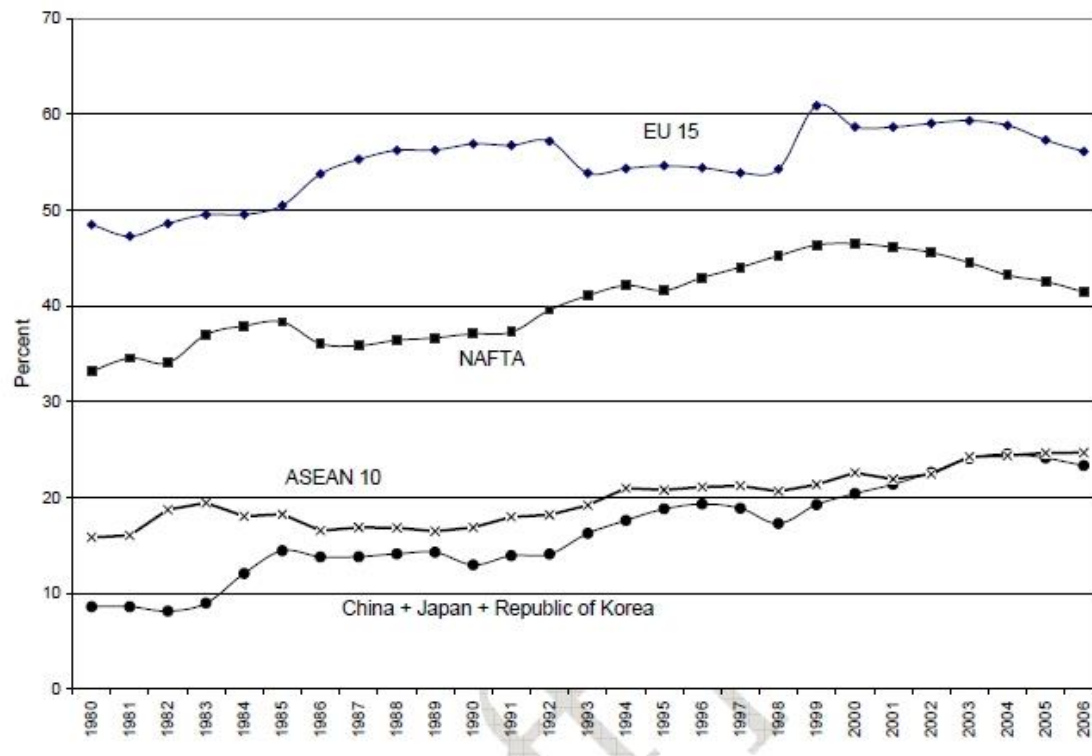
Appendix 4: Changes in Korean and Japanese FDI positions in East Asian economies in the post-Plaza years. *Source:* OECD statistics.



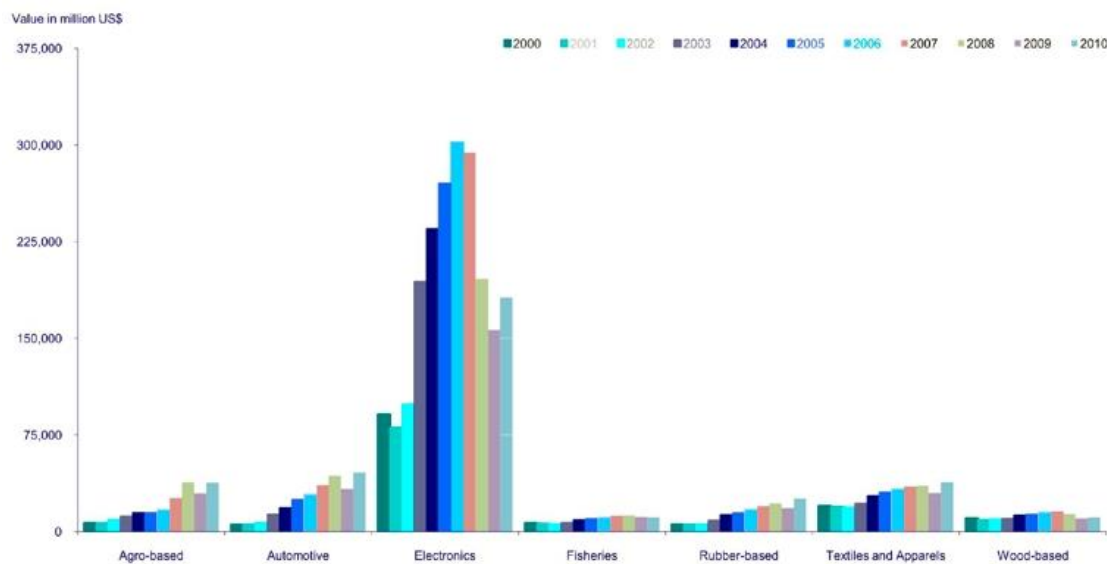
Appendix 5: The East Asian ‘noodle bowl syndrome.’ *Source:* Baldwin (2008: 452).



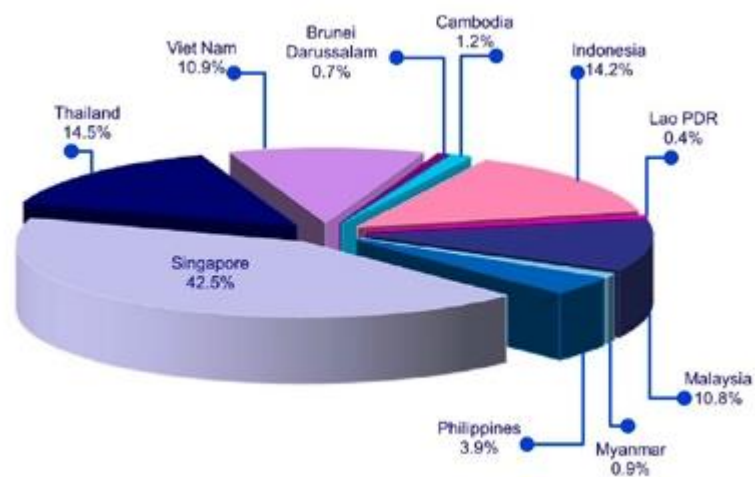
Appendix 6: Tariff levels in the ASEAN. *Source:* ASEAN Secretariat.



Appendix 7: Intra-regional trade in different trade blocs. *Source:* Mikic (2009: 9). Note: Intra-East Asian trade lies between the NAFTA and the EU, as shown in Figure 3.



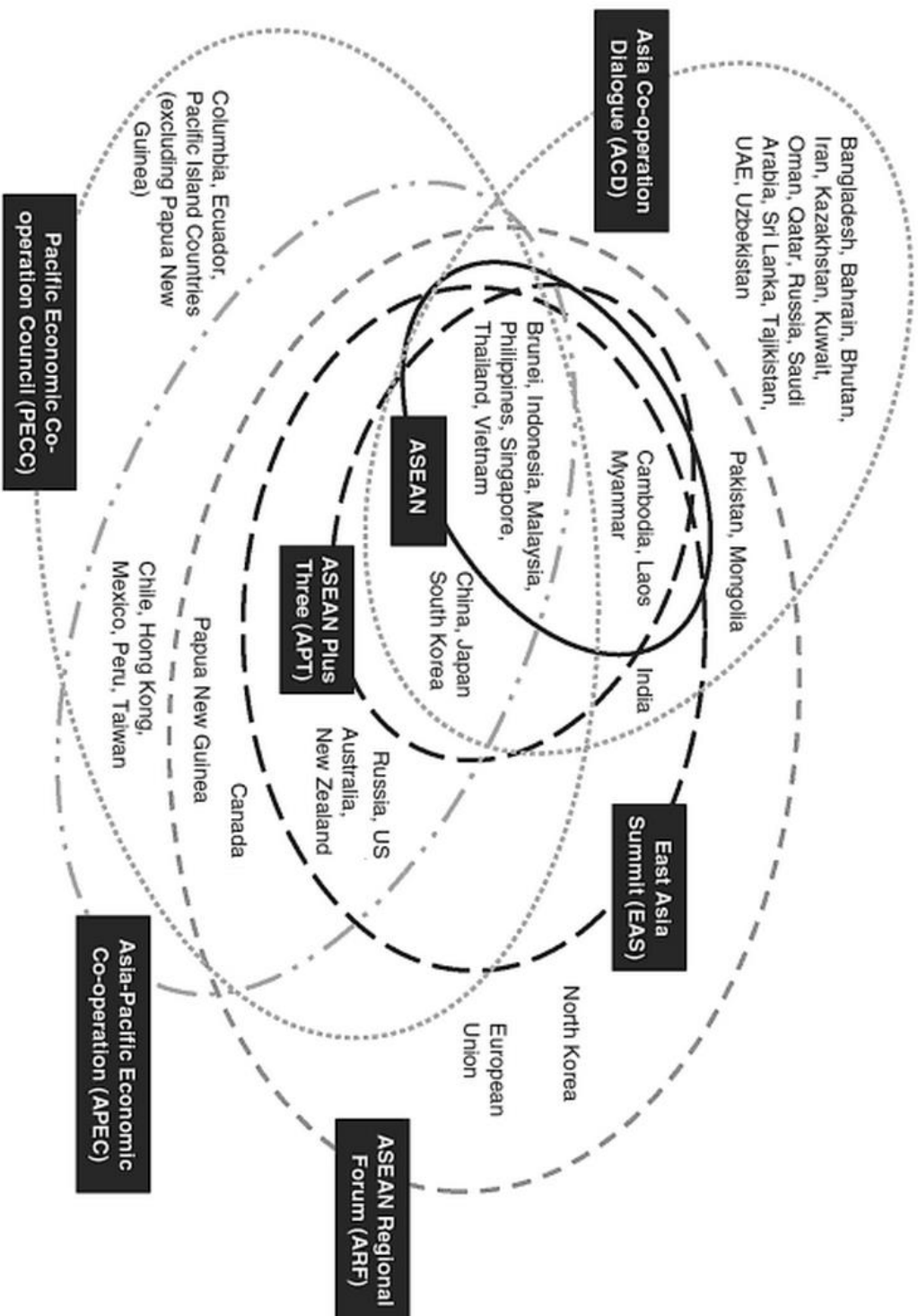
Appendix 8: Total trade in ASEAN priority sectors. *Source:* ASEAN Secretariat.



Appendix 9: FDI inflows into the ASEAN by receiving country. *Source:* ASEAN Secretariat.

	GDP, PPP (US\$ BIL.)	POPULATION (MILLION)	GDP/CAPITA PPP (US\$)	GDP GROWTH 2012 (%)	ECONOMIC GOVERNANCE	POLITICAL SYSTEM	AGRICULTURE (GDP%)	INDUSTRY (GDP%)	SERVICES (GDP%)	LPI
SINGAPORE	386	5.3	72,724	1.3	DEVELOPMENTAL STATISM	SEMI-DEMOCRACY	0	26.7	73.2	4.00
BRUNEI	29.8	0.4	72,322	2.2	OIL-BASED ECONOMY	ABSOLUTE MONARCHY	0.7	71.1	28.2	n/a
MALAYSIA	651	29.2	22,280	5.6	DEVELOPMENTAL STATISM	SEMI-DEMOCRACY	10.1	40.8	49.1	3.59
THAILAND	923	66.7	13,823	6.5	DEVELOPMENTAL STATISM	DEMOCRACY (?)	12.3	43.6	44.2	3.43
INDONESIA	2,224	246.8	9,011	6.2	DEVELOPMENTAL STATISM	DEMOCRACY	14.4	46.9	38.6	3.08
PHILIPPINES	590	96.7	6,109	6.8	DEVELOPMENTAL STATISM	DEMOCRACY	11.8	31.1	57.1	3.00
VIETNAM	443	88.7	4,998	5.2	PLANNED/SOCIALIST MARKET ECONOMY	COMMUNIST	19.7	38.6	41.7	3.15
LAOS	29.6	6.6	4,464	8.2	PLANNED/SOCIALIST MARKET ECONOMY	COMMUNIST	28	36.2	35.8	2.39
CAMBODIA	42.2	14.8	2,837	7.3	PREDATORY CAPITALISM	DEMOCRACY (?)	35.6	24.3	40.1	2.74
MYANMAR	55.3	52.8	1,047	5.5	PREDATORY CAPITALIST- MILITARY	MILITARY JUNTA/ DEMOCRATISATION (?)	43	20.5	36.6	2.25
JAPAN	4,543	127.5	35,618	2	MARKET ECONOMY	DEMOCRACY	2.6	39.1	58.2	3.91
S. KOREA	1,500	50	30,010	2	MARKET ECONOMY	DEMOCRACY	1.2	27.5	71.4	3.67
CHINA	14,802	1,350	10,950	7.8	SEMI-MARKET ECONOMY	COMMUNIST	10.1	45.3	44.6	3.53

Appendix 10: East Asia's heterogeneity. *Sources:* Dent (2008), World Bank World Development Indicators Database. Note: LPI is the logistics performance index. The value of the index ranges from 1 to 5, with a higher score representing a better performance



Appendix 11: International frameworks involving East Asia. *Source:* Author's modification of Dent (2008: 23).

Summary

A dolgozat témája a kelet-ázsiai regionalizmus kialakulása, fejlődése és jellegzetességei. A regionalizmus napjainkban a nemzetközi politika és a világgazdaság egyik domináns folyamatává vált. Kelet-Ázsia e téma kapcsán kiemelt figyelmet érdemel, mivel a térség egyfelől az elmúlt évtizedekben a globális termelés és növekedés egyik legfontosabb gócpontjává vált, másfelől pedig a regionalizmus egy merőben sajátos formáját jeleníti meg. Közben Kelet-Ázsiában egy kiterjedt regionális munkamegosztáson alapuló, a piaci logikán nyugvó és a piaci szereplők által irányított gazdasági integráció keretei között igen kiterjedt kapcsolati hálók alakultak ki a térségbeli nemzetgazdaságok között, addig az intézményes politikai együttműködés fejlődése csak részben követte a gazdasági folyamatokat, és a kelet-ázsiai regionális nemzetközi intézmények a mai napig relatíve gyengék és alulfejlettek maradtak.

A dolgozat három hipotézist fogalmaz meg a kelet-ázsiai regionalizmussal kapcsolatban. Az első, hogy a regionális nemzetközi intézmények hiányában a kelet-ázsiai gazdasági integráció kialakulása és fejlődése egyfelől a globális, másfelől az állami és állam alatti szint stratégiai és intézményi jellemzőinek, illetve azok változásainak következménye. A második, hogy a kelet-ázsiai regionalizmus fejlődésére és változására mind gyakorlati, mind intézményi szempontból a külső rendszerszintű sokkok gyakorolták a legnagyobb hatást. A harmadik, hogy a regionális intézményi keretek szélesedésével ezen intézmények egyre inkább a hatalmi politika színterévé válnak.

A dolgozatban a fenti hipotézisek kvalitatív módszerekkel, javarészt a témával kapcsolatos szakirodalomra támaszkodva kerülnek értékelésre, elsősorban a nemzetközi kapcsolatok és a nemzetközi politikai gazdaságtan, kisebb részben a közgazdaságtan eszközeire támaszkodva. Habár a dolgozatban nem jelennek meg a tudományos diskurzusban kifejezetten forradalminak vagy akár újnak számító analitikus szempontok, annak célja és jelentősége a témáról folyó, szerteágazó diskurzus (újra)értelmezése és szinkronizálása. Míg a nemzetközi kapcsolatok tudományága alapvetően az intézményesülés hiányára és a térség (biztonság)politikai jellegzetességeire fókuszál, addig a politikai gazdaságtani megközelítés elsősorban a gazdasági integráció gyakorlati kérdéseivel foglalkozik. E dolgozat ezzel szemben a gazdasági integráció gyakorlati megvalósulása és az azt befolyásoló politikai tényezők közötti összefüggéseket vizsgálja,

ezáltal pedig a kérdés egy olyan oldalát szándékozik feltárni, amelyre a diskurzus eddig csak mérsékelt figyelmet fordított.

A dolgozatban megkülönböztetésre kerül a regionalizmus, a regionalizáció és az integráció fogalma. Az elsőt itt úgy konceptualizáljuk, mint egy felülről szerveződő politikai folyamatot, amely során a régió államai közös elveket, szabályokat, normákat és intézményeket alakítanak ki interakcióik keretbe foglalására, mind materiális érdekeiket, mind normatív identitásukat figyelembe véve. A regionalizáció alatt a dolgozatban egy alulról szerveződő, állam alatti szinten elhelyezkedő aktorok által létrehozott folyamatot értünk, amely során decentralizált transznacionális kapcsolatok jönnek létre az államok között, mindez pedig hozzájárul a különböző nemzetgazdaságok integrációjához. Integráció pedig – annak általános definíciójától eltérően – úgy kerül meghatározásra, mint a termelési tényezőknek az egyes államok közötti mozgásában való növekedés.

A dolgozat elméleti kiindulópontja, hogy a mainstream közgazdaságtani, politikatudományi és politikai gazdaságtani elméletek a legjobb esetben is csak részben képesek a kelet-ázsiai regionalizmus magyarázására, ezért az 'analitikai eklekticizmus' szellemében eljárva egy több paradigma elméleti pozícióit, valamint két dimenziót (államközi és transznacionális) és három elemzési szintet (globális, regionális, állami, állam alatti) inkorporáló strukturális elemzési keret került kialakításra a jelenség vizsgálatára. A következő tényezők szerepelnek az elemzési keretben: a globális struktúra, és a globális (gazdasági) intézmények, illetve azok hatásai a regionális szintre vonatkozóan; a régió belüli állami szereplők érdekei, a köztük való erőeloszlás, valamint a regionális renddel kapcsolatban megfogalmazott normatív percepcióik; a regionális struktúra jellege, annak alapvető logikája (aszociális, hatalompolitikai, koegzisztív, kooperatív, konvergens vagy konföderatív) és a regionális intézmények; valamint a transznacionális dimenzióban az állam alatti szinten elhelyezkedő aktorok, azaz a multinacionális vállalatok érdekei és tevékenysége. A dolgozat a fentieket figyelembe véve mind a realista, mind a liberális, mind a konstruktivista, mind pedig a nemzetközi kapcsolatok angol iskolájának elméleti meglátásait beépíti a vizsgálatba.

A dolgozat az első hipotézissel kapcsolatban a következőket fogalmazza meg. Ahogy arra a diskurzus konstruktivista résztvevői rámutattak, a II. világháborút követően mind a kor hegemon hatalma, az Egyesült Államok, mind a dekolonizáció folyamatában őrlődő vagy annak utóhatásaival szembenező ázsiai államok vonakodtak a multilaterális intézmények létrehozásától, előbbi az értékközösség hiánya, utóbbiak a gyarmati múlt hagyatékából fakadó szuverenitás-féltésük miatt. Ugyanakkor az Egyesült Államok

indirekt módon jelentősen hozzájárult ahhoz, hogy a térségben intézményesülés hiányában is megkezdődjön a regionalizáció. A koreai és a vietnami háborúk hadiköltekezése nagyban segítette a tőkeszegény és gyenge térségbeli gazdaságokat, elsősorban Japánt, ahol az amerikai cégek egyúttal a technológiai fejlődés (újra)megteremtésének fontos szereplői is voltak. Másfelől az amerikai hegemonia globális intézményei – a GATT, az IMF, a Világbank és a Bretton Woods-i rendszer – koordinációs szerepet tölthettek be a térség gazdasági viszonyaiban. Japán fejlődése magával hozta a belföldi munkaerő ár-versenyképességének csökkenését, s a japán multinacionális cégek az 1960-as évektől kezdve elkezdtek kiszervezni a termelést elsősorban Tajvanra és Dél-Koreába. Ahogy ez a két gazdaság, valamint Szingapúr és Hongkong (együtt az újonnan iparosodott gazdaságok – NIE) fejlődésnek indult – javarészt a japán működőtőke-befektetéseknek köszönhetően –, elkezdtek mind ezek, mind Japán tőkét kihelyezni a Délkelet-Ázsiai Nemzetek Szövetségének (ASEAN) tagállamaiba, majd Kínába. Így kialakult a „szálló lúdrajként” ismert regionalizációs modell, amelyben Japán vezetése mellett az NIE-k, az ASEAN tagállamai és Kína egymást követve fejlődtek. A modell integráns része volt, hogy a japán vállalatok vezetésével transznacionális termelési láncok alakultak ki a térségben, ezeken keresztül valósult meg a regionalizációs folyamat, s így kapcsolódtak össze a régió nemzetgazdaságai. Mindemellett alapvető feltétele volt az effajta regionalizáció kialakulásának, hogy a térség nemzetállamai arra törekedtek, hogy hasznot kovácsoljanak a nemzetközi gazdasági rend kínálta lehetőségekből, és belső intézményi kereteiket ennek a célnak alárendelve alakították ki. Támogatták az exportra termelést és a működőtőke-importot, a helyi iparosítást és vállalatfejlesztést, valamint a kereskedelmi kapcsolatok előmozdítása érdekében egyoldalú liberalizációba kezdtek a számukra fontosabb szektorokban, továbbá prudens makrogazdasági politikát folytattak. A folyamatban fontos szerepet játszott technológiai fejlődés, valamint az 1985-ös Plaza Egyezmény, amely a japán jen felértékelődését, és ezáltal a japán – majd később a koreai és tajvani – működőtőke-kiáramlás felgyorsulását hozta. Ugyanakkor a kelet-ázsiai regionalizáció vezére végső soron mégsem Japán, hanem az Egyesült Államok volt, amely fontos szerepet játszott Japán fejlődésében, biztosította a térség békéjét és stabilitását, nemzetközi közjószágokat szolgáltatott, és végül a kelet-ázsiai termékek legfőbb felvevőpiaca is volt.

A második hipotézist illetően a dolgozat a hidegháború utáni időszak eseményeire összpontosít. Az 1990-es évek fordulóján a kelet-ázsiai országok a GATT keretein belül

való liberalizáció megakadása, az európai integráció mélyülése és az észak-amerikai integráció megindulása, valamint a kelet-európai rendszerváltozások és az azt követő gazdasági nyitások miatt attól tartottak, hogy ezen folyamatok kapcsán csökken a régió fontossága a nemzetközi gazdasági rendben. Emiatt regionális intézmények létrehozásába kezdtek, amit további régió belüli strukturális változások is indukáltak, így Kína gyors fejlődése és az ASEAN azon féltelve, hogy Kína vetélytársává válik a működőtőke-import terén. Az 1997/1997-es ázsiai pénzügyi válság jelentősen felerősítette az intézményesítési törekvéseket, miután rámutatott a régió külső sebezhetőségére. Az 1990-es években ezzel kapcsolatban három egymással párhuzamos folyamat indult meg. Egyrészt az ASEAN mélyebbre fonta a tagállamai közötti gazdasági kapcsolatokat egy belső szabadkereskedelmi övezet (AFTA) kialakításával. Bár az AFTA nem volt egyértelmű siker, a válság után az ASEAN integrációs folyamata újult erőre kapott, és 2003-ban a szövetség arról határozott, hogy 2020-ig három közösséget hoznak létre a gazdasági, politikai, illetve társadalmi együttműködés fokozása érdekében, amely céldátumot később 2015-re módosították. Másrészt a pénzügyi területen megindult a multilaterális együttműködés a válság kapcsán, amely a Csiang Maj Kezdeményezés (CMI) nevű swap-egyezmény rendszerben csúcsosodott ki. Szintén a válságból kifolyólag intézményes keretet kapott az ASEAN és Japán, Dél-Korea és Kína párbeszéde, amely az ASEAN+3 (APT) keretrendszer lett. Ez 2005-ben kiegészült a Kelet-ázsiai Csúcs (EAS) intézményével, amelyen India, Ausztrália és Új-Zéland, majd 2011-től kezdve az Egyesült Államok és Oroszország is részt vesz. Harmadrészt, a térségben megindult a regionális – javarészt bilaterális – kereskedelmi egyezmények proliferációja. Tehát az 1990-es évek strukturális változásai és sokkjai az intézményesítésre sarkallták a kelet-ázsiai államokat. Azonban a bilaterális szabadkereskedelmi egyezmények elszaporodása a „tál tészta szindrómához” vezetett, azaz egymást átfedő egyezmények rendezetlen halmaza jött létre a régióban. Ugyanakkor megjegyzendő az is, hogy ezek a bilaterális egyezmények alapvetően nem voltak jelentős hatással a regionális kereskedelemre, mivel nem tartalmaztak komolyabb vámtarifa-csökkentést. Ehhez hasonlóan a multilaterális intézmények jelentősége is mérsékelt volt (kivéve a CMI-t), mivel azok az ASEAN normáin, tehát a szuverenitás mindenek feletti tiszteletben tartásán és a konszenzuson alapultak, nem pedig a jogi kötőerővel rendelkező rendszereket preferáló nyugati mintákat követték. Tehát bár az intézményesülés, azaz a „valódi regionalizáció” megindult Kelet-Ázsiában az 1990-es években, ez alapvetően nem volt mély hatással a regionális gazdasági kapcsolatokra.

Ugyanakkor ezzel párhuzamosan a versengés is felütötte fejét a régióban, elsősorban Kína és Japán között. Ezzel kapcsolatos a dolgozat harmadik tézise. Bár Japán jelentősen veszített relatív erejéből az 1990-es évek belső gazdasági és politikai válságai miatt, az ázsiai pénzügyi válságot követően a térségbeli pénzügyi együttműködés élére állt. Kína ezzel szemben a szabadkereskedelem terén mutatott jelentős aktivitást, és 2002-ben egyezményt kötött az ASEAN-nal (illetve a gyakorlatban egy-egy kétoldalú egyezményt kötött az ASEAN minden egyes tagjával). Ez Japán és Dél-Koreát is arra sarkallta, hogy hasonló egyezményeket kössenek az ASEAN-nal, végső soron ez vezetett a fent említett „tál tészta szindrómához” is. Mindemellett a japán–kínai rivalizálás a Kelet-ázsiai Csúcs keretrendszerén belül is felütötte fejét, ahol Tokió hasonló értékrendű, azaz demokratikus államok bevonásával akarta ellensúlyozni Kína növekvő befolyását. Szintén a regionális vezető szerepért való versengés egy vetületének fogható fel az ASEAN azon stratégiai célja, hogy a szövetség álljon a kelet-ázsiai regionalizmus középpontjában, annak „vezetőülését” foglalja el. Így tehát három eltérő koncepció feszül egymásnak. Ez a rivalizálás nemcsak az intézményi keretek között, hanem a biztonságpolitikai téren is egyre markánsabban jelenik meg a régióban napjainkban. A képet tovább bonyolítja, hogy az Egyesült Államok – amely az 1990-es években mintegy visszavonult politikailag Ázsiából – 2011-ben meghirdetett stratégiai „térségváltása”, azaz Kelet-Ázsiára való összpontosítása sok szempontból válaszút elé állítja az ASEAN országait, s a Kína esetleges regionális vezető szerepét kevésbé elfogadó tagállamok ezáltal szembekerülhetnek azokkal, amelyeknek nincsenek fenntartásaik egy, a felemelkedő Kína által strukturált kelet-ázsiai rend potenciális kialakulásával kapcsolatban.