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Emerging Regional Institutions in East Asia

Recent global challenges to the governance of East Asian political economy including the Asian Financial Crisis (AFC) have led to two sets of visible institutional innovations in the region.[1] Kicked off by the Japanese proposal of the Asian Monetary Fund in the immediate aftermath of the AFC, there have been active cooperation and policy coordination around the financial and monetary arrangements such as the Chiang Mai Initiative and the ongoing discussion of regional bond and currency initiatives. On the trade side, several Free Trade Agreement (FTA) negotiations have taken place since the early 2000s, and numerous bilateral and plurateral agreements were signed. This is a noticeable turn of East Asian dynamics in the last five decades (1945-1995), and unlike past informal and bilateral initiatives (Katzenstein 2000), many East Asian governments appear to be committed to formalize their regional economic relations legally and institutionally.

Hence, formal and relatively exclusive regional institutions (or architecture) have finally emerged in East Asia. Intriguingly, however, those two sets of institutions in trade and finance stand quite independent and contrasting from each other. Scholars argue that it is quite common to have regional monetary cooperation not to follow trade cooperation (Cooper 2007), and that it is futile to take lessons from Europe as the common trajectory of regional integration for the regions beyond Europe (Baldwin 2008).[2] Nevertheless, this eclectic and fragmented institutionalization deserves analysis as we strive to understand the regionalism dynamics and the future course of East Asia's "regional turn." In addition, the shape and evolution of coherent regional architecture is crucial theoretically and empirically. Theoretically, the validity of neofunctionalist prediction of the "logical roadmap" to regional integration (Balassa 1961) is at stake, and empirically the efficiency, bargaining power and the most solid public goods (or club goods) would come from the coherent regional arrangement between trade and finance (Rose 2000).

In recent history, the region's major economic powers, namely Japan, China and Korea, have been vividly reminded of the importance of regional economic stability and prosperity by the AFC and also by the current (2008-) global economic crisis. Numerous steps have already been taken toward this regional integration goal. Such efforts will not only support and sustain the regional business networks linked through the regional production strategies of the large Japanese and Korean corporations (Hatch and Yamamura 1996) and through the ties among the ethnic Chinese businesses (Peng 2000), but they will also boost the bargaining power of East Asia as a region in the multilateral forums, be it the international financial realm or in the WTO negotiation rounds. Furthermore, as the wishful discussion of unrealized "decoupling" indicates, East Asia has critical yearning to insulate the region from global imbalances and economic downturns triggered by events occurring outside of the region (*Economist* 2008).[3]

As discussed in detail below, the East Asia's financial and monetary cooperation operates under a collaborative and well-defined regional framework. ASEAN+3, which kicked off its regular meeting in the aftermath of the AFC, has become the central forum where regional financial and monetary arrangements such as the Chiang Mai Initiative (CMI), Asian Bond Market Initiatives (ABMI), and Asian Currency matters are discussed. Meanwhile, regional trade arrangements are highly eclectic, whose negotiations are often triggered by competition (Solis, Stallings and Katada, 2009). Both the Japanese and Korean governments have thus far concluded bilateral agreements with both regional and extra-regional partners (e.g. Mexico, Chile, and some European countries). China, whose first move was to create ASEAN+1 free trade area, has now launched FTA offensive in many parts of the world (Iceland, Chile and Peru, for example). Here, the membership and regional exclusivity of the arrangements contrast significantly with the field of finance, as the region struggles to define the most appropriate and effective regional trade area.

The preferences and policies of the three Northeast Asian countries, China, Korea and Japan, are crucial in defining the regional economic architecture. Not only do they constitute a large bulk of regional economic base in terms of trade volume and financial resources, it is also obvious from the constellation of ASEAN+1 trade arrangements that these three countries are the source of eclectic regional architecture. Hence the questions for this paper focus on the sources of the distinctive approaches in the fields of trade and finance/monetary affairs in the regional institution building.

I argue, first, that the state interaction within East Asia is constrained by domestic politics in each of those major countries. Even bilaterally, trade cooperation between Japan and Korea is hindered by agricultural opposition, a powerful source that influences policy making in both countries, while the Chinese government enjoys relative policy-making freedom due to recent liberalization efforts in the face of WTO accession. In monetary policymaking, the state autonomy is much higher than trade for all the three countries. The second issue is the positions of and dynamics among these major states in the context of regional and global economic environments. In trade, all three countries are exporters (mostly to the United States, but also within and outside of the region) and have still some ways to go before any country in the region can replace the United States as the "buyer of the last resort." In other words, East Asia as a region overall is profoundly permeated (Katada and Solis 2008b) or porous (Katzenstein 2005). On the other hand, despite massive dependence of the US dollars (Katada 2008), the three Northeast Asian powers, particularly Japan and China, are in the position that could make them "lender of the last resort" at the time of regional currency and financial crises. Massive dollar accumulation in their foreign exchange coffers, continuing current account surplus and with relatively high savings, all make those countries a reliable source of financial resources both short-term and long. Although permeation of the regional finance by the outside forces are quite evident, regional effort to insulate itself against the recurrence of AFC-type crisis is not so distant a dream.

The following paper consists of four parts. First, the paper summarizes the existing discussions over determinants that influence the formation and the shape of East Asian regionalism. In the following section, the paper provides my argument as to how state preferences and domestic politics are fundamental elements in shaping regional institutions. Then, in the third section, it gives overview of institutional developments in the fields of finance and trade in East Asia in the last ten years. In the fourth section, the study focuses on the domestic politics surrounding the state's preferences in Japan, Korea and China in two issue areas and how they contribute to very different development of regional architectures. Finally, the last section concludes with a discussion of the implications of the political dynamics and state preferences on the regionalism in East Asia.

Determinants of Economic Regionalism in East Asia

Regional Integration in East Asia

The existing international relations theories are grappling with the recent rise of regionalism in East Asia. Neither the realists nor scholars focusing on identity have very much to say on the curiously simultaneous but very different paths of the East Asian regional architectures in trade and finance. The realists' focus on historical mistrust or power rivalry should lead to limited regional cooperation (Friedberg 2000) and shallow institution Grieco (1997). Of course the rivalry among the three Northeast Asian powers exists, but the fact that the CMI has shaped up without much resistance from China, despite it is largely considered to be the Japanese initiative, provides counterevidence to such historical memory argument. Meanwhile, developing regional identity would be the underlying factor towards enhanced cooperation that facilitates regional institution building, but such view falls short of explaining its structure.[4]

New Institutional Economics, following North's footsteps (1981), attributes the rise of new regionalism in East Asia to the region's economic protectionism and insulation under globalization, and/or the rise of Factory Asia. Those scholars argue that institutions adapt to a changing economic environment and they transform to reduce transaction costs. Economic maturity among many East Asian countries, which face the global trade and financial challenges that would potentially disrupt the region's economic growth and stability, is fundamental in motivating those governments to establish regional arrangements. Regionalism strategies, therefore, come from both proactive incentives and defensive incentives. On the one hand, emerging "Factory Asia" has triggered strong interests in free trade area in East Asia as production and business networks expanded throughout Southeast Asia (Baldwin, 2006). As Munakata (2006a) discusses in her book, governments have slowly begun to respond to business-led regional economic integration that preceded policy actions. In a way, regionalization through informal business transactions led by production networks in the region has begun to demand formalization of the regional trade and financial arrangement to lower the cost of operation, the very "bottom-up" neofunctionalist logic (Haas 1958). Meanwhile, defensive instincts have also been at play. Obviously, the AFC has made Asian leaders realize inadequacy of the region's financial cooperation in the face of crisis (Wesley 1999). The lack of regional provisions and weakening global trade regime under the WTO are important in the emergence of strong bilateral FTA push in East Asia since the late 1990s (Dent 2003; Ravenhill 2003).

Nevertheless and as discussed by neofunctionalists and economists, transaction costs would be lowered most effectively when regional trade arrangement corresponds to its financial/currency arrangement. Thus, rational foundation of new institutional economics would face difficulty explaining the lack of linkage and sequencing of regional trade integration and monetary integration. Given the high and increasing level of regional trade integration and prominence of foreign direct investment that has, for the past few decades, established regional production and business networks, what is preventing the smooth spill over of one part of integration to the other from taking place?

It is true that we might not have given nascent East Asian regionalism enough time to flourish. An intriguing study by Dieter and Higgott (2003) attempts to theorize a new sequence of integration. They advocate an alternative perspective that depicts how regionalism could proceed from monetary cooperation to regional trade cooperation and then to economic union to political union (see Table 1: 436), as they analyze the rapid emergence of East Asian monetary cooperation and regional institution building such as the Chiang Mai Initiative in the aftermath of the AFC. Their "logical roadmap" on East Asian integration challenges that of Balassa's, and opens a possibility of an alternative and unique path arising from the Asian governments' concerns for their financial and monetary vulnerability in the age of globalization. Although the scenario of the unique Asian path sounds plausible, the empirical evidence of the last ten years indicate that architectures of trade and finance/monetary cooperation in East Asia are not converging, and have moved quite separately from each other with distinctive features and the logic. The question is how and why so.

Domestic and Regional Political Economy of Trade and Financial/Monetary Affairs

The political forces behind economic policy making are central to the study of international political economy, and state preference is the foundation of regional institution building. Although the main agents that engage in regional institutions building are state actors, domestic politics largely determine their position and preferences. In such sense, this study takes state-society relations seriously (Moravcsik 1997).

The "politics of trade" and "politics of finance" are, however, often discussed separately.[5] In the area of trade, the negative and positive impact of trade liberalization can be demarcated clearly on the basis of factors of production owner or class (Rogowski

1989), or on the types of industry (Schattschneider 1935).[6] Hence, trade policy of a country would produce winner and loser groups, both of which would be motivated to engage in collective action to influence the government policy in pursuit of either protection or further liberalization. In the context of regional preferential trade liberalization, Milner (1997) argues that the preferences of "increasing returns to scale (IRS)" industries such as aircraft manufacturers would push strongly in favor of expanding its production and market scope as long as they do not face foreign competition. For example, Boeing would rather capture regional market in the Western Hemisphere than compete globally where Airbus from Europe would effectively compete. Policymakers and politicians will balance industry demands with the level of tariff revenues and that of consumer surplus to produce preference towards regionalism.

In the realm of finance and monetary affairs, however, such domestic cleavage is less clear or direct. Frieden (1991) takes up this ambitious challenge and examines the winners and losers of increased cross-border capital mobility. As the capital market integration proceeds, mobile and non-sector-specific capital would be able to move. This would benefit the owners of such mobile (financial) capital in a capital abundant country, and present challenges for the owners of sector-specific capital in a capital scarce country. In the most advanced economies, financial capital would be managed by financial institutions such as transnational banks and institutional investors, while sector-specific capital would be in the hands of the sectors such as manufacturing, farming or real estates, to name a few. As for the stability and level of exchange rates, Frieden (1991, 445) produces a two-by-two matrix where less flexible exchange rate regime (that one would expect to see under regional monetary cooperation) would benefit export-oriented producers when the currency is weak, and international traders and investors when the currency is strong.[7]

Another stylized view regarding the contrast between cooperation in the area of trade and financial/monetary affairs on the regional level focuses on collective action at the regional and international level. Trade liberalization always faces collective action problem. Open trade with expanded global or regional market and without methods of exclusion (and lack of crowding) are considered public goods, but there is a strong incentive for cheating, because of dynamics such as prisoners' dilemma or free riding as a country slows or fakes its trade liberalization efforts. On the other hand, the collective action challenge in finance toward financial liberalization is not actually comparable or equivalent to trade liberalization dynamics. Since financial opening (especially for capital scarce countries) would encourage foreign investment inflows, there is tendency for all to be motivated to liberalize, thus facilitating financial liberalization under competitive and unilateral dynamics.[8] Capital scarce countries, typically the "emerging market countries" of Latin America and Asia that need to attract external funds to finance their economic growth, tend to behave this way and invite financial crises onto themselves.9 In the case of finance, then, the necessary public goods are more in the realm of financial stability through supervision, monitoring and regulation against reckless liberalization. Furthermore, the major power(s) or hegemon in the region should become the "buyer of the last resort" or the "lender of the last resort" at the time of significant downturn or economic crisis to maintain regional economic stability.[10]

Domestic political lens are what we need to understand the contrast between relatively coherent process of regional financial and monetary efforts and quite eclectic arrangement in trade. My argument is that due to surprising lack or unevenness of such efforts on the part of large industries, especially the type of efforts that push towards across-the-board regional integration, East Asia currently sees fragmented regionalism. Businesses and industries (and agricultural sector) do get involved and occasionally heavily influence the regional policy, but their influence is (a) concentrated on avoiding losses, and (b) uneven depending on the issue area. Thus, my argument is that, despite the involvement of industries in trade policy, the strongest pressures and influence come from the "losers" in the FTAs, both in terms of those industries that tried to avoid losses from not having an FTA (those which suffer from trade diversion from certain trade partner) and of the protected import-competing sectors that get threatened by liberalization. The influence of those that stand to gain, however, is limited in defining the terms of each FTA. Governments are, on the other hand, much more autonomous from pressure when it comes to its financial and monetary policy making. Not only does domestic politics of monetary affairs have such tendency, but the similarity exists in politics of finance, particularly in the post AFC environment, where banks did not get much involved as long as their domestic businesses are not threatened. Because of such contrast in domestic political dynamics and the lack of the "connector" in the form of large businesses that lobby for across-the-board regional integration efforts (thus creating spillovers), the fragmentation of regional economic institutions occur despite impressive economic regionalization that is already prominent in this region.

The regional dynamics are also influenced by the economic environment that all three Northeast Asian countries in this study are placed at least in the last ten years. That is that (a) they are all creditor countries that have relatively high level of (very high in case of Japan and China) foreign exchange reserves, and (b) they are all highly dependent on extra-regional markets, particularly that of the United States, for their exports. In short, all of them (and especially three of them combined) have capacity to become the "lender of the last resort" for the regional economy, while none of them (or even three of them combined) is yet to replace extra-regional markets as "buyer of the last resort." Such position, especially vis-à-vis the "follower" countries in Southeast Asia, translates into more need for and facility in collaborating in the area of financial matters than in trade. Moreover, the particular domestic politics discussed above provide each government more freedom of policymaking in finance/monetary affairs than in trade.

Regional Economic Institution Building in a Nutshell

Regional Financial Architecture

There are three pillars in post-AFC regional financial architecture in East Asia; The emergency liquidity funding arrangement of currency swaps under the Chiang Main Initiatives (CMI), pursuit of developing local and regional bond markets in East Asia through Asian Bond Market Initiative (ABMI) and Asian Bond Fund (ABF), and the discussion and moves towards Asian Monetary Union (AMU) with Asian Currency Unit (ACU).

Both chronologically and in terms of the level of institutionalization, the CMI is most established financial initiative in East Asia at the moment. As early as November 1997, the East Asian governments launched a regional framework in the context of the ASEAN plus Three (Japan, China, and South Korea) with the hope of dealing with financial emergencies. This framework became the core of the region's emergency liquidity mechanism consisting of a network of mostly bilateral currency swap arrangements. The ASEAN plus Three governments arrived at the basic agreement regarding this regional mechanism by May 2002.[11] One component of the CMI is the expanded ASEAN swap Agreement (ASA), a small regional currency swap facility that has existed among ASEAN members since 1977. The other and the new component is the Bilateral Swap Arrangements (BSAs) and repurchase arrangements among each member of the ASEAN plus Three.[12] The CMI has two basic objectives: the first is to provide emergency liquidity at the time of financial crisis such as the AFC. The second and longer-term goal is to enhance regional cooperation both in terms of currency stabilization and financial monitoring. As of June 2009, $90 billion worth of swap lines are committed by the participating monetary authorities.

Finally in May 2009, the decision to "multilateralize (i.e. regionalization)" CMI was finalized, and shortly the funds committed to bilateral swap lines will be "pooled" together with the potential for much larger swap volume per use.[13] The newly established CMIM (Chiang Mai Initiative Multilateralized) will consist of a multilateral private swap agreement among the member central banks with pooled fund of $120 billion (in the US dollars). Through the multilateralization process, not only did it expand the available amount for each swap, but it has also allowed the ASEAN countries (namely Brunei, Cambodia, Laos and Vietnam) that were not incorporated in either the BSA or ASA until now to become full members of the CMI process. Despite the large amount of available funds and the image of the "revival" of the Asian Monetary Fund (AMF) proposed by the Japanese authority at the onset of the AFC in summer of 1997, there are two features that clearly distinguish the CMIM from the (relatively vaguely defined) AMF.[14]

The first is the fact that the CMIM is yet to establish a physical secretariat with a building and staff with expertise. Despite the need to engage in monitoring and surveillance of member countries in preparation to activate currency swaps, the CMIM at this point does not have a plan to establish a standing institution, nor does it consist of actual "pool of funds" in the same way that the IMF does. The currency swap arrangements are based on the contractual agreement among the central banks to activate those swaps based on their respective foreign exchange reserves as the CMIM receives requests.[15] The other feature of the CMIM is the IMF-link as a condition to activate the currency swaps. This 90 percent link (i.e. 90 percent of the swap can only be activated when the IMF agreement is either negotiated or in place) was put in place at the establishment of the CMI due to the lack of monitoring function under the ASEAN plus Three framework. Without this link, the decision to activate the swap lines and guaranteeing repayment becomes difficult.[16] The explicit definition of the CMIM as a "complementary" liquidity funding mechanism within the international framework led by the IMF emerged not only from the lesson of the failed AMF,[17] but also to make sure that repayment on the part of borrowers will be secured through international pressure. Regional monitoring and surveillance mechanism has also been developed in search for a way to prevent financial crises from occurring, and if it does, the borrowers can be monitored closely. The member financial ministries have, since the start of the CMI process, worked on those functions in the form of biannual meetings of Economic Review and Policy Dialogue (ERPD), but the CMIM has already promised to develop a more specific surveillance function to allow the "advisory panel" to activate the swaps.[18]

The current Global Financial Crisis after the Lehman Shock of September 2008 helped the multilateralization of the CMI by making the leading countries to compromise on and commit to the common regional goal of financial stability.[19] Despite such regional success, however, a sign of competition in regional financial affairs has also become apparent as the monetary authorities of countries with large foreign exchange reserves, namely China and Japan, have established their own respective bilateral swap arrangements using their own currency (RMB and yen) besides the CMIM.[20]

The ABMI in the context of the ASEAN Plus Three also directly addresses the regional need for financial stability, a lesson that unmistakably came from the AFC. The AFC revealed the financial vulnerability of East Asian economies ranging from domestic financial weakness to inefficient investment climate. More important is the challenge of the "double mismatch problem," which came about as East Asia borrowed short-term in dollars and invested in long-term assets denominated in their local currency. This mismatch in length of maturity and choice of currency imposed more costs and risks on the borrowers in East Asia. As a region with relatively high savings, there was an emerging sense that "surplus savings from East Asia [flowing] out of the region to Western financial markets and then return by way of loans to Asian borrowers makes little economic sense."[21]

The idea of the Asian bond market emerged first from Thailand in summer of 2002. The creation of a bond market requires both issuers of bonds and investors in those bonds. The Thai initiative focused mainly on the investor side as then Prime Minister Thaksin proposed that the members of ASEAN Plus Three contribute one percent of each country's respective foreign exchange reserves to launch a regional fund to purchase Asian bonds. The idea, which was discussed at the East Asia Economic Summit in Kuala Lumpur in October 2002, was developed and adopted by the EMEAP (Executives' Meeting of East Asia and Pacific Central Banks) as they set up the Asian Bond Fund (ABF) in June of 2003. As the central banks of eleven Asia-Pacific countries (including Australia and New Zealand) pledged $1 billion for the purchase of semi-sovereign and sovereign bonds from less advanced (i.e. not Japan, Australia or New Zealand) countries in the region. At this stage, the bonds that this fund would purchase were all U.S. dollar-denominated. In June 2005, however, as the second phase of the Asian Bond Fund (ABF2) was launched, the fund began to invest in bonds denominated in Asian currencies with $2 billion fund.[22]

On the other hand, the Japanese government from the early stage of Asian bond discussion was interested in developing regional and local bond market in East Asia with the focus on the issuers. As early as the time of the New Miyazawa Initiative (October 1998), the Ministry of Finance (MOF) was interested in supporting local bond market development to tap into the local savings and avoid heavy reliance on foreign capital. In

December 2002, Japan officially proposed the idea of the Asian Bond Market Initiative (ABMI) at an ASEAN plus Three meeting in Thailand. The aims of the ABMI are two-fold: to facilitate access to the market through a wider variety of issuers, and to enhance market infrastructure to foster bond markets in Asia.[23] Under this initiative, the Japan Bank for International Cooperation (JBIC) has extended bond guarantees to local-currency denominated bonds. Six working groups under the ABMI umbrella are working to establish market infrastructure including regional bond-rating system.[24] Furthermore, "New ABMI Roadmap," which includes insurance mechanism, facility to increase demand of local currency-denominated bonds, improvement of regulatory framework, and related infrastructure for the bond markets, was endorsed at the 2008 Madrid meeting.

Finally, the currency and exchange rate arrangement (the other element of the "double mismatch") constitutes the last (but arguably most) necessary component of East Asia's regional financial architecture. Because of high and increasing regional economic interdependence since the mid 1980s, dollar-yen exchange rate volatility (e.g. the depreciation of the Japanese yen to the US dollars after spring of 1995) had also put pressure on many Asian economies in the 1990s. After the de-pegging of the Thai baht in the summer of 1997, East Asian countries, most of whose currencies used to be pegged one way or the other to the US dollars, were forced to float them. Being highly dependent on their investment and trade, the East Asian governments were eager to see their exchange rates stabilize (Kuroda and Kawai, 2004; 21). As Japan's first efforts to increase the use of the yen in the region did not bear much fruit, East Asia has gradually started to entertain the possibility of regional monetary cooperation, even of a monetary union.

As the first step towards the Asian Monetary Union (AMU), economists and policymakers in the region conducted a joint study with the European Union (the so-called "Kobe Research Group"), whose report came out in July of 2002 and recommended a monetary integration process for phase one (to be completed by 2010); preparation for a single currency for phase two (to be completed by 2030); and launching of a single currency in phase three that would start in 2030.[25] The second and visible initiative is related to the idea of Asian Currency Unit (ACU), floated initially in late 2005 by the newly established Office of Regional Economic Integration at the Asian Development Bank (ADB) under the leadership of its then director Masahiro Kawai, and the new ADB president Haruhiko Kuroda.[26] The proposed ACU models itself after the European Currency Unit (ECU) that existed as the region's currency unit before the euro came about. This ECU constituted a unit of exchange based on the weighted average of values (basket) of currencies. The ACU idea was picked up by the ASEAN Plus Three at the finance ministers' meeting in May 2006, where all thirteen participating governments agreed to conduct in-depth research on its feasibility.[27] Currently, there is not further development on the regional currency front despite emerging political supports in Japan.[28] One thing to note here, however, is that monetary cooperation at this stage has not given rise to discussion on the convergence criteria or explicit macroeconomic policy coordination, which would be most necessary in managing the stable exchange rates among the countries whose capital movement is relatively free (i.e. Mundell-Fleming Condition, or "Unholy Trinity").

Regional Trade Architecture

The AFC also kicked off East Asia's active engagement in preferential trade agreements from the late 1990s. East Asia's major economic powers, which have prospered continuously from their successful exports to the rest of the world, had been stanch supporters of the multilateral GATT/WTO regime. Even as many parts of the world began to aggressively negotiate preferential trade agreements, and as the United States shocked the world by establishing an FTA with Canada (1989) and Mexico (1994), East Asian countries faithfully kept their loyalty to trade multilateralism supporting the GATT/WTO process. With the exception of ASEAN, which began its first steps towards free trade area in 1992, the only other visible free trade arrangement that many East Asian governments engaged in was the Asia Pacific Economic Cooperation (APEC), a loose forum that in the mid-1990s established its goals to facilitate and liberalize regional trade by 2010 for advanced countries and by 2020 for its developing members.[29] Nonetheless, as the FTA frenzy expanded throughout the world, and East Asian economic powers became the only remaining few without any FTAs as late as the late 1990s, the pressure mounted vis-à-vis those governments by the countries' industries to avoid total exclusion and missing the FTA boat.[30]

This shift seen in those governments' trade policy was also motivated by both regional and global challenges. The regional challenge was not directly linked to the AFC, but first emerged as the APEC's trade liberalization through so-called Early Voluntary Sectoral Liberalization (EVSL) miserably fell apart in 1997 (Krauss 2004). Moreover, it did not help when APEC failed to address effectively the AFC (Wesley 1999). In the late 1990s, the multilateral trade regime under the WTO also began to face challenges from its own weight of success as its membership expanded rapidly including many developing countries around the Pacific Rim, and the issues left to be discussed such as agriculture became more contentious and political. 1999 was the year when the trade liberalization forces of the WTO were confronted directly and visibly by counterforces at its Ministerial meeting in Seattle. Since then, despite the launching of the Doha Development Round and the admission of China into the WTO in 2001, the WTO's trade liberalization achievement has stagnated.

Under those global and regional circumstances, a rush of FTAs emerged in East Asia in the early 2000s (Table 1). Many of the first steps towards FTAs are taken as feasibility studies of those FTAs among sets of countries. One of the earliest cases for Japan was the proposal by the then South Korean President Kim Dae Jung during his visit to Japan in October 1998 to conduct studies with the hope to start negotiating Japan-Korea bilateral FTAs. A proposal from Mexico towards Japan-Mexico FTA emerged right around the same time. From Southeast Asia, Singapore spearheaded the region's FTA boom first by engaging in FTA negotiations with New Zealand in 1999, and soon thereafter the Singaporean government began exploring FTA possibilities with Mexico, Chile and South Korea. The FTA negotiations in East Asia picked up its pace in the fall of 2000. Japan's FTA overture to Singapore, which had already started late 1999 as joint FTA studies between the two countries, became the official negotiation in October 2000. After one year of negotiations, "the Japan-Singapore New Age Economic Partnership Agreement" was signed in January 2002, and after ratification in both countries, it came into effect in November 2002. During this time, the United States proposed an FTA with Singapore. More importantly for the region, the then Chinese Premier Zhu Rongji proposed in November 2000 to start exploring the possibility of an FTA between China and ASEAN, the framework agreement on this "Comprehensive Economic Cooperation" between those two entities was signed within two years, leading China to offer the "early harvest" measures to individual ASEAN members as it opens its market up for certain products before schedule. For Korea, Chile became its FTA partner, whose negotiation started in September of 1999, and its agreement came into effect in 2004.[31]

Since this initial stage, the FTA proliferation in East Asia is striking. As of December 2008, the ASEAN Plus Three members (ASEAN 10 plus China, South Korea and Japan) have signed or put into effect total of 39 bilateral and plurateral FTAs with partners within and beyond the region, and many more are currently negotiated or under study (Table 1).

Table 1: East Asian FTAs

	Immediate neighbor	Within the "region"*	Cross Region
South Korea	Japan (negotitation) China (study)	Singapore (in force 2006) ASEAN (in force 2007)	Chile (in force 2004) EFTA (in force 2006) United States (signed 2007) Canada (negotiation) EU (negotiation) Mexico (negotiation) India (negotiation) Australia (negotiation) Russia (study) Mercosur (study) South Africa (study)
Japan	ASEAN + 6 (Initiative) Korea (Negotiation suspended)	Singapore (in force 2002) Malaysia (in force 2006) Philippines (signed 2006) Thailand (in force 2007) Indonesia (in force 2008) ASEAN (signed, 2008) Brunei (in force 2008) Vietnam (signed 2008)	Mexico (in force 2005) Chile (in force 2007) GCC (negotiation) Switzerland (negotiation) Australia (negotiation) India (negotiation)
China	Macao (in force 2004) Hong Kong (in force 2004) Japan-Korea (study) Japan (study) Korea (study)	ASEAN (2005) Singapore (negotiation)	Chile (in force 2006) Pakistan (in force 2007) New Zealand (in force 2008) GCC (negotiation) Iceland (negotiation) SACU (negotiation announced) Australia (negotiation) Peru (negotiation) India (study)
Singapore		Japan (in force 2002) Korea (in force 2006)	New Zealand (in force 2001) Australia (in force 2003) EFTA (in force 2003) USA (in force 2004) Jordan (in force 2005) India (in force 2005)

			Panama (in force 2006) Peru (signed 2008)
Thailand	Laos (in force 1991)	China (in force 2003) Japan (in force 2007) Bangladesh, India, Myanmar, Sri Lanka, Nepal, Bhutan (negotiation 2004)	Australia (in force 2005) Bahrain (framework agreed 2002) Croatia (proposal 2001) Czech Republic (proposal 2001) Peru (signed 2005) India (signed 2003) USA (negotiations 2004) New Zealand (in force 2005)
Malaysia		Japan (in force 2006) China (in force 2000) Korea (negotiations)	Pakistan (in force 2008) India (negotiations) USA (negotiations) Chile (negotiations) Australia (negotiations) New Zealand (negotiations)
Indonesia		Japan (in force 2008) China (in force 2004)	
Philippines	Brunei (in force 2008)	Japan (in force 2008) China (negotiation)	USA (proposal 2002)
Vietnam		Japan (signed 2008)	
Laos	Thailand (in force 1991)		
Brunei	Philippines (in force 2008)	Japan (in force 2008)	

Although the timing of the post-AFC rise of trade "regionalism" has coincided with that from the financial/monetary side, the regional trade architecture exhibits strikingly different features in several ways from the regional financial architecture discussed above. The first is the specificity of "regional" membership, which is very clear in the form of ASEAN Plus Three in finance, is not clear in trade. The FTAs thus far have been dominated by bilateral agreements, and many of the early FTA partners for those East Asian governments are from beyond the immediate region (Solis and Katada 2007). Furthermore, as expanded below, an East Asia-wide FTA is yet to emerge. Second, partly due to the bilateral (or hub-and-spokes) nature of those FTAs, but also due to different positions (especially developed versus developing countries) and approaches to FTAs, the rules and standards of FTAs are not at all standardized in the region. For example, the

FTAs signed between Japan and its partners have a significant portion of WTO plus agreements such as those that cover investments and technical cooperation, while those very same partners will then sign FTAs with China without any of those items.

The partner selection and the clash over the appropriate membership of the region-wide FTA in East Asia are intriguing features. Contrary to the conventional argument carried out by international relations scholars (Milner and Mansfield 1999), the collection of FTAs thus far has not translated into "regionalism" for East Asia. The "spaghetti bowl" of FTAs that crisscross within and outside East Asia has become a challenge to East Asian integration due to complex and conflicting rules of origin, cumbersome transactions throughout the region, and the lack of top-level management function (Dent 2006; Baldwin 2006). Despite the calls to create "a broad Asian FTA" from regional academics, think tanks (Kawai and Wignaraja 2008) and some government officials (such as those in METI in Japan), as the discussion towards the regional FTA demonstrates below, no convergence of the vision and approach toward East Asia's region-wide FTA has emerged. So far, the closest arrangements to the region-wide FTA in East Asia are the multiple ASEAN Plus One FTAs where ASEAN has FTAs with China (framework agreed in 2002), Japan (2008), South Korea (2005) and India (2008) respectively.[32] The lack of trade agreement among China, Japan and Korea contributes to the fragmented FTAs in East Asia.

A coherent region-wide FTA strategy for East Asia is yet to emerge, and the fact that three competing region-wide FTA proposals have been put on the table since 2006 indicate the difficulty of defining membership. China has constantly been in support of an FTA in the context of ASEAN Plus Three, and it tries to push the scheme as a supporting report was presented at the ASEAN Plus Three Economic Ministers' meeting in August of 2006. During the same month and at the East Asian Economic Ministers' Meeting, the Japanese government revealed its proposal to create a free trade area among the ASEAN Plus Six (Japan, China, South Korea, India, Australia, and New Zealand). This idea of constructing Comprehensive Economic Partnership in East Asia (CEPEA) is still at a feasibility study stage, but series of discussions and presentations are all lined up in the context of East Asian Summit.[33] Finally, the old "competing logic of regionalism" (Ravenhill 1995) raised its head again as the then-U.S. President George W. Bush proposed the Free Trade Area of the Asia Pacific (FTAAP) at the annual APEC meeting in Vietnam in November 2006. Both a part of US policy makers as well as the APEC itself were looking for ways to reenergize APEC as a way for the United States to "move back to Asia." According to Bergsten (2007), a vocal supporter of the FTAAP, not only does this arrangement provide the largest free trade area in the world, but it would also impose huge pressure on the WTO to move its Doha Round forward. The FTAAP would also solve the "spaghetti bowl" phenomena of numerous and disjointed bilateral FTAs that emerged in the Pacific Rim as it ties all the APEC member countries into one free trade Area.[34]

Besides, the increasing number of cross-regional FTA partners has also influenced the regional FTA dynamics (Solis and Katada 2007) where East Asian governments have used cross-regional FTAs as their political leverage to negotiate FTAs intra-regionally. The governments of Japan and South Korea among others have gained political leverage through the on-the-job training that the government officials attainted through engaging in FTA negotiations with more experienced Latin American or European counterparts, and by creating domestic precedents to negotiation regional FTAs more aggressively without being constrained by domestic politics (Katada and Solis 2008a, 151-155). Particularly for relatively small countries like Singapore or Korea, establishing an FTA with the United States where these Asian countries can not only acquire preferential access to the largest and most important market in the world, but they can also increase their prestige and leverage of becoming the regional trade hubs (Koo 2007; Terada 2009).

Beyond the membership and partnership, East Asia houses FTAs with different characteristics and issue coverage, which make the overall FTA picture in the region quite inconsistent. First of all, the coverage of tariff lines for liberalization through FTAs varies significantly. Categorized as a developed country in the context of the WTO, the Japanese government is obliged to comply with GATT article 24, which demands that any preferential trade arrangements cover "substantially all trade" among the signatories. Japanese government officials are very conscious of the obligation, which require the FTAs that Japan signs to liberalize at least 90 percent of import value.[35] Meanwhile, FTAs among developing countries in East Asia, most notably China, can avoid such constraint by invoking the GATT's "enabling clause" that allows favorable treatment of developing countries. China's FTA with ASEAN that originally covered only trade in goods, and its "Early Harvest Program" in particularly, is only possible among developing countries.

The second variation is the importance of so-called WTO plus agreements through an FTA. From its first FTA with Singapore, the Japanese government preferred to call its arrangement an "Economic Partnership Agreement (EPA)" because it covers issues that go beyond liberalization of trade in goods and services, and includes agreements on investment, government procurements, and movement of business and professional people, as well as technical cooperation in various areas such as improvements of the business climate. Although many of these new issues included the EPAs are non-binding, the Japanese government are quite keen on highlighting that those issues are integral part of Japan's FTA relationship (Katada and Solis, 2008a). Japan's EPA clearly reflects the demand of North-South FTAs, where issues such as investment protection and improved business environment are crucial for the Japanese businesses operating in these countries. Furthermore and as discussed below, the limited opening of Japan's agricultural market to those developing country FTA partners makes it imperative for Japan to provide more "carrots" in its FTAs with countries whose main competitive exports to Japan are agricultural products. Singapore also tends to pursue "high quality" FTAs with advanced countries so that the country becomes ready to influence the trade and FTA dynamics within ASEAN (Low 2008). On the other hand, not all the FTAs in East Asia have the same EPA characteristics. The issue of investment was originally not included in China-ASEAN FTA (Yang 2009), and Korea has just started to negotiate a separate investment agreement with ASEAN (Koo 2009).

Finally, the penetration of FTA standards prevalent outside the region is noticeable, as East Asian countries expand their FTA networks cross-regionally. Such influence is visible particularly when an East Asian government negotiates an FTA with the United States. Nonetheless, the "NAFTA-standard" can also be transmitted through FTAs with Latin American countries such as Chile or Mexico. The different FTA modality includes the use of negative list to cover service liberalization (while developing Asian countries prefer positive list), inclusion of liberalization in financial services, and insertion of many "behind the boarder" issues such as labor and environment standards. Certain East Asian governments, on the other hand, are interested in some distinct issues to be included through FTA negotiations. For Japan, the promulgation of investment rules in the context of FTAs, when various multilateral attempts via the OECD and the WTO failed, is the crucial objective (Keidanren 1999). For China, the pursuit of recognition by its trade partners is a crucial consideration (Yang, etc.). Finally, for many of those East Asian countries, whose exports are usually targeted by the anti-dumping disputes in the countries of major export destinations such as the United States and Europe, have utilized FTAs to tighten their control over domestic anti-dumping laws of the trade partners, the measure which those exporter governments see deficient in the WTO Anti-Dumping Agreement (Nakagawa,2009).

Therefore, eclectic partnership of East Asian FTAs not only creates "spaghetti bowl" in terms of network expansion, but it also creates inconsistency in terms of issues and modalities across FTAs.

The linkage and/or sequence between trade and finance/monetary affairs

Conventionally, the logical roadmap of regional integration highlights the synergy between or sequencing of regional trade integration and regional monetary union. The connection is important especially as the transaction costs of trade lowers with the cross-border barriers eliminated by FTAs, in turn increases the relative cost of currency risk. In addition, as the industries engage in active regional production and business network through foreign direct investment, restrictions on capital flows and financial businesses began to be felt more intensely.

Nonetheless, trade and financial architecture development has not thus far gone hand in hand in East Asia. Despite the similar timing of their respective rise, not only do the two have quite contrasting features as elaborated above, but there has not been specific connection or sequencing of the two issue areas. Beyond the obvious case of the European Union, there are various ways that trade and monetary/financial cooperation can be linked. One possible link that the United States in particular has used is to incorporate financial liberalization explicitly in its FTAs as a part of the treaty obligation. With its prominent strength in finance (despite the current downturn), the US government uses its FTAs (with the preferential access to the large US market "carrots") to demand the US financial industries' access to domestic financial market of its FTA partners. The US FTA with Singapore, for example, has allowed the American banks to obtain full access to the Singapore's retail market including unlimited number of "Qualifying Full Bank (QFB)" licenses and increased access to the country's ATM network. In addition, the United States managed to make the Singaporean government accept full liberalization of capital movement in and out of the country except at the time of severe balance of payments crisis (Saito 2005, 241-243).[36] Financial liberalization provisions are included in the US FTA negotiations with many Asian countries such as South Korea, Thailand and Malaysia. Despite a relatively high level of financial development, Japan has not pushed for such link. The EPA between Japan and Singapore has included a section on financial services, but this non-binding agreement is merely a promise to have regulatory cooperation through information exchange. With other less developed Asian countries such as Thailand, the Philippines and Indonesia, the Japanese government included financial services as a part of technical cooperation category of its bilateral FTAs.

On the other hand, the costs arising from the lack of monetary and currency integration in the region have not yet pushed East Asia to prioritize currency cooperation among the region's governments. The dollar dependence, which was considered partially responsible for the AFC, has continued in East Asia for the last ten years, and in many cases intensified as demonstrated by a massive accumulation of mostly US dollar-denominated foreign exchange reserves (about $4 trillion as of the end of 2008) among these countries, particularly Japan and China. Despite progress in regional financial and monetary cooperation, the areas that made most advances such as emergency liquidity programs and bond issues are not related directly to trade. Issues such as financial liberalization, abolishment of capital control within the region, macroeconomic policy coordination or common currency, which are all important in lowering transaction costs for regional free trade and investment, are all slow to emerge.[37] Thus it is safe to assess that the convergence of regional integration efforts in the areas of trade and financial/monetary affairs is long way off.

In sum, East Asia's regional integration efforts through institutionalization of trade and financial/monetary relations appear very fragmented. First, the analysis of emerging regionalism in East Asia demonstrates the contrast between the two sets of regional economic institution building, financial/monetary affairs and trade. East Asia has experienced the rise of both regional trade and financial institutions start about the same time, but each exhibits incomparable feature particularly in terms of the clarity of membership and coherence of rules established. East Asia's financial and monetary integration efforts have thus far established a clearly defined membership with loosely binding but coherent rules applying to all the members. Trade, on the other hand, have not yet managed to go beyond hub-and-spokes arrangements, where multiple intra- and cross-regional FTAs have produced "spaghetti bowl" of agreement-specific rules and eclectic partners and membership. Despite the possible efficiency and political gains in linking the two integration efforts for the major powers in the region, such connection has yet to be established.

The Source of the Contrast and Fragmentation: Analysis of Japan, Korea and China

The source of contrast between the two issue areas, trade and financial/monetary affairs, boils down to two major political aspect of regional economic institution building. One is the domestic politics of economic policy-making, which is starkly contrasting between the two issues, and the other is the nature of East Asian economy in the context of global economy. Domestic politics is always crucial in government's foreign policy making. As many scholars have reiterated, there exists a stark political cleavage between the winners and loser as the trade liberalization takes place (Rogowski, Frieden, Hiscox, etc.). For an economically advanced country with relatively low factor mobility like Japan, the winners are the large industries and the losers are especially agriculture.[38] Due to political, economic and social reasons, the agricultural lobbies that used to have dominant power in the Liberal Democratic Party (LDP) have now lost such monopoly of influence that used to bloc or slow liberalization of agricultural sector, and the sector is now subjected to more pressure to open.[39] Despite this gradual loss of political power among the agricultural lobby, however, the Japanese government has to move slowly and in a controlled manner as it engages in preferential liberalization, often choosing to engage in an FTA with small countries with limited agricultural threat at the expense of potential trade gains earned through FTAs with larger entities (Pekkanen, Solis, and Katada 2007). Often cited reasons as to why the Japanese government was successful in establishing its FTA with Singapore first was because of the virtual absence of agricultural trade issue between Japan and Singapore (Yoshimatsu 2006, 484). With this backdrop, a large scale preferential trade liberalization that would include a major agricultural produce such as China is so far difficult.[40] That constraint has thus far stunted any signs of FTA overture from Japan to China, despite the evidence that Japanese businesses have long preferred China as the country that they have an FTA the most (Solis 2009).

In addition, even the export industries have tendency to get activated in support of FTAs when they face losses, rather than when there are gains (Katada and Solis 2006). In the early stage of Japan's FTA ventures, Japanese Business Association, Keidanren, considered the FTA with Mexico to be its foremost priority (compared to one with Korea or Singapore) because certain major Japanese businesses, namely the automobile, home electronics and general trading companies, were facing immediate and tangible losses if the Japanese government could not score a preferential trade agreement with Mexico (Solis and Katada 2007). Corollary to this story, business lobbying in favor of expanded pie and lowered transaction costs by establishing a region-wide FTA was overshadowed by the resistance by the opponents and underprioritized as the urgency of losing sectors in partnership selection became prominent.[41] Nonetheless, overall framework of specific partner selection and tailoring of rules remain to be important dynamics due to those losing businesses that become energized only when the tangible losses impose a clear and present danger.

On the other hand, the financial and monetary affairs do not produce a clear domestic political cleavage, particularly when the issue is related to regional coordination. Even acknowledging Gowa's (1984) point about some financial policies, such as the "bail-out" decisions after a debt crisis, would incur strong domestic societal involvement, the cleavage regarding pro- and anti-integrationists is not at all clear. In such domestic political environment, Japan's policies are government-led and largely determined by the position taken by the MOF.[42] Such top-down (and autonomous) foreign decision making in the area of financial regionalism has been further intensified by the fact that Japanese banking sector was, one, cut off from the MOF jurisdiction since 1998,[43] and, two, went through its own massive restructuring process in the last decade after the failure of Takushoku Bank and Yamaichi Securities in 1997, along with the introduction of the "Big Bang" since the late 1990s. All those events have restricted financial sector's engagement in the government's policy making (Katada 2009).

Such domestic political logic evident in Japan works similarly in South Korea. The experience of the AFC and its associated reforms under the IMF has at least partially transformed the relatively insulated Korean economy to a relatively open one. Such transformation reduced Korean industries reluctance against trade liberalization, allowing its government to pursue FTAs so that it would not miss the FTA boat (Park and Koo 2007). Nonetheless, the opposition forces in Korea, the agricultural sector, fiercely disapproved the government's new move. The first FTA that the Korean government negotiated was with Chile, and not only did it take a long time to negotiate (from December 1999 to October 2002), but the government failed to ratify the agreement in August 2003 due to agricultural opposition. In order to pacify the violent backlash against the FTA, the Roh Administration had to pay $80 billion from public and private funds over the next ten years to the farmers and fishermen for their rescue (Koo 2008, 32-41). The most visible FTA for Korea, which is with the United States, has beef imports as one of the most controversial issues that triggered massive anti-FTA and anti-beef imports demonstrations in Korea June 2008.[44] Hence, for Korea, too, liberalizing its agricultural market is an essential part of its FTAs, because Korea qualifies as an advanced country (which needs to comply with the GATT article 24), and its industries would like to entice trade partners to open their market to Korean manufacturing products. Such domestic political dynamics constrain the Korean government as it chooses its FTA partners.

China, on the other hand, is not as constrained by agricultural interests in the same way as other two countries. Its political regime, however, is also penetrated by societal, regional and ministerial interests (Pearson 2005). Since the initiation of its reform and open door policy of the late 1970s, the Chinese society has gradually reformed and liberalized to balance out those interests. The country's economic reform in the face of long WTO accession process made the Chinese economy more ready than other two countries for FTA deals, as China had to prepare itself to be scrutinized by other WTO members for its "fair competition" and level of openness.[45] Furthermore, because of China's high dependence on foreign direct investment both from within and outside of the region and on exports, the Chinese government felt extremely vulnerable in the late

1990s, and began to utilize regional institution to control and stabilize its relations with the rest of the world.[46] In the aftermath of the AFC, the Chinese leadership embraced regional arrangements both in trade and finance as a forum for the country's geostrategic and geoeconomic maneuvering. The very strong push by the Chinese authority towards the regional free trade arrangement in the context of ASEAN Plus Three, and its past proposal for China, Japan, and Korea to have the "Plus Three" free trade negotiations have been based on those calculations. Furthermore, and more recently, the Chinese government along with large Chinese businesses realizes the use of legal measures to protect themselves as some of China-based companies venture abroad (Steinfeld 2008).

The eclectic rules and competing FTAs in East Asia emerge as the region's two hegemons, China and Japan, get driven first by such domestic logic. The rivalry between Japan and China in the area of trade also led those two entities to provides different sets of incentives (e.g. China, Early harvest, Japan access to investment and technical cooperation) to entice the "follower" countries in the region to be their partners and supporters. Nevertheless, the very fact that the East Asia's largest market lies outside of the region (i.e. the United States) limits both hegemons utmost power to define the coherent regional trade integration.

On the other hand, the cooperation between Japan and China has made the regional financial architecture possible. The AMF, the first regional financial initiative taken by Japan in the aftermath of the AFC, was rejected due importantly to China's opposition.[47] Since then, the Japanese government has been very attentive when it comes to consulting with the Chinese authority on regional financial matters. The ASEAN Plus Three forum that emerged in the immediate aftermath of the crisis has facilitated such collaboration. Given that both Japan and China have massive foreign exchange reserves and are in position to lend those out in case of regional need, the external hegemon would not have direct influence over the matter. The challenge and half-failure by the Japanese government to provide immediate solution to the AFC has driven its government to pursue, independently from the business interests, regional arrangements (Grimes 2009). China, too, sees the ASEAN Plus Three process in the area of regional financial and monetary architecture an essential system that provides protection for the country's still fragile financial system as the country slowly moves to inevitable capital account reform (Yu 2007; Chin and Helleiner 2008).

There are, however, differences of priority as to which elements of financial and monetary cooperation should precede most between the Chinese government and the Japanese government.[48] This would slow down the regional architecture building. Nevertheless, there is relatively high cohesion in agreeing to the basic points of regional financial and monetary cooperation.[49] In addition and as clearly observed through East Asia's reaction to the AFC, the construction of "us" versus "them" was quite easily accomplished in the world of finance. The consensus within the region then, which remains influential, is that the region needs to have a certain mechanism of economic insulation from the globalized financial forces (Grimes 2003; Helleiner 2000).[50] The actions in support of CMI multilateralization in East Asia in face of the current Global Financial Crisis provides further evidence to the case of regional financial insulation. Continuing efforts are under way to establish the region's own legitimacy towards maintaining regional financial stability without resorting to outside authority (e.g. IMF-link of the CMI).

Conclusion: Implications of Fragmented Regionalism

The analysis of politics associated with trade and politics of finance/monetary affairs related to East Asia's emerging regionalism presents interesting insights to explain how and why these regional integration processes do not follow the expected logical path. Fragmentation and incongruence of the regional arrangements in the two important economic areas demonstrates distinctive domestic and regional politics.

In the area of trade, the three Northeast Asian countries are very penetrated at the level of both domestic and regional politics. In domestic politics, pressure and influence of domestic interest groups, particularly of the ones fearful of or stand to lose in trade liberalization, move the government to take a tailored approach to preferential trade agreement. Though it has its own societal interests that penetrate the Chinese government, the Chinese leadership seems to be less constrained by such pressures and has more liberty to engage FTAs more strategically.

On the other hand, the state autonomy is much higher in the area of regional financial and monetary matters. The countries' monetary authorities, led by the external threat (such as the AFC), were able to collaborate so far on emergency funding arrangement in a region-wide ASEAN Plus Three framework. The status of the three Northeast Asian countries as trade surplus countries with large foreign exchange reserves also helps future regional cooperation as the three would be in the position to provide support in the form of foreign exchange and other funding assistance that would lead to the region's financial stability.

Finally, the limited link and sequencing of the two issue areas indicates, I would argue, a key to our understanding of East Asia's regional integration. The process of informal integration (or regionalization) through foreign direct investment, regional production and business networks is no doubt taking place in East Asia during the last two decades. But fragmentation of regional arrangement in various economic issue areas indicates a "missing link," that is an active involvement of the protagonists of economic regionalization in the process of regionalism. Munakata (2006b) might be right that the "politics have finally caught up with the markets" in turning to the region. But parallel movements in the two important economic areas of regional integration process suggest that the link is not so straightforward.

Endnotes

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[1] "East Asia" in this study is defined to cover both Northeast Asia and Southeast Asia. ASEAN Plus Three covers most of the countries in this region except Mongolia, North Korea, and Taiwan.

[2] In another effort to empirically ground the sequencing of FTAs to other types of regional cooperation agreements, Estevadeordal and Suominen (2008) examine 13,562 international agreements of the last 231 years (1875-2006) and conclude that "states cooperate disproportionately more in the domain of trade than in other domains (p. 129)," although they are hopeful of various spillover opportunities for further regional and bilateral cooperation.

[3] Rajan applies this decoupling idea to East Asia, as he analyzes the region's move towards an Asian Currency Unit (Rajan, 2008).

[4] Many favor the view in explaining the emergence of regional cooperation such as Acharya (2004) and Lee (2006).

[5] In a rare case when they are contrasted, it is argued that the domestic cleavage is much starker in the politics regarding trade policy than in financial or monetary policy (Gowa 1984).

[6] Hiscox (2001) synthesizes those two views and argues that this difference between class cleavage and industry cleavage comes from the level (speed) of factor mobility. When cross-industry factor mobility is high, industries adjust to open trade utilizing abundant factors, thus winner versus loser cleavage emerges based on the owners of factors of production (i.e. labor and capital) thus class. Meanwhile, when the factor mobility is low, each industry would become a winner or loser depending on its competitiveness in the open economy.

[7] Meanwhile, more flexible exchange rate (which would increase monetary policy autonomy for the country according to the Mundell-Fleming condition or the Unholy trinity of exchange rate stability and macroeconomic policy autonomy under the world of full capital mobility) would benefit import-competing producers of tradable goods when the exchange rate is low, and would benefit producer of non-tradable goods when the exchange rate is high.

[8] Helleiner (1994, 302-303) has a nice summary of this contrast in collective action problems in trade and finance. The logical conclusion from such dynamics is that it is easier to obtain liberal financial order than the trade one.

[9] Hamilton-Hart (2003) argues that because of the lack of government capacity to supervise and regulate financial transactions, it is difficult for those countries to participate in some regional financial initiatives.

[10] See Kindleberger (1986) on the role of the "leader" in maintaining public good provision.

[11] The Chiang Mai Initiative takes its name after a town in Northern Thailand where ASEAN Plus Three meeting was held in 2000, during which the CMI proposal was made. It took two more years for most of the bilateral swap arrangements to be negotiated and agreed.

[12] Note, though, the less advanced and new ASEAN members (Vietnam, Cambodia, Laos and Myanmar) are only covered by the ASA, and do not have bilateral lines of currency swap with the "Plus Three" countries.

[13] The multilateralization process started in May 2007 when the monetary authorities of the member countries agreed at the ASEAN plus Three Finance Ministers' meeting in Kyoto to gradually establish "a self-managed reserve pooling arrangement governed by a single contractual agreement." (Point 6 of the Joint Ministerial Statement of the 10th ASEAN+3 Finance Ministers' Meeting, available: http://www.mof.go.jp/english/if/as3_070505.htm accessed November 15, 2007). At the 11th ASEAN Plus Three Finance Ministers' Meeting in Madrid in May 2008, the 13 members agreed then to move forward with the multilateralization as they commit to discuss specific conditions on "economic surveillance, borrowing accessibility, activation mechanism, decision making rules and lending covenants." (Point 6 of the Joint Ministerial Statement of the 11th ASEAN+3 Finance Ministers' Meeting, available: http://www.mof.go.jp/english/if/as3_080504.htm accessed February 1, 2009).

[14] Chey (2009) compares the success of the CMI to the failed AMF and argues that cooperation between Japan and China is the key for the success of regional institution building in the CMI.

[15] An interview with a Ministry of Finance (Japan) official in June 2009.

[16] The IMF-link was later reduced to 80 percent at the 8th ASEAN Plus Three Finance Ministers' meeting in Istanbul in 2005. The Chinese government is said to have insisted on the IMF-link not only for the two purposes discussed, but also to curtail the power of the Japanese government in influencing the CMI development.

[17] The AMF alleged to have failed partly due to the view that it would be challenging the IMF authority.

[18] The point 9 of from the summary of the statement at the 12th ASEAN+3 Finance Ministers' Meeting, Bali Indonesia, 3 May 2009.

[19] The agreement of the amount of contribution between China (32 percent including the contribution from HK) and Japan (32 percent) was the key to settling the multilateralization process. Furthermore,

the strong need to financial monitoring was felt as the Korean government refused to acknowledge that it was facing a balance of payment crisis (thus not request to activate the CMI) in the fall of 2008. Interview with an MOF official, June 2009.

[20] The first of such bilateral swap arrangement was between Japan and South Korea on December 12, 2008 that added $17 billion worthy of JPY/KRW swap besides the existing $87 billion in CMI. South Korea also added $10 billion to its swap with China. Beyond that, the Japanese government has committed $60 billion (worth in Yen) swap lines within Asia, while China is reported to have committed $95 billion (in RMB) worldwide.

[21] Anthony Rowley, "Asian Bond Market Plan Faces Hurdles," *The Business Times*, Singapore, January 20, 2003.

[22] Currently, ABF3 is being discussed. The third phase of ABF aims at providing credit enhancement to sovereign and private Asian bonds (Business Times Singapore November 16, 2005).

[23] http://www.mof.go.jp/english/if/reiognal_financial_cooperation.htm.

[24] The six working groups are: New securitized debt instruments (WG2), Credit guarantee and investment mechanisms (WG2), Foreign exchange transactions and settlement issues (WG3), Issuance of bonds denominated in local currencies by Multilateral Development Banks (MDBs), foreign government agencies, and Asian multinational corporations (WG4), Rating systems and information dissemination on Asian bond markets (WG5), and Technical assistance coordination (WG6).

[25] IIMA (2004).

[26] Both of them have already been involved in regional financial cooperation from Japan; Kawai as an economics professor and former deputy vice-minister of international affairs of the MOF, and the director of MOF-affiliated Policy Research Institute from the late 1990s into the early 2000s. Kuroda has been the high ranking MOF official, working as the vice-minister of international affairs until shortly before his appointment to the ADB presidency.

[27] *Nikkei Shimbun*, May 5, 2006.

[28] The former Prime Minister of Japan, Yasuhiro Nakasone (2009) argues strongly in support of Asian currency.

[29] APEC is an institution that is very difficult to categorize as a "regional" institution. Not only does it encompass 21 countries from Australia, to Malaysia, to China, to Russia, to the United States, to Peru and Chile, it does not operate under the same binding obligations as the typical FTAs do. In addition, under its "open regionalism" principal, the APEC members make their agreement consistent with the GATT/WTO, and extend the preferential trade access not only to its members but also to non-members.

[30] Baldwin (1997) discusses the "domino theory" of preferential trade agreements, where industries of countries that are excluded from the FTA network will lobby hard to get their government to launch FTAs as not to suffer from trade diversion. Solis, Stallings and Katada (forthcoming) find that competitive pressure both economic and political triggered many East Asian governments to rush into FTAs, thus leading to FTA proliferation.

[31] For a good summary of the FTA boom in East Asia, see Munakata (2006a, Chapters 6 and 7).

[32] ASEAN also signed a close economic partnership agreement with Australia and New Zealand in 2002.

[33] Information on the CEPEA available from METI (http://www.meti.go.jp/policy/trade_policy/epa/index.html)

[34] Bergsten (2007, p. 3-4). Aggarwal consistently criticizes the FTAAP as the US' misguided trade policy to subvert East Asian integration efforts, and that it would have detrimental effect on the global trade liberalization efforts at the WTO (Aggarwal 2007).

[35] An interview with a custom official at the Ministry of Finance, Tokyo Japan, July 2008. The major caveat of interest is that since rice is hardly ever imported into Japan, the Japanese government justifies exclusion of rice from liberalization items without violating Article 24.

[36] Here, although Singapore managed to maintain the right to impose capital control, the Annex 15A.1 of the FTA includes a right for the injured party to sue the Singaporean government when such control is imposed.

[37] East Asia has dramatically increased the amount of intra-regional trade, and by the mid 1990s the amount of intra-regional trade surpassed 50 percent of those countries' overall trade. This is way higher than the ratio of intra-regional trade among the Americas. See Asian Development Bank, 2008; p. 11.

[38] For more on Japan's trade politics, especially with the focus on agriculture, see Christina Davis (2003) and Aurelia Mulgan (2005).

[39] The reasons include the demography (farming population constantly on the decline), 1994 electoral reform, the impact of Koizumi's reform, and emergence of *Naiatsu* (internal pressure) (Mulgan, 2005).

[40] In my interview with an official at the JA Zenchu (the political wing of Nokyo, the agricultural cooperative) revealed that Japanese agricultural sector is much more worried about opening itself to countries like the United States, Australia, New Zealand and Canada, the countries which house mass-production agricultural industry with significant level of government subsidies than any of the countries (China and India included) in Asia, whose (relatively inefficient) agricultural production remain quite similar. Interview with an Zenchu official, Tokyo, Japan, July 2008.

[41] A METI official, Sekizawa (2008) discusses the shift in Japanese politics from the one influenced heavily by lobbying by private actors to that in pursuit of public interests. Even politics of FTAs,

which appear to be influenced by business interests, are more the product of the shift in domestic perception and public opinion rather than special interest lobbies.

[42] Grimes (2009) also analyzes East Asian financial cooperation of the last decade with strong realist assumptions.

[43] Japan's domestic financial crisis along with the regulatory failures (and corruption) on the part of the MOF led to Financial Supervisory Agency (FSA) bill to pass in Diet in 1997, which separated the financial regulatory bureaus of the MOF (Securities Bureau, Banking Bureau and Financial Inspection Department) to create a new agency (FSA) in June 1998.

[44] This massive demonstration emerged as the Korean government lifted five-year old beef import ban from the United States due to the discovery of mad cow disease. It is discussed, however, that the part of the protests were in support of Korean beef producers (The Straits Times May 27, 2008).

[45] It took China almost 15 years since its initial interests to join the GATT to the access to the WTO in 2001.

[46] Komori (2006, 124) argues that such sense of vulnerability emerged from various sources ranging from China's post-Tiananmen isolation, to strengthening of the US-Japan alliance in the aftermath of 1996 Taiwan election, to AFC the NATO bombing of the Chinese Embassy in Belgrade in 1999.

[47] The early opposition partially came from the fact that the Chinese authority was yet to be convinced of the severity of the regional financial crisis at the time of Japan's proposal, but it was also due to the fact that the Japanese government consulted with the Hong Kong Authority regarding this proposal before contacting the Chinese government in Beijing (Amyx 2005)

[48] See Katada (2003). Tsebelis and Garrett (2001) discuss the different priorities among the major powers in the European Union by applying the game theoretic model of the "battle of Sexes."

[49] Interview with a MOF official, June 2007.

[50] Hiwatari (2003) argues that the differences in preferences of the member countries on the regional financial arrangement depending on their respective financial system features (prominence of direct versus indirect finance) and capital account position (capital inflow dependent versus capital supplier) lead to incoherence in the regional financial arrangement. I would argue, however, that the very composition of countries with contrasting capacities and needs would help establish a coherent regional arrangement.

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Books

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