

## Regionalism and Critical Junctures: Explaining the “Organization Gap” in Northeast Asia

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Northeast Asia, where the interests of three major nuclear powers and the world’s two largest economies mingle around the unstable pivot of the Korean Peninsula, is a region rife with political and economic uncertainties. It is arguably one of the most dangerous areas in the world, plagued by security problems of global importance, including nuclear and missile proliferation. It has, to be sure, been widely touted as a region of economic promise. Yet despite Northeast Asia’s demonstrable economic success at the macro level, and a panoply of highly regarded individual economic managers at the micro level, its collective economic management has nevertheless been disappointing.

Japan, China, and Korea trade massively with the outside world and remarkably smoothly, considering the scale of the transpacific imbalances in particular. Yet these nations periodically suffer turbulent and bitter trade spats with one another, such as the Garlic War of 2000 between South Korea and China, and the Tatami War of 2001 between China and Japan. On the environmental front, intraregional relations in Northeast Asia have likewise been delicate and singularly devoid of coordination, as the history of acid rain and the ocean-dumping of nuclear wastes so clearly and unfortunately demonstrates.

Northeast Asia’s distinctive organization gap—its absence of multilateral coordination structures needed to address emerging financial and cooperative security challenges—lies at the heart of these difficulties and has impeded their resolution.<sup>1</sup> Seen in comparative regional perspective, Northeast Asia has the most pronounced formal organization gap of any area, as well as a growing inadequacy of long-standing informal alternatives. It is clearly dysfunctional from many perspectives, yet the gap stubbornly fails to close.

This organization gap prevails despite dynamic, rapidly deepening, market-driven integration and persisting security perils that are extreme and that demand clear collective action. In contrast to Western Europe, Southeast Asia, the South Pacific, and even the Middle East, Northeast Asia has never had a formal regionwide multilateral security structure, despite the manifest dangers of its situation. Until the late 1990s it was virtually devoid of regional economic and environmental organization as well. Even the Middle East, Africa, and the Mediterranean Basin—fractious areas all—were more organized.<sup>2</sup>

From a functionalist perspective, the organization gap is a rising handicap to Northeast Asia, as regional economic interdependence grows, amid continuing political and financial uncertainties. Multilateral institutions have prospective utility in addressing intraregional market failures in both the economic and cooperative-security spheres. Dual market failures within the region in security and finance—illustrated by the Korean War and the Asian financial crisis, in particular—have clearly inhibited regional stability and growth in the past. Yet such malfunctions could grow even more perverse and threatening in the future.

Looking forward, intraregional multilateralism could be important in dealing with potential financial contingencies relating to Chinese political-economic restructuring or the possible reunification of Korea. On the security side, the absence of an institutionalized multilateral mechanism for addressing regional security issues remains one of the major obstacles to a resolution of the North Korean nuclear crisis. The six-party dialogue emerging in 2003 to resolve that crisis has begun to enhance regional networks for security collaboration, as have Track II mechanisms such as the Committee on Security Cooperation in the Asia-Pacific (CSCAP). Yet the collapse in 2002 of the 1994 Agreed Framework among the United States, the two Koreas, and Japan underlines the continuing vulnerability of multilateral security institutions, in the face of manifest and urgent need for their strengthening, as evident in the challenge of North Korean nuclear development.

How did the organization gap come into being? Why has the gap narrowed in the late 1990s, in the way and with the timing that it has done so? This article presents a parsimonious answer to these questions, central to understanding the apparent contradictions of Northeast Asian regional organization, introducing and operationalizing the concept of *critical junctures*. Before developing that notion and exploring its utility, however, it is important to understand the explanatory gap that needs to be filled.

### Current Explanations

Serious scholarly efforts to explain the organization gap in this region tend to emerge from two main paradigms. The realist tradition stresses the geostrategic origins of the gap. The contrasting historical institutionalist school explains the gap in terms of institutionalized norms and culture.<sup>3</sup>

According to realists, power distribution determines the profile of regional institutions. Power distribution in Europe has traditionally been quite even among major powers, and hence more conducive to formal, multilateral arrangements within the region. In Asia, however, China is considerably bigger and more centrally located than the other countries, making that region ostensibly “hegemony-prone.”<sup>4</sup> Given China’s long shadow and the countervailing power of the United States, realists argue, this hegemony bias persistently inhibits the emergence of serious intra-Asian regional cooperation.

Whether the existence of hegemony precludes the development of regional institutions is debatable, however. A hegemon with the power to decisively shape regional arrangements may choose institutions over direct suasion to manage a region, as the United States did in the Atlantic after World War II; a constitutional global order organized in terms of rule-based institutions has its intrinsic value for both the governor and the governed, it is argued.<sup>5</sup> The differing U.S. strategies for managing U.S. relations with Europe and Asia—both of which it dominated—show that power distribution alone cannot explain the organization gap in Northeast Asia. A dominant U.S. hegemon could—and did, after all—promote regional institutions elsewhere in the world. And it considered doing so in Northeast Asia at some periods and not at others.

From a different perspective, Gil Rozman suggests that the precondition for formal institutions is great-power balance. Such balance has never been enduringly present in Northeast Asia, due to the complicated geopolitical relationships among Russia, China, Japan, and the United States,<sup>6</sup> he argues, making it difficult for regional organizations to emerge. This argument cannot avoid considering the deepening economic complementarity among the countries of this region. Among the big powers, Russia has huge reserves of energy nearby, including nearly one-third of the proven natural gas reserves on earth.<sup>7</sup> China has the largest labor force and potentially the largest market in the world, and Japan has the largest pool of national savings anywhere. South Korea can and is playing a proactive, catalytic broker’s role.

Clearly, the four countries have enormous potential to gain from regional cooperation with one another. Such cooperation is made even easier by the emergence of crosscutting global and subregional linkages, formal and informal, including the World Trade Organization (WTO). These reduce the potential costs to third parties of any regionalist configuration—a nesting phenomenon that Rozman apparently does not recognize.

Historical institutionalism<sup>8</sup> focuses on the determining role of pre-existing organizational structures. This approach attributes considerable power to institutions not only in constraining decisionmakers but also in fundamentally altering their basic interests.<sup>9</sup> Its approach to institution-building stresses interlinkage among existing institutions, positing that new institutions are a function of prior institutional settings.

The scholars in this tradition stress that the forms and scope of current institutions are the unintended spillover of preexisting institutional settings. And the future development of institutions is allegedly constrained by their configuration at any given point in time. As a consequence, institutional development becomes a predetermined outcome of existing institutions, rather than a product of individuals interacting with each other and their broader environment.

Employing this approach, Peter Katzenstein presents a widely cited framework to explain the organization gap in Asia.<sup>10</sup> He argues that two institutional features of Asian countries contribute to the lack of formal regional institutions: (1) hierarchic state-society relationships; and (2) distinctive state structures. He argues that in Asia the concept of community, especially horizontal and associational community, is underdeveloped. “The Western concept of community is often associated with organized and institutional structures, but there is no equivalent Chinese translation for this notion,” he maintains.<sup>11</sup>

Katzenstein simultaneously argues that “some state structures are better suited than others to deal with public law and formal institutions as the preferred vehicle for regional integration.” The nations suited institutionally to formal regionalism, in his view, are “highly rationalized forms of bureaucratic and legal rule-based Weberian states.” In Asia, by contrast, “nations are shaped by the legacy of universal empires, regional kingdoms, and sub-continental empires,” he argues.<sup>12</sup>

Have domestic state-society relationships and state structures produced the organization gap in Northeast Asia? Do particular institutional or cultural attributes of a given region or subregion—prevailing institutionalized norms—determine the profile of institution-building within? If so, why does one find a relatively advanced pattern of regionalism in

Southeast Asia, but much less organizational coherence a few hundred miles farther north? If so, why did regional institution-building accelerate in the wake of the 1997 Asian financial crisis?

The evidence is insufficient and contradictory. If we consider Western Europe as the standard of regional development, we do see a unique combination of cultural attributes and institutional development there. Yet if we take a broader and more comparative view of regionalism, also considering Southeast Asia, Latin America, and North America, some of these regions also have highly developed formal institutions.<sup>13</sup> Similarly, the institutional context in Asia has not changed markedly from its features prior to the 1997 crisis, yet efforts to institutionalize regional cooperation have taken on more formal and multilateral momentum.

In brief, neither realism nor historical institutionalism alone can explain either the origin of the organization gap in Northeast Asia or its recent narrowing. In the following section, we introduce the *critical juncture framework* as a key explanatory variable. We argue that individual decisionmaking at critical historical points is crucial in shaping the ultimate institutional product. In particular, we focus on the central role of critical junctures in affecting the configuration of new regional organizations or networks for regional cooperation.

This framework stresses the dynamic interaction among *individual decisionmakers* at decision points where institutions have the potential for major change.

Domestic interests and foreign policy considerations, to be sure, frequently help to shape ultimate institutional profiles, as do culture and perceptions, in a more indirect way. Yet all these broader background determinants can operate *only through the concrete actions of individual decisionmakers*, who make choices among a menu of options. Their behavior *cannot* thus be considered *determined* by preexisting institutions at these fluid points of decision.

In developing the critical juncture approach, we thus attempt to synthesize insights from both historical institutionalist and rational choice models. Historical institutionalists have directed our attention to persistent legacies from the past, which clearly affect the context of individual decision. New structures of the game, however, can and do emerge from strategic bargains among individuals, especially in a fluid period of crisis and uncertainty.

The rational choice approach has the clear merit of capturing the significance of individual decisionmaking. Yet it too easily falls into the converse trap of assuming that individual bargaining over new arrangements occurs on a tabula rasa, without regard to entrenched understand-

ing and institutional context.<sup>14</sup> In using the concept of critical juncture, we describe and conceptualize the process by which rational actors *alter* their goals and perceptions in response to uncertainty, and *bargain* in dynamic ways, often producing outcomes at substantial variance from the embedded historical-institutional context. We hope, in the process of testing this eclectic concept, to attain deeper insight into the Northeast Asian organization gap, regionalism, and political development more generally.

### The Critical Juncture Framework

The critical juncture framework here is developed against the backdrop of a stream of institution theory in comparative politics. These specialists maintain that individual leaders' choices at critical decision points are crucial in determining the form and function of subsequent institutions.<sup>15</sup> Evidence to support such a position is substantial. In the sparse comparative regionalism literature, the evidence for crisis-driven integration is substantial, without being fully specified or theorized.

Among comparativists, Sidney Verba, Stephen Krasner, and Stephen Skowronek, among others, all integrate some role for individual volition in their conceptual schemes. These authors emphasize the importance of discontinuity and individual choice at a critical decision point in a state's institutional development. Verba, for example, notes that political development follows a branching-tree pattern.<sup>16</sup> Krasner offers a punctuated equilibrium paradigm<sup>17</sup> for conceptualizing state-building, whereas Skowronek stresses the importance of crisis to domestic institution-building.<sup>18</sup> In other words, the on-the-spot interplay between *events*, on the one hand, and the *parameters* that determine the incentives of decisionmakers at a critical juncture, on the other, has important causal impacts on the institutional outcome of a crisis. Preexisting institutions alone *cannot* determine this outcome.<sup>19</sup>

From a comparative regionalism perspective, Joseph Nye has studied political integration in Africa compared with the experience of the European Economic Community. He finds "accidental factors" critical in shaping regional integration, arguing that "a 'catalyst' may be almost a necessary condition for integration."<sup>20</sup> Nye's notion of catalyst is similar to the concept of critical juncture presented here, in that both stress discontinuities in institution-building and the importance of external shocks in galvanizing policy outcomes. The critical juncture framework, however, explains *how* external shocks (crises) can act as a cat-

alyst that individual decisionmakers can use to create institutions, and what specific impact *processes* can have on outcomes. Its explanatory power thus goes beyond the simple notion of catalyst.

The *eclectic* critical juncture model contrasts significantly with both the realist paradigm and historical institutionalism while retaining insights from each. Differing from a realist paradigm that aggregates to a higher level of analysis, the model captures the individual-level dynamics in negotiations and interactions at major turning points. Power distribution and position in the international system, after all, do not directly control payoff structures, bargaining routes, or information flows of an interactive game among individuals, even those representing nations.

A critical juncture contains the element of time pressure. As a consequence, leaders of smaller countries with less complex decisionmaking systems can often enjoy leverage in their negotiations over a larger power with more cumbersome processes. The dominant power can thus be forced to accept a “satisficing” outcome in preference to a more ideal result, given its own distinctive, asymmetrical need to conclude bargaining in a timely fashion.<sup>21</sup> As a result, the dominant power can at times paradoxically fail to get what it prefers at a critical juncture, even when a range of alternatives is seemingly available.

Thus the critical juncture model differs from the historical institutionalist approach while appropriating many of its insights. The latter stresses determinacy in institution-building, whereas the former captures the profound *contingency on events* that is characteristic of critical junctures. Historical institutionalism focuses on the institutional context of decisionmaking, while the critical juncture framework recognizes the relative autonomy of individual decisionmaking, especially the processes of interaction among individual policymakers, and the profound impact that such voluntarism can ultimately have on institutional outcomes.

Again, existing institutions are important *contextual elements* of a critical juncture. Yet due to the distinctive, indeterminate nature of such junctures, institutions by definition cannot determine the outcome of such situations. The outcomes are usually contingent on individual decisionmaking—and the *process* through which individual preferences are determined and aggregated, even though that process is spontaneously haphazard, as Graham Allison has pointed out.<sup>22</sup>

*Policymakers*, accordingly, have various means and resources to modify context and to seek better payoffs. Their convergence on institutional approaches, bilateral or multilateral, is largely determined by the process of *personal interaction* at a critical juncture, although

domestic political-economic interests are often an important background factor, mediated through leadership perception and weighing of alternatives. The institutional product of this critical juncture interaction is stabilized, codified, and then shapes the future profile of institutional cooperation in a given region. The form and scope of regional cooperation thus established are perpetuated until another crisis occurs at a subsequent critical juncture.

To better illustrate the critical juncture framework, Table 1 summarizes the differences and similarities between historical institutionalism and the critical juncture framework.

Then what *is* a critical juncture? How can we identify a critical juncture if we see one? Here we define a critical juncture as a historical decision point at which there are clear alternative paths to the future. Specifically, for a decision point to be a critical juncture, certain defining features are both individually necessary and collectively sufficient.

Foremost, a *crisis* usually exists that calls the legitimacy of current arrangements into serious question. The arrangements can be formal, informal, institutional, or hegemonic; the crisis can involve a swift change of power distribution within a system, collapse of authority, or wars and other forms of violence. A crisis significantly alters the pre-existing bargaining context and opens windows of opportunity for

**Table 1 Critical Juncture Vis-à-vis Historical Institutionalism**

	Historical Institutionalism	Critical Juncture
Research Focus	Institutional context	Individual interaction
Temporal Emphasis	Time sequence	Time pressure
Historical Perspective	Lasting path-dependence	Discontinuous critical junctures
General Arguments	New institutions are by-products and unintended consequences of existing institutions	New institutions are products of leaders' creativity and innovations
Commonality	Both approaches see the importance of entrenched institutions and the process of political development Both pay attention to crises and significant events, considering those as important reference periods Both have a strong sense of temporality Both rely heavily on case studies and documentary analysis	

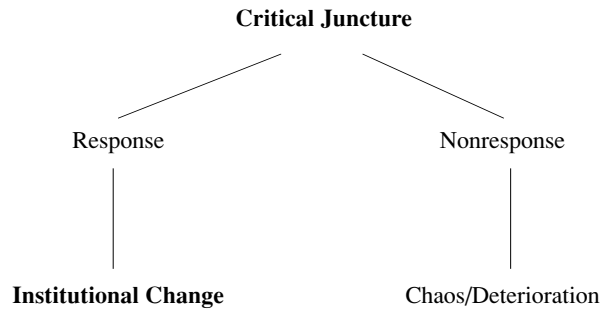


change. It also creates an initial impetus for interactions among key decisionmakers and signals the beginning of a critical juncture. Crises can be strategic, economic, or a mixture of the two: the Cuban missile crisis of 1962, the breakdown of the Bretton Woods system in 1971, the oil shocks of 1973 and 1979, the collapse of Soviet-bloc satellites in Eastern Europe in 1989, the collapse of the Soviet Union itself in 1991, and the Asian financial crisis of 1997 all qualify.

Second, a crisis breeds *stimulus for change*. Yet it also generates a parallel need for collective action to address a *common problem*. Initial impetus typically creates differing incentives for policymakers, who have diverse preferences and leverage, defined by “states’ international capabilities, domestic coalitional stability, and elite beliefs and ideologies.”<sup>23</sup> *Individual leadership is clearly crucial in translating pressures for change into the reality thereof*. New systemic characteristics, however, can emerge from the need for collective action—for instance, social networks, political opportunities, and transformed structures of transnational relations. These factors can in turn further affect national leaders’ perception of interest, as well as their capability to coordinate and communicate with one another, leading to accelerating institutional changes that affect policymaking long after a critical juncture is passed and that constitute important legacies for the future.

Third, there is intense *time pressure* on the parties involved. Time pressure is a crucial element in a critical juncture. It enhances the role of key individual decisionmakers, makes interactions hard to routinize, limits time available to search out options, and reduces the ability of interest groups to dominate outcomes. As the concept of the fog of war suggests, decisionmakers are forced into sudden, high-stakes decisions under extreme circumstances. They are forced to interact to produce a solution within a sharply defined and limited period, beyond which the opportunity for change presented by a critical juncture may be lost. Especially when the political agenda of individual policymakers and their limited power on a given issue are taken into consideration, the pressure on them to negotiate a workable framework overrides the pursuit of an optimum outcome. They thus confront strong pressures toward satisficing. Additionally, time pressure for problem resolution facilitates the efforts of individual leaders to form domestic political coalitions under the stimulus flowing from a crisis, increasing their leverage and generating an esprit de corps that creates or reinforces the cohesion of elite interpersonal policy networks.

There are certainly instances where critical junctures do *not* produce significant institutional changes. Opportunities for breakthrough are

**Figure 1 Critical Junctures and Institutional Change**

occasionally lost, due to lack of foresight, information, and leadership. Critical junctures have an action-forcing quality, yet individuals in key positions may not respond to the challenges they confront. Institutional and political-economic pressures cut in complex, conflicting directions, thus making outcomes significantly dependent on the nature of critical junctures themselves. Figure 1 demonstrates clearly the *indeterminate* relationship between critical junctures and institutional change.

### Critical Junctures and Northeast Asian Regionalism

The significance of critical junctures in regional institution-building is more compelling in Northeast Asia than in most parts of the world, for a variety of domestic and international reasons unrelated to the organization gap itself. On the domestic side, political systems are bureaucratized and often fragmented, with a bias toward routine that makes crisis decisionmaking central to policy change.<sup>24</sup> Corporations are often highly leveraged, making them particularly vulnerable to political and economic uncertainties that affect availability of capital. These corporate vulnerabilities in the face of political-economic uncertainty, and their perverse national and international implications, were clearly demonstrated in Japan and South Korea during the Asian financial crisis of 1997–1998.

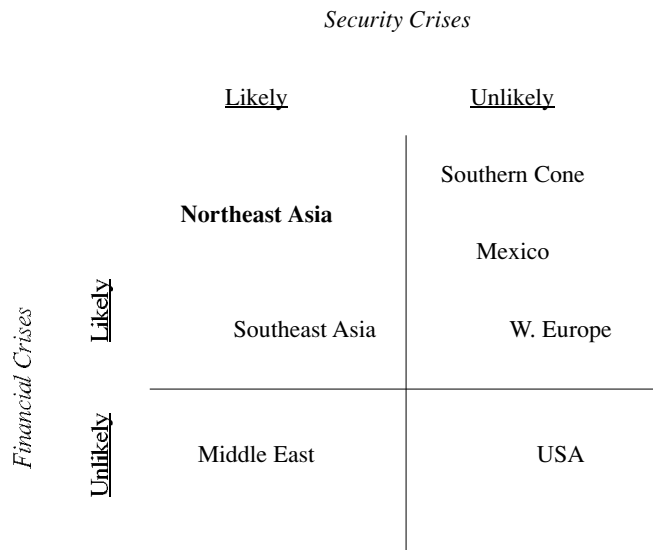
Two deep political-economic traits of Northeast Asia in its international context further enhance the unusual importance of critical junctures in defining the face of that region. First of all, security pressures, including the danger of war, are unusually salient. A Korean conflict, a

North Korean collapse, proliferation of missiles and weapons of mass destruction, the Taiwan Strait confrontation, and Sino-Japanese geopolitical rivalry are all significant dangers. As noted, Northeast Asia is comparable only to the Middle East in its panoply of security uncertainties.

In addition, distinctive structural features of the regional financial system enhance regional propensity to financial crisis. These vulnerability factors include lack of transparency, weak financial institutions, and dependence on real-estate collateral, in addition to corporate leverage. Propensity toward financial instability has been compounded since the early 1990s in South Korea—as it may be affected in China in the future—by neoliberal reforms that have been steadily enhancing dependence on the volatile global economy.<sup>25</sup>

Critical juncture analysis, it must be emphasized, does *not* contend that economic and security crises must *simultaneously* occur to provoke major political-economic transformation. Yet when these factors interact—either explicitly or implicitly—the prospects for major change are enhanced. Only in Northeast Asia, as suggested in Figure 2, does one routinely find this prospectively potent recipe for crisis-driven critical junctures: security tensions combined with financial vulnerability. Hence

**Figure 2 Northeast Asia’s High Prospective Concentration of Critical Junctures**



**Table 2 Critical Junctures as a Catalyst for Regional Organization in East Asia (1950–Present)**

Regional Organization	Preexisting Conditions			Critical Juncture			Outcome
	National Initiative	Geopolitical Rationale	Crisis	Individual Leadership	Time Pressure		
Pacific Pact (1949–51)	Yes (US)	Yes	Yes (China/Korea)		Yes		Failure
San Francisco System (1951–54)	Yes (US)	Yes	Yes (Korea)	Yes	Yes		Success
SEATO (1954)	Yes (US)	Yes	Yes (Indochina)	Yes	Yes		Initial success
MCEDSFA (1964)	Yes (Japan)	Yes (Japan)	Yes				Failure
ASEAN (1964)	Yes (SEA)	Yes (Vietnam War)	Yes	Yes	Yes		Initial success (problems with deepening)
ADB (1965)	Yes (US/Japan)	Yes (Vietnam)	Yes	Yes	Yes		Success
ASPAC (1966)	Yes (ROK)	Yes (ROK)	Yes				Failure—defunct 1974—anti-PRC
Asia Pacific Sphere of Cooperation (1967)	Yes (Japan)	Yes (Japan)	Yes				Failure
PAFTA (1967)	Yes (Japan)	Yes (Japan)	Yes				Failure—defunct 1968
PAFTAD (1968)	Yes		Yes				Partial success (consultative/nongov.)

*continues*

it is likely for Northeast Asia to have *either* security or financial crisis—or *potentially both*.

For a combination of domestic and international reasons—heavy corporate debt and highly bureaucratized domestic decisionmaking structures, combined with pronounced security and financial vulnerabilities—major policy innovation in Northeast Asia is thus highly dependent on critical junctures. In their presence institutional develop-

Table 2 continued

Regional Organization	Preexisting Conditions					Outcome
	National Initiative	Geopolitical Rationale	Critical Juncture			
			Crisis	Individual Leadership	Time Pressure	
PEC Concept (1960s)			Yes			Japanese track II—no progress
OPTAD (late 1970s)						
PEBC (1980)	Yes (US/Aus private sector)					Partial success (track II)
PECC (1980)	Yes (Japan/Aus private sector)					Partial success (track II)
WESPEC (1988)	Yes (Thailand)	Yes				Failure
APEC (1989)	Yes (Japan/Aus)	Yes				Partial success
EAEC (1990)	Yes (Malaysia)	Yes				Failure
AFTA (1992)	Yes					Failure
EAEC (1993)	Yes (Malaysia)	Yes				Failure
Asian Monetary Fund (1996)	Yes (Japan)	Yes				Failure
APT/Chiangmai (2000)	Yes (joint)	Yes	Yes	Yes	Yes	Success

Source: Peter Katzenstein and Takashi Shiraiishi, eds., *Network Power* (Ithaca: Cornell University Press, 1997), and supplementary data.

ment—including particularly the emergence of important new *policy networks*—is quite possible. In their absence, such evolution is improbable.

This hypothesis can be causally tested by considering the history of important East Asian regional integration proposals since the end of World War II. From the 1950s through the 1990s, there were dozens of institutional initiatives in Asia, whose successes and failures were mixed. As Table 2 suggests, the pronounced successes were strongly correlated with crisis-driven critical junctures.

This article selects two sets of critical comparative cases (four cases in all) to illustrate the dynamics of critical junctures. The Pacific Pact's failure is contrasted with the success of the San Francisco system in the early 1950s, in which major policy shifts occurred in the time-pressured early Korean War context. Then the failed Japanese Asian Monetary Fund (AMF) proposal is compared with the successful Chiang Mai Initiative (CMI), coming in the immediate wake of the alarming Asian financial crisis of 1997.

The first pair explains the origins of the organization gap, whereas the latter two account for its recent narrowing. In both sets of cases, the fate and content of major policy proposals capable of determining the profile of regional relations for long periods of time were profoundly shaped by critical junctures. In their presence, major institutional change occurred. In their absence, major change did not take place. Criteria for case selection include institutional consequences, policy outcomes, and directional shifts in regional integration trends.

#### *The Korean War and Institution-Building in the 1950s*

The historic origins of the Northeast Asian organization gap lie in the tumultuous early Korean War era, particularly from November 1950 to the spring of 1951, during which China's abrupt and massive military intervention greatly intensified the general sense of political-military urgency in the region. This was the turbulent period during which the San Francisco system emerged, used here to refer to the comprehensive structure of interrelated political-military and economic commitments between the United States and its Pacific allies, epitomized by the San Francisco Peace Treaty of September 1951 and related arrangements.<sup>26</sup>

We regard the complex and pressured *process* in which San Francisco was negotiated among the United States and its allies as crucial in determining the profile of the subsequent Northeast Asian Cold War regional setting. Indeed, that process gave birth, against the initial preference of multilateralists at the U.S. State Department not to mention leaders in Seoul, Manila, and Taipei, to the hub-and-spokes network of bilateral security arrangements that was perpetuated throughout the 1950s and beyond. This framework fundamentally distanced Japan, Korea, and Taiwan from one another diplomatically, despite their substantial mutual economic integration and similarities in domestic political structure.<sup>27</sup>

*From the Pacific Pact to the San Francisco System.* Looking at the preferences of countries involved in the postwar negotiations on a

peace settlement in Asia, we see that indeterminate prediction, gridlock on multilateral organization issues, and consequent bilateralism were not the best options for the parties involved.<sup>28</sup> All the major regional parties involved, including the United States, Japan, Australia, New Zealand, South Korea, and Taiwan, preferred to some extent a broader regional collective security pact.<sup>29</sup> Yet it did not materialize, due to the pressures imposed on decisionmaking by critical juncture.

Even after the Chinese Revolution of 1949 and the onset of the Korean conflict in mid-1950, both the United States and Japan still clearly preferred a broad, multilateral security arrangement to a narrow bilateral one in East Asia. In the spring of 1950, Prime Minister Yoshida Shigeru of Japan urged the United States to include Taiwan and South Korea in the peace treaty in order to keep those areas, strategically vital to Japan, safely out of communist control.<sup>30</sup> Even the Department of State's chief treaty negotiator, John Foster Dulles, and the U.S. Joint Chiefs of Staffs, urged that a Pacific Pact should be explored at the earliest possible opportunity.<sup>31</sup> A regional organization analogous to the North Atlantic Treaty Organization (NATO), capable of containing both a militant China and a potentially resurgent Japan, had much to recommend it in geopolitical terms even if the overall sense of Pacific community remained relatively weak. The powerful United States had, after all, clearly desired and in fact succeeded in creating such multilateral bodies elsewhere in the world.<sup>32</sup>

A complete Pacific Pact was drafted in January 1951 and seriously discussed, both inside the U.S. government and with major allies.<sup>33</sup> The United States insisted that such a multilateral security arrangement, once established, be terminated only if: (1) the United Nations adequately covered the area in question; or (2) a broader, more formal arrangement was created into which the Pacific Pact could be subsumed.<sup>34</sup> Australia was actively promoting the concept of such a regional alliance as early as mid-1949, as Mao's forces triumphantly crossed the Yangtze.<sup>35</sup> Chiang Kai-shek, for self-interested reasons, was also an important, early catalyst: he met bilaterally with Elpidio Quirino of the Philippines to discuss the concept in July 1949, and with Syngman Rhee of South Korea only a month later.<sup>36</sup>

The Korean War, and particularly the sudden, unexpected Chinese intervention of November 1950, utterly transformed the decisionmaking landscape. Most important, it deepened a historic critical juncture replete with implications for the future profile of Pacific regional organization. Key U.S. officials interpreted North Korea's June 25, 1950, attack on South Korea as directed ultimately against Japan, while some feared the Chinese intervention might presage the advent of World War III.<sup>37</sup>

The onset of the Korean War proved a catalyst for concentrated thinking about ending the occupation and also for promoting Japan's economic recovery to produce a prospective counterweight to newly communist China, with domestic and foreign policy considerations reinforcing one another. Dulles, the key decisionmaker, as special adviser to Secretary of State Dean Acheson, began to prioritize concluding an early peace treaty with Japan above crafting a broad alliance system in the Pacific that enflamed rather than reduced political and diplomatic difficulties. Such a treaty would solidify the vital U.S.-Japan political-military relationship and reduce U.S. fiscal liabilities for Japanese recovery that concerned Congress and various domestic U.S. interest groups.

This priority on a Japanese peace settlement, above all other diplomatic options, grew especially strong in the wake of Dulles's extended early 1951 visit to East Asia. Amid that trip, in the shadow of the sudden, massive intervention by Peoples' Volunteers across the Yalu only weeks before, the complex cross-pressures for the United States involved in forging the details of a Pacific Pact became painfully evident. So did the deepening urgency of the security situation and the clear difficulty—despite the awesome dimensions of U.S. hegemonic power—of resolving differences with allies in a timely, credible manner.<sup>38</sup>

Britain, in particular, grew highly averse to any multilateral arrangement not guaranteeing its possessions such as Hong Kong, Singapore, Malaysia, and Sarawak/Brunei, as it witnessed the clear militancy of Maoist military activism. If Chinese volunteers would swarm across the Yalu without warning, why might they not similarly attack Hong Kong, especially if it were explicitly outside a guaranteed defense perimeter? U.S. military leaders, conversely, grew increasingly reluctant to provide such guarantees, for parallel reasons.

The Japanese, for their part, were under U.S. occupation throughout this period and placed top priority on ending that occupation. They enjoyed substantial and indeed rising leverage with the United States as negotiations proceeded during early 1951. This leverage flowed from Dulles's fears of rising Japanese nationalism, as well as his apprehension that an aggrieved Japan might side with a newly invigorated Maoist China.

As the Korean War deepened, Japanese attitudes toward the peace treaty conversely stiffened. Prime Minister Yoshida came to oppose the idea of a broad, U.S.-centric Pacific alliance, as well as extensive U.S. bases in Japan. Indeed, he clearly preferred the possibility of *détente* with China to the intensified military containment that the turbulent



security situation seemed to warrant.<sup>39</sup> Yoshida feared that Japanese involvement in such an entity—a form of collective security in tension with Japan's no-war constitution—would stir sharp opposition in China, India, and Southeast Asia. He saw such efforts to deepen economic and diplomatic ties with those areas as crucial to Japan's long-term prosperity. In his doveish stance, Yoshida mirrored the preferences of British diplomacy.

Ultimately Dulles confronted the painful time constraint of an impending peace conference, amid a Korean conflict that mandated conference success—the catalytic combination for him. The pressure of the impending conference forced a compromise among Yoshida, the U.S. military, Congress, and U.S. allies, particularly Britain. The compromise crafted by Dulles centered on Japanese acceptance of U.S. bases and a bilateral security treaty explicitly assuring them. Foregoing multilateralism was the requisite sacrifice for securing Yoshida's assent to an early peace treaty, as well as British cooperation in related political-economic arrangements that they disliked, including new economic opportunities for Japan in Asia. For Japan, the intrusive security treaty was the prerequisite condition for the end of occupation and for preferential future access to the U.S. market.

Thus, critical juncture produced a hybrid San Francisco system of political-economic relations with four basic traits: (1) a dense network of *formal bilateral security alliances*, including U.S. mutual security treaties with Australia–New Zealand (July 1951), the Philippines (August 1951), Japan (September 1951), and South Korea (November 1954); (2) U.S. *military basing rights* throughout the region; (3) relatively *limited reconstruction aid* compared to Western Europe; and (4) gradual integration of allied economies on *preferential terms* into the bilateral-internationalist *trade and financial order* fostered by the United States.

As the process tracing presented here so clearly illustrates, the San Francisco system, with its enduring legacy of a Northeast Asian organization gap, was the product ultimately neither of geopolitical power nor of preexisting institutions. To be sure, both power and institutional environment may have influenced the interests and preferences of the parties to negotiate. Yet neither played a crucial role in shaping the key actors' ultimate decisions.

It was the *process* constraints of a *critical juncture*—the time pressures, amid the sheer complexity of decision—that were determining. In other words, the unexpected intensification of the Korean War, and especially the intense, traumatic weeks that followed China's sudden

military intervention, radically transformed the political landscape of Northeast Asia in remarkably enduring fashion. And the simultaneous imperative of rapidly concluding peace with Japan, to preempt local nationalism and to allay congressional financial fears, linked that conflict to the larger diplomatic question of Pacific regional political-economic architecture, creating a critical juncture for Pacific regional organization as a whole.

*The Asian Financial Crisis and  
Institution-Building in the 1990s*

Forty years after the Korean conflict, as the Cold War that it catalyzed was finally waning, a rethinking of Asian institutions took on momentum from a new regionalism emerging worldwide<sup>40</sup> and from the steady economic rise of Asia. Formal and multilateral institution-building concepts were proposed recurrently across the region. Despite the intellectual ferment, however, these proposals for smaller and more exclusively Asian organizations failed miserably in the decade prior to 1997. Only when the traumatic financial crisis of 1997–1998 struck Asia were regionalist ideas resurgent and transformed into collective action, as demonstrated by the vigorous postcrisis networking and institution-building of the 1999–2000 period.

*From the AMF to the CMI.* In the late 1980s, the East Asian Economic Grouping (EAEG) was first proposed by Prime Minister Mahathir Mohamad of Malaysia as the Uruguay Round seemed to falter. From the start, Mahathir's initiative was roundly attacked by the United States. Indonesia, the largest member of the Association of South East Asian Nations (ASEAN), was also immediately cool to the EAEG concept. The Japanese government, with conflicting incentives and confronted with internal cross-pressures, proved wary of antagonism from Washington, indicating equivocally that it would wait for an ASEAN decision before clarifying its own stance.

Mahathir revived his regionalist proposal at the 1991 ASEAN meeting in Kuala Lumpur, urging ASEAN endorsement. "If ASEAN is to have a bigger say in trade negotiations internationally, it must work together with the Northeast Asian countries," Mahathir argued.<sup>41</sup> Mahathir broached the idea of EAEG uniting ASEAN with Indochina, China, South Korea, and Japan as a joint lobby to counter Western pre-eminence.<sup>42</sup> He conceived of EAEG serving as an exclusivist alternative to the Asia-Pacific Economic Cooperation (APEC) forum, including

only the eleven Asian members in APEC but omitting the Anglo-Saxons: the United States, Canada, Australia, and New Zealand.

EAEG proved to be extremely controversial in later years. Critics of the initiative argued that it threatened to divide the Pacific down the middle and was thus politically and economically infeasible. After lengthy debates and intense exchanges between the opposing sides, the proposal was ultimately renamed and substantially reshaped, being accepted in diluted form, as the East Asian Economic Caucus (EAEC) within APEC. It has in effect been kept on the backburner ever since.<sup>43</sup>

In sharp contrast to Japan's 1991 hesitation in entertaining the EAEG idea, Tokyo itself initiated an even more controversial regional proposal for the Asian Monetary Fund, which was informally circulating well *before* the onset of financial crisis in 1997. The Japanese vice minister of finance for international affairs, Sakakikara Eisuke, had been canvassing support for the AMF idea since at least 1995, and a well-formulated concept was being circulated during the year before the Asian financial crisis. The AMF was officially proposed at the G7 meetings of the International Monetary Fund (IMF) in Hong Kong in September 1997, with Japan offering to create a U.S.\$100 billion fund to stabilize exchange rates in Asia. If realized, the AMF would have allowed Japan to shape regional policy outcomes more effectively while also providing a greater headline figure for the overall bailout package, thus helping to calm financial markets.

The AMF received a warm reception in virtually every Southeast Asian capital. Taiwan and South Korea were also favorably disposed.<sup>44</sup> The United States, however, strongly opposed the plan and lobbied China to resist it also, invoking the specter of Japanese hegemony to reinforce residual Chinese aversion.

The whole affair reached a climax at the Regional Finance Ministers' meeting on November 21 in Hong Kong, which the United States and IMF attended as observers. Whereas ASEAN and South Korea expressed support for the AMF proposal, Hong Kong and Australia remained neutral, and China voiced no opinion. The AMF proposal was summarily rejected. In its place came a substantially downgraded Manila Framework, which quietly dropped the AMF's most controversial features and brought the regionalist challenge in Asian international finance to a temporary end.

The 1997 financial crisis in Asia started with a slump in the Thai baht. After Thailand came Indonesia. When Indonesia was forced to devalue in August 1997, speculation began against Korea, whose banks were heavily invested in Indonesia and which itself was heavily lever-

aged. The collapse of the Hanbo Group in February 1997—the first of eight of Korea's top-thirty *chaebols* to collapse by December 1998—and Korea's rising current account deficit indicated that it too might be vulnerable. There was blood in the water.

A sharp, 9 percent drop in Hong Kong's Hang Seng index on October 20—followed overnight by the largest point fall ever in New York's Dow Jones average<sup>45</sup>—stoked fears in Washington, and among leaders throughout Asia, that the Southeast Asian crisis might well become global. The events of the following months are now etched in history and in the consciousness of a generation of Asians: U.S.\$12 billion of capital outflow from Asia as a whole during 1997; a collapse of the Korean won, which lost 60 percent of its value in six months, leading to a massive Korean financial crisis and a humiliating \$57 billion IMF bailout package; and the downgrading of Indonesian, Thai, and Korean sovereign debt to junk-bond status by Moody's.<sup>46</sup>

The human consequences, as Joseph Stiglitz has pointed out, were profound, especially in generating unemployment, poverty, and hunger in nations with inadequate social safety nets, such as Indonesia, Thailand, and even South Korea.<sup>47</sup> This factor had important consequences for policy in an increasingly democratic Asia. Japan and China, although less directly touched by the crisis than their neighbors, also felt its trauma. Japan suffered a sharp decline in its exports to Asia, close to 40 percent of its global total, not to mention a major domestic banking crisis in the fall of 1997 that led to failures of major banks (Hokkaido Takushoku and LTCB), as well as securities firms (Yamaichi), that were unprecedented since the late 1920s.<sup>48</sup> China endured its lowest economic growth in close to a decade, together with an even sharper challenge through its new responsibilities in Hong Kong, which reverted to Chinese rule in July 1997, just as the crisis was beginning.

Overall, the Asian financial crisis fundamentally transformed both the domestic interest structure of the nations involved and the interactive structure of Northeast Asian international relations more generally. In the wake of crisis, more concerted regionalist efforts gained momentum, initiated by new intra-Asian interpersonal networks galvanized by the crisis. In the new atmosphere of urgency and communal sentiment, multilateral yet regional solutions to common problems were proposed repeatedly, with these proposals generating broad, transnational support.

China, in particular, came slowly to see the dangers of regional financial crisis, and its own stakes in stabilization, especially after the reversion of Hong Kong in mid-1997. It provided, for example, U.S.\$1

billion to the Thai support package of August 1997—\$1 billion more than the United States—although the Chinese delegation was not able to announce a contribution until it consulted with Beijing after the support group meeting.<sup>49</sup> This was the first time that China had made a substantial contribution to a country in currency crisis and in this sense represented its debut in international currency-crisis diplomacy.

Some might ask why, if regional financial innovation in Northeast Asia has been a product of critical juncture, the CMI was finalized only in May 2000—well after the Asian financial crisis had seemingly passed. Two important observations must be made. First, the fear of resurgent crisis continued in Asia *long after* its initial effects subsided. Second, regional institution-building in finance required substantial reconfiguring of existing policy networks, most of which had previously been Washington-centric—an evolutionary process that took substantial time to complete.

By early 1999, Asia had begun to leave its financial crisis behind. Yet time pressure for a collective Asian financial arrangement remained intense. Unemployment and social deterioration from the crisis remained intractable. Furthermore, the sense of crisis remained strong in China and resurgent in Southeast Asia as well. In China, growth in 1999 was its lowest since the Tiananmen Square incident of 1989, amid a deepening domestic banking crisis. Hong Kong's Hang Seng Index, which had suffered a disastrous 9 percent one-day drop in 1997, remained weak well into 2000.

In Southeast Asia, GDP growth gradually regained momentum during 1999, but inflows of foreign direct investment (FDI) continued to be weak. Leaders in these countries—Malaysia's Mahathir, for instance—strongly advocated a more concerted regional arrangement countering global financial speculation. Indeed, Mahathir insisted that “the Asian financial crisis is not over.”<sup>50</sup>

Policy networks—both leadership ties and epistemic communities of technical specialists—were clearly catalyzed by the Asian financial crisis and evolved as a crucial forerunner to new institutions. At the 1997 ASEAN Summit, for example, the ASEAN+3 (APT; China, Japan, South Korea) formula was first employed, at a historic heads-of-government session hosted by Malaysian prime minister Mahathir. Two years later the advent of trilateral summits among the leaders of China, Japan, and South Korea again triggered further steps toward policy coordination in the nations involved. Also in 1999, APT heads of government met in Manila and declared monetary and financial cooperation to be priority areas for shared concern among them. Six

months later, in May 2000, the ASEAN+3 finance ministers finally gathered in Chiangmai, Thailand, to announce that they would create a network of bilateral currency-swap agreements so as to prevent future currency crises such as they had suffered in 1997–1998.

China's prime minister, Zhu Rongji, played a leading role, together with Japanese prime minister Obuchi Keizo, in finalizing the swap-quotas arrangement that led to the historic May 2000 Chiangmai Agreement. Yet neither the United States nor Australia and New Zealand were included in the arrangements that they announced. And the IMF did not endorse them until a year later.

Within three years of the Chiangmai meeting, eleven bilateral-swap arrangements had been put into place, with three more being negotiated.<sup>51</sup> These arrangements now include all the major nations of the East Asian region, with three Northeast Asian countries holding particularly large foreign exchange reserves—Japan, China, and South Korea—playing the central role. These three nations have also concluded substantial swap agreements with one another.

Important new patterns of Northeast Asian regionalist networking, with policy implications, have gradually emerged since Chiangmai, in the context of East Asian financial cooperation.<sup>52</sup> Most spectacular have been the Boao Northeast Asian Economic Summits, held on Hainan since 2000, at the initiative of China. In 2002 Japanese prime minister Koizumi and a broad range of other regional leaders attended, with the gathering beginning to rival regional activities of the Davos World Economic Forum in stature.

The CMA thus appears to represent a substantive advance in East Asian—particularly Northeast Asian—regional cooperation, independent of the United States and U.S.-influenced multilateral organizations such as the IMF. The process of creating it has also deepened interpersonal networks within Asia that can then further additional regionalist advances. These dual changes, on the institutional and networking fronts, come in the wake of numerous futile attempts to promote such cooperation, as noted previously, such as the EAEG, EAEC, and AMF. They were catalyzed by the Asian financial crisis of 1997–1998 and the lingering fear of a financial relapse that persisted for roughly two years thereafter.

The Chiangmai agreement is clearly a case of formal regional policy innovation with major implications for Northeast Asia—a phenomenon in tension with the conventional view of Asian regionalism as informal and noninstitutionalized. It is also a case of policy innovation emerging in response to the manifest traumas of a critical juncture in

international affairs. It is thus important to consider the prospects for replicating this pattern in the future. Is it a likely, or an attractive, road to regional integration? The prospects will likely be related to the prospects for and profile of future critical junctures.

### The Critical Juncture Framework in Operation

Critical junctures can explain both the *origin* and the *narrowing* of the organization gap in Northeast Asia. The contexts of the two periods, Northeast Asia in the 1950s and the 1990s—both in power structure and institutional setting—are sharply different. The war-torn region amounted to little in the global economy four decades ago, but by the 1990s it had become one of the most dynamic and rapidly growing economic zones in the world. In the 1950s the region consisted of either former colonies or areas previously under militarist and fascist rule. Today Japan and South Korea are mature democratic countries, and China's political regime has become more liberal and pluralistic than it was in the 1950s. Yet the critical juncture framework applies in both contexts, with critical junctures deeply influencing the institutional configuration in both eras.

The critical juncture approach, it must be reiterated, does not ignore the importance of institutions, culture, or changing power configurations. It only maintains that these important background parameters operate through the *concrete decisions* of individuals because those individuals have multiple options among which to choose, outcomes are indeterminate, and the dynamics of the decision process itself have important bearing on ultimate outcomes.

As the foregoing process tracing of the Korean War period made clear, a war-driven critical juncture fundamentally changed the bargaining structure in the region and the preferences of the nations involved. The time pressure was so pervasive that the realist concept of power distribution failed to determine the outcome: the powerful United States initially contemplated a multilateral Pacific Pact yet settled for the more limited, bilateral San Francisco system. The outbreak of the Korean War changed national perception of interests, with national policies shifting significantly during the interactions among individual decisionmakers.

Process tracing also makes clear that a critical juncture was central to the creation of the San Francisco system of political-economic relations in the Pacific. The Korean War and the political imperatives of the

San Francisco Treaty process limited the time available to realize a collective security arrangement in Asia, analogous to the NATO framework. Yet the United States, represented by Dulles, was profoundly convinced that a limited bilateral arrangement to consolidate the U.S. relationship with Japan should be the highest priority for the United States.

Despite an overwhelming political-military presence in the region, the United States still lacked the time and capacity to fully coordinate the establishment of collective security architecture in Northeast Asia; it settled instead for the second-best San Francisco system. The contrast between the Pacific Pact's failure and the San Francisco system's realization clearly shows that crisis as a catalyst can change important individual decisions and contextual factors. The critical juncture model thus cogently explains the regional institution-building of the 1950s surrounding the Korean Peninsula.

The Asian financial crisis of the mid-1990s, like its Korean War counterpart nearly half a century earlier, similarly shows that major political-economic turbulence can be a catalyst for formal regionalist institution-building in Northeast Asia. Before the financial crisis-driven critical juncture was visible, the AMF, supported with both material resources and political will, effectively failed. When the critical juncture was clearly present, in the perceptions of decisionmakers and technical specialists, formal regionalism, epitomized in ASEAN+3 and the CMI, achieved major progress. Correlation is clear. *The explicit causal link, however, remains missing.*<sup>53</sup>

To clarify causation, a different sort of analysis is needed. In this section, we draw on the general logic of collective action. We explain the failure of formal regionalism in Asia from the 1950s to the 1990s as a combined product of its complicated collective action problem and the failure of outside powers to support a resolution of that problem. The institution-building effect of the region's post-financial crisis critical juncture flows directly from that period's catalytic capacity to alleviate collective action problems.

#### *Northeast Asia's Collective Action Problem*

In the behavioral sciences, two general obstacles are said to hinder collective action, even when interests are congruent.<sup>54</sup> One is the incentive to free-ride, and the other is the logical difficulty that the individual fraction of the common interest is insufficient to justify the cost of indi-



vidual effort involved in producing it. In Northeast Asia, the general collective action problem confronts two additional complications. One results from the institutional features of the region, while the other flows from the complexity of external relationships, particularly with the United States.

Lacking a civil society and a rule-oriented tradition, the nations of Northeast Asia tend to rely on individualistic and informal institutional arrangements. That provokes a tendency toward free-riding and a persistent, related reliance on asymmetric economic and security ties with the United States.

The organization gap in Northeast Asia is not merely an absence of multilateral organization. It extends much more deeply into the business and intellectual fabric of individual nations and their transnational relationships with one another. Northeast Asia's Cold War heritage, and the embedded institutional structures that it engendered, created four major obstacles to regional cooperation that are much more pronounced than in Europe and in most other world regions:

1. The *communication* problem. Individuals and nations in the region persistently fail to see common interest. Miscommunication, due to lack of networks, was a serious problem during the Asian financial crisis between China and Japan, for example; the Japanese Ministry of Finance could not coordinate closely with counterparts in China in developing the AMF concept, even if it had so desired, due to lack of personal contacts.

2. The *coordination* problem. Again, Cold War estrangement, combined with traditional wariness toward Japan elsewhere in the region, greatly inhibited the creation of coordinating structures in the past—a heritage of history that continues to plague the region today. There remain few natural advocates of Northeast Asian regional integration, in contrast to the situation in Western Europe, and consequently few individuals with clear stakes in positive, integration-oriented outcomes.

3. The *agenda-setting* issue. An embedded lack of think tanks and epistemic communities with broad knowledge of the region and its potential inhibits the development of realistic blueprints for change. This lack of blueprints in turn greatly increases the uncertainty and risk in building formal regional institutions.

4. Difficulty in forging *political coalitions*. Even when individuals may perceive personal interests transcending old Cold War boundaries, it is difficult for them to prevail over domestic coalitions that have embedded interests to the contrary.

*Critical Juncture and New Regional Dynamics*

The Asian financial crisis eased Northeast Asia's four collective action problems. The critical juncture had three major consequences: (1) making common interests visible;<sup>55</sup> (2) establishing personal networks among national leaders; and (3) developing political-economic mechanisms to counterbalance the United States.

East Asian countries have traditionally failed to see the danger of individualistic market operations in a highly interdependent world. The financial crisis of 1997 suddenly exposed their developmental weaknesses, as well as their inability to cooperate, serving as rude wakeup calls for Korea, China, Japan, and the ASEAN countries. Their strong common interest in a more integrated regional financial market that could insulate them from ruinous outside speculation provided powerful incentives for activism. This visible common interest changed the cost-benefit logic of formal regional institutions; the marginal utility of such bodies increased, while agenda-setting and political coalition-building problems were alleviated greatly in the nations involved.

The critical juncture also produced systemic impacts facilitating communication and coordination within the region. It began to create *networks* that allowed people with few previous contacts across the long-standing Cold War divide to systematically communicate with one another. These networks have already begun provoking joint policy research among such nations as China, Japan, and South Korea. The emerging policy contacts have allowed advocates of closer integration, in think tanks like Japan's National Institute for Research Advancement (NIRA) and the Korean Institute for Economic Policy (KIEP), for example, to engage in agenda-setting, leading potentially to enhanced future regional collective action.<sup>56</sup>

Existing think tanks and epistemic communities were sensitized by the trauma of the 1997 financial upheaval to both the possibility and the inherent dangers of potential regional crises. By instilling a new crisis consciousness, the unforeseen events of 1997–1998 caused them simultaneously to reach out to counterparts elsewhere in the region and to devise new ideas for contingency cooperation in the event of future crises. The new organizational stimulus was compounded, in synergistic fashion, by new requests from top leadership, spurred by the critical juncture of the financial crisis, for contingency planning. Japan's NIRA, for example, thus began to focus in ways that it never had before 1997 on regional crisis management, as well as on cooperative activities with regional counterparts to promote it. Such activity has laid the

intellectual groundwork for more systematic future collective action—and more autonomous regional response.

The critical juncture of the late 1990s did more than serve as a catalyst for new interpersonal networks to improve regional information flow and to aid coherent regional agenda-setting. The juncture also triggered a fundamental shift in political-economic orientation in key nations, particularly long-isolated China and newly vulnerable South Korea. That interaction substantially enhanced the prospects, in turn, for future regional collective action.

The new regional consciousness emerging in the wake of the financial crisis countervails to some extent the long legacy of U.S. influence in Northeast Asia. The importance of the U.S. presence in the region is not challenged. Yet a combination of internal structural changes and new Asia-centric patterns of economic growth has given China, Japan, and Korea new political-economic reasons to look to one another as economic partners, in the context of open regionalism, while also giving Korea special incentives to serve as an institution broker.

To conclude, institution-building after the financial crisis, epitomized by ASEAN+3 and the Chiangmai swap agreements, illustrates how a critical juncture can ameliorate collective action problems in Asia. Here we call the process of new regionalism in the wake of the 1997 financial crisis the Chiangmai model.

The Chiangmai model of regional policy innovation has five distinctive, noteworthy characteristics:

1. *Noninvolvement of the United States and global multilateral institutions in the policy-formation process.* The nations of East Asia have been meeting frequently with the United States, Australia, New Zealand, and Latin America on regional financial issues since 1994. Yet Chiangmai, the first substantive agreement on Asian regional finance, was achieved in a forum that did not involve these nations.

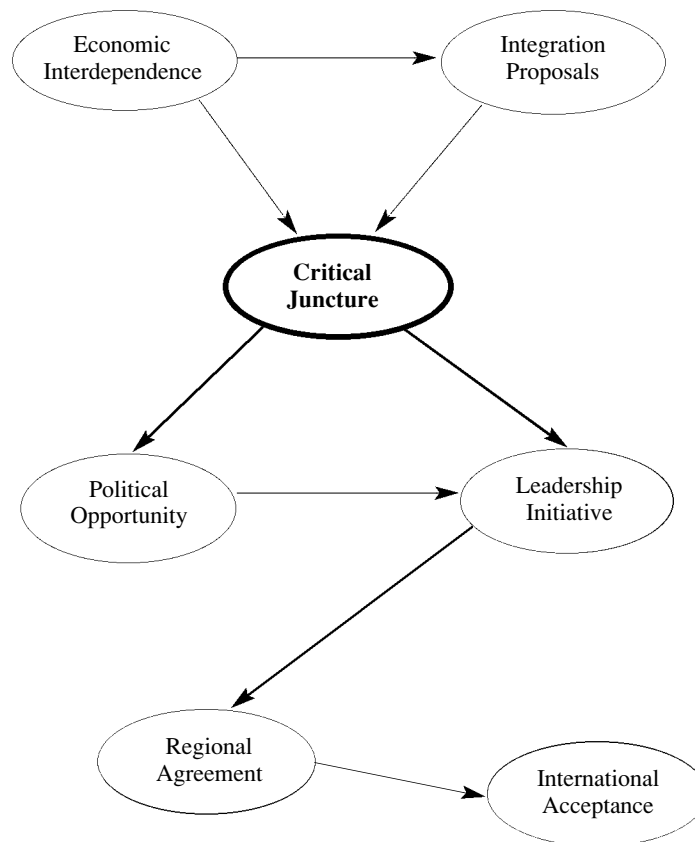
2. The key role of *political leadership* in spurring policy innovation. It was the heads of government—Obuchi Keizo, Zhu Rongji, and Kim Dae-jung, in particular—who brought the Chiangmai agreement to fruition, rather than the government ministries that normally handle technical issues such as swap quotas.

3. The concentration of policy innovation in the *financial* area. In Europe, regional integration proceeded first in the trade area, with agreements such as the 1950 Treaty of Paris, which established the European Coal and Steel Community. Chiangmai, one of the first substantive East Asian regional agreements, is thus distinctive in that it links neighboring nations in the financial area instead.

4. The *limited* nature of the constraints on national sovereignty. The swap-quotas authorized under the Chiangmai agreement do not constrain the prerogatives of national governments, in contrast to most steps toward regional integration in Europe, for example.

5. The *limited* nature of the constraints on the established prerogatives of multilateral institutions. The Chiangmai agreement, for example, has an explicit IMF link. The borrower, in other words, must have completed, or be nearing completion of, an agreement with the IMF, as a condition for drawing “most of the funds” through swaps.<sup>57</sup> Whether this will continue beyond the impending review of the Chiangmai agreement is unclear.

**Figure 3 The Chiangmai Model of Regional Integration in Asia**



As Figure 3 suggests, economic integration has been proceeding for some time in the region. Yet the rising level of economic integration was not able to spill over into formal regional cooperation or toward more political areas until the late 1990s. There were rounds of regionalist proposals, yet none led to serious Asia-focused arrangements. The financial crisis created a crucial catalyst for regional dialogue and cooperation and triggered a critical juncture, catalyzing substantial new development of regional institutions.

Under the critical juncture framework, windows for policy innovation open and national leaders take initiatives during periods of tension and even chaos, rendering these periods important for regional institution-building. This process of institution-building was certainly aided in Asia by the extensive social networks at official and unofficial levels that were stimulated by the financial crisis. When regional understandings were finally established, external obstructive forces acquiesced, as shown by the de facto U.S. acceptance—*after* it was consummated—of the Chiangmai swap-quota arrangements.

### Revisiting Theory

This article began by describing the paradox of Northeast Asia's organization gap: a failure of some of the most purposive and strategic nations on earth to cohere in confronting—even in perceiving—common problems of economic development and collective security. The gap had its roots in a crisis-driven critical juncture—the Korean War as catalyst—that produced and perpetuated institutionally the lack of formal multilateral arrangements that has characterized the region since that bitter, historic conflict. The enduring legacy of this gap was an embedded and severe difficulty in achieving collective action.

The obstacles to narrowing the gap, so often recited in realist and historical institutionalist rhetoric, were innate in Asia's collective action problem. Those barriers, however, are not as determining, as historical institutionalism argues, or as dependent on changes in the systemic power structure of the region, as realism suggests. Institutional change can occur in subtle ways, as the recent history of Asia since the 1997–1998 financial crisis indicates. Yet the organization gap is nevertheless intensified by embedded historical factors and is consequently difficult to remedy.

The organization gap is likely to be narrowed further through the same dynamic that created it: the *critical juncture* mechanism. Critical junctures can make common interest visible and change individual cost-

benefit calculations. In doing so they establish social networks that facilitate coordination and communication and provoke potentially countervailing regional alliances against U.S. power. Indeed, the changing configuration of the organization gap since the 1997 Asian financial crisis has major implications not only for policy but also for theory.

The critical juncture concept has a heuristic value in explaining profiles of regional organization in Northeast Asia that rival theories outlined earlier do not possess. As Table 3 points out, historical institutionalism does not readily explain cases of discontinuous change, such as the sudden creation of the San Francisco system of Pacific relations amid the Korean War, or the conclusion of the Chiangmai financial swap-quota agreement half a century later. That body of theory generally assumes a continuity, in accordance with established institutions and procedures, that the fluid and changing realities of Northeast Asia do not always possess.

**Table 3 Explanatory Power of Contending Approaches**

Cases	Critical Juncture	Realism	Historical Institutionalism
Failure of Pacific Pact	Yes		Yes (i.e., status quo preserved)
Creation of SFO System	Yes	Yes (change reflects new power configuration)	
Failure of AMF	Yes	Yes	Yes (status quo preserved)
Creation of Chiangmai Framework	Yes	Yes	
Overall	(a) Explains change (product of individual <i>volition</i> and <i>imperatives</i> for collective action) (b) Explains continuity (general implication of <i>institutions</i> )	(a) <i>Can</i> explain change when it results from new power configuration (b) Cannot explain continuity in the face of changing power configuration	(a) Can explain continuity (b) Cannot easily explain discontinuous change

Realism, conversely, can more readily explain change, which is normally postulated to simply represent new power configurations. The creation of the San Francisco system, for example, can be represented as the product of U.S. hegemonic power, at its high point in the early 1950s. The failure of Japan's Asian Monetary Fund concept in 1997 can similarly be represented as the consequence of hegemonic U.S. intervention, amplified by resistance from nations with whom the United States had major leverage, including, ironically, the People's Republic of China. The converse success of Chiangmai, realists could maintain, was the result of a shifting coalition of forces, in which a growing China held the balance of power and determined new regional outcomes through its own shifting policy stance.

The problem for realism, of course, is explaining cases where a clear preponderance of power and influence does not lead to dominance of policy outcomes. The failure of the Pacific Pact in 1951 was such a case. The powerful U.S. hegemon found the concept congenial, as it had in Europe with NATO, and as it was to do in Southeast Asia shortly thereafter with the Southeast Asian Treaty Organization (SEATO). Yet in the face of time pressures and heterogeneous interests, U.S. advocates of the Pacific Pact were unable to impose their preferences. For such an outcome, realism, which assumes a unitary national actor, has no answer. Yet a voluntarist critical juncture approach, disaggregating the state to look carefully at the incentive structure of key decisionmakers directly, in their fluid moment of decision, has a convincing explanation.

The critical juncture approach thus combines the analytical strengths of both rival theories. It explains change as the product of individual volition and imperatives for collective action. Yet it also explains continuity in its sensitivity to the general importance of institutions. In the cases presented here, the critical juncture approach provides a parsimonious explanation for the contours of Northeast Asia's changing yet remarkably intractable organization gap over time, which is not easily matched by other interpretations.

In other regions of the world, however, the explanatory power of the concept may hold also, to varying degrees. This is clearly a subject for future study. Wherever institutions are fragile and malleable, interests are complex and crosscutting, and external pressures periodically shake the body politic, critical junctures have the potential to fatefully shape the profile of the future in discontinuous fashion.

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## Notes

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1. Sixty years ago, of course, all of Northeast Asia was unhappily united, as part of Japan's Greater East Asia Co-Prosperity Sphere. Following Japan's defeat, efforts to establish formal institutions, by contrast, have been largely a series of false starts and failures. See Peter Katzenstein and Takashi Shiraiishi, eds., *Network Power* (Ithaca: Cornell University Press, 1997). After a half-century and more, the memory of brutal Japanese colonial rule still haunts Northeast Asia, from the leadership level down to the grassroots. Cooperation has been incessantly plagued by mutual mistrust and animosity among the three countries.

2. For an overview of such variants, see Michael Schulz, Fredrik Söderbaum, and Joakim Öjendal, eds., *Regionalization in a Globalizing World: A Comparative Perspective on Form, Actors, and Processes* (London: Zed Books, 2001). Also Peter Haas, *Saving the Mediterranean* (New York: Columbia University Press, 1990); and Joseph Nye, *Pan-Africanism and East African Integration* (Cambridge, MA: Harvard University Press, 1965).

3. On the conceptualization of institutionalized norms and of culture, see Peter Katzenstein, *The Culture of National Security* (New York: Columbia University Press, 1996); and Stephen Krasner, *International Regimes* (Ithaca, NY: Cornell University Press, 1983).

4. Aaron Friedberg, "Will Europe's Past Be Asia's Future?" *Survival* 42, no. 3 (2000): 147–159.

5. On the constitutional hegemony idea, see John Ikenberry, *After Victory* (Princeton, NJ: Princeton University Press, 2001).

6. Gilbert Rozman, "Flawed Regionalism: Reconceptualizing Northeast Asia in the 1990s," *Pacific Review* 11, no. 1 (1998): 1–27.



7. At the end of 2002, the Russian Federation had proved natural gas reserves of 1,680 trillion cubic feet, or 30.5 percent of the global total. See *BP Statistical Review of World Energy 2003* at [www.bp.com](http://www.bp.com).

8. Historical institutionalism is not a monolithic approach. Its strategy of analysis varies in many important ways. For instance, some deploy arguments about strategic choice and the impact of rules of the game; see Paul Pierson, *Dismantling the Welfare State?* (Cambridge, UK: Cambridge University Press, 1994). Others adopt culturalist modes of explanation; see Benedict Anderson, *Imagined Community* (London: Verso, 1983). Two features distinguish historical institutionalism as a whole: (1) its focus on self-reinforcing dynamics in institution-building; and (2) a methodical emphasis on long-term processes and institutional configurations. In its application to the study of regionalism, the historical institutional approach stresses the determining effect of institutionalized norms and ideas. See Paul Pierson and Theda Skocpol, "Historical Institutionalism in Contemporary Political Science," in Ira Katznelson and Helen Milner, eds., *Political Science: The State of the Discipline* (Washington, DC: American Political Science Association, 2002), pp. 693–721.

9. See Vinod K. Aggarwal and Charles Morrison, *Asian Pacific Crossroads* (New York: St. Martin's, 1998), p. 30.

10. See Katzenstein and Shiraishi, *Network Power*, pp. 1–44.

11. *Ibid.*, p. 21.

12. *Ibid.*

13. See also Joseph Nye, "Patterns and Catalysts in Regional Integration," *International Organization* 19, no. 3 (1965): 870–884. He argues that discontinuities rather than spillover characterize the process of integration (p. 871).

14. Skocpol and Pierson, "Historical Institutionalism in Contemporary Political Science," p. 720.

15. Leonard Binder, ed., *Crisis and Sequences in Political Development* (Princeton, NJ: Princeton University Press, 1971); Stephen Krasner, "Approaches to the State," *Comparative Politics* 16, no. 2 (1984): 223–246; Nelson Polsby, *Political Innovation in America: The Politics of Policy Innovation* (New Haven, CT: Yale University Press, 1984); Peter Gourevitch, *Politics in Hard Times* (Ithaca, NY: Cornell University Press, 1986); and Stephen Skowronek, *Building a New American State: Expansion of National Administrative Capacity, 1877–1920* (Cambridge, UK: Cambridge University Press, 1982).

16. Binder, *Crisis and Sequences in Political Development*, p. 308.

17. Krasner, "Approaches to the State," pp. 223–246.

18. Skowronek, *Building a New American State*, p. 10.

19. Gourevitch studied the relationship between crisis and the state, finding that crises both reflect what is happening within states and in turn shape them. Dissenting from Skowronek, he argues that the impact of crisis on decisionmaking is neither conscious nor coherent. (See Gourevitch, *Politics in Hard Times*, p. 35.) Lipset and Rokkan also illustrate the mix of continuity and change in their study of European party systems; see Seymour M. Lipset and Stein Rokkan, "Cleavage Structure, Party Systems, and Voter Alignments: An Introduction," in Seymour M. Lipset and Stein Rokkan, eds., *Party System and*

*Voter Alignments: Cross National Perspectives* (New York: Free Press, 1968), pp. 1–63. Kent Calder, as well, stresses the importance of “climactic periods” in Japan’s policymaking and political development; Kent Calder, *Crisis and Compensation* (Princeton, NJ: Princeton University Press, 1988), p. 29.

20. Joseph Nye, “Patterns and Catalysts in Regional Integration,” *International Organization* 19, no. 4 (1965): 882.

21. Herbert Simon, *Models of Bounded Rationality* (Cambridge, MA: MIT Press, 1982).

22. Graham Allison and Philip Zelikow, *Essence of Decision*, 2nd ed. (New York: Longman, 1999).

23. Aggarwal and Morrison, *Asian Pacific Crossroads*, p. 36.

24. On how this makes crisis decisionmaking salient in Japanese domestic policy change, see Calder, *Crisis and Compensation*, p. 40. On the domestic structural factors that render at least Japanese foreign policy reactive, see Kent Calder, “Japanese Foreign Economic Policy Formation: Explaining the Reactive State,” *World Politics* 40, no. 4 (1988): 517–541.

25. On the forces at work in such “debt-driven industrialization,” clearly salient in South Korea, see Jeffrey Frieden, *Debt, Development, and Democracy* (Princeton, NJ: Princeton University Press, 1991).

26. On this concept, and its relationship to broader international relations theory, see Kent E. Calder, “Securing Security Through Prosperity: The San Francisco System in Comparative Perspective,” *Pacific Review* 17, no. 1 (January 2004): 135–157. Some related elements of the overall political-economic structure, such as the ANZUS Treaty among the United States, Australia, and New Zealand, predated the San Francisco Treaty, while other elements like the U.S.-Japan Treaty of Commerce and Navigation succeeded it.

27. The developmental path taken by Japan, and subsequently pursued by Korea and Taiwan, has conformed nicely to the flying-geese model and production cycle, with Taiwan and Korea following smoothly in Japan’s wake. Economic development naturally linked Japan, the newly industrialized areas, and subsequently China through integration in a production cycle and deepening intraregion trade and investment. Yet intimacy in economic terms has never been able to produce anything close to formal regional institutions. See Bruce Cumings, “The Origin and Development of the Northeast Asian Political Economy,” *International Organization* 38, no. 1 (1984): 1–40.

28. On the idea of indeterminate prediction of regional institutions, see Steve Weber, “Shaping the Postwar Balance of Power,” *International Organization* 46, no. 3 (1992): 633–680.

29. Michael Schaller, “Japan and the United States Reconsidered,” [www.econstrate.org](http://www.econstrate.org).

30. *Ibid.*

31. Michael Schaller, *Altered States: The United States and Japan Since the Occupation* (New York: Oxford University Press, 1997), p. 33; and U.S. Department of State, *Foreign Relations of the United States: East Asia* (Washington, D.C.: U.S. G.P.O., 1951), p. 132.

32. In the Atlantic, for example, the United States inspired the creation of NATO in 1949. In Southeast Asia, Dulles himself created SEATO in 1954 and, in the Middle East, condoned the British-inspired Baghdad Pact of 1955.

33. U.S. Department of State 1951, *Foreign Relations of the United States: East Asia*, pp. 132–137.

34. *Ibid.*, p. 137.

35. Robert Oliver, *Syngman Rhee and American Involvement in Korea, 1942–1960: A Personal Narrative* (Seoul: Panmun, 1978), p. 33.

36. *Ibid.*, p. 255.

37. See Allen Whiting, *China Crosses the Yalu: The Decision to Enter the Korean War* (Stanford, CA: Stanford University Press, 1960), and John Lewis Gaddis and Paul Nitze, “NSC 68 and the Soviet Threat Reconsidered,” *International Security* 4, no. 4 (1980): 164–176.

38. See U.S. Department of State 1951, *Foreign Relations of the United States: East Asia*, pp. 141–265.

39. Schaller, *Altered States*, p. 33.

40. Stefan A. Schirm, *Globalization and the New Regionalism* (Oxford: Polity, 2002).

41. Mahathir Mohamad, speech delivered at the ASEAN economic ministers’ meeting in Kuala Lumpur, October 7, 1991, [www.hamline.edu/apakabar/1991 October 07/0007.html](http://www.hamline.edu/apakabar/1991%20October%2007/0007.html).

42. *Ibid.*

43. Malaysia Institute of Economic Research, “The Prospect of an East Asia Free Trade Area Agreement,” [www.mier.org.my/mierscope/drhafalsh30\\_11\\_2002.pdf](http://www.mier.org.my/mierscope/drhafalsh30_11_2002.pdf).

44. Eric Altbach, “The Asian Monetary Fund Proposal: A Case Study of Japanese Regional Leadership,” *Japanese Economic Institute Report* 47a (1997): 10.

45. The New York Dow Jones average fell by 7.2 percent—the largest ever in terms of absolute points, but fell by 22.6 percent, a greater percentage, on October 19, 1987.

46. Robert Garran, *Tiger Tamed* (Honolulu: University of Hawaii Press, 1998), p. 165.

47. See Joseph Stiglitz, *Globalization and Its Discontents* (New York: W. W. Norton, 2002), p. 97.

48. In 1999, Asia took 37.3 percent of Japan’s exports, compared to 30.7 percent going to the United States. See Ashahi Shimbun Sha, *Japan Almanac*, 2003 ed. (Tokyo: Ashahi Shimbun Sha, 2002), p. 90.

49. Yoichi Nemoto, *Unexpected Outcome of Asian Financial Crisis* (Princeton, NJ: Princeton University, Program on U.S.-Japan Relations, Occasional Paper, 2003), p. 14.

50. Mahathir Mohamad, “Asian Financial Crisis Not Over,” 1999, [www.southcentre.org/info/southbulletin/bulletin20/bulletin20.html](http://www.southcentre.org/info/southbulletin/bulletin20/bulletin20.html).

51. Nemoto, *Unexpected Outcome of Asian Financial Crisis*.

52. See Kazuteru Saionji, "A New Japan–South Korea–China Framework," *Asahi Shimbun Annual Report* (2001), [www.asahi.com/english/asianet/report/eng\\_2001\\_06.html](http://www.asahi.com/english/asianet/report/eng_2001_06.html); and Chang-Jae Lee, "Northeast Asian Economic Cooperation," *NIRA Review* (2000): 5–8.

53. On the importance of transcending correlation to causation, and strategies for doing so, see Gary King, Robert O. Keohane, and Sidney Verba, *Designing Social Inquiry* (Princeton, NJ: Princeton University Press, 1994), pp. 75–114.

54. Mancur Olson, *The Logic of Collective Action* (New York: Schocken Books, 1965).

55. Sidney Tarrow, *Power in Movement: Social Movements, Collective Action, and Politics* (Cambridge: Cambridge University Press, 1994), p. 5; Tarrow notes that the most common denominator of social movements is "participants' recognition of their common interests, that translates potential into collection action."

56. Transnational networks are proliferating at various levels, in particular the linkage between the governments and nongovernmental coordination. For example, in December 1998 the leaders of ASEAN, China, Japan, and Korea agreed to establish the East Asia Vision Group (EAVG), first proposed by President Kim Dae-jung of South Korea. The EAVG, consisting of eminent intellectuals from the member countries, developed a number of concrete proposals, including one for an accelerated development of a regional free-trade area, and submitted its report to the ASEAN+3 (APT) Summit in Brunei Darusalam in 2001. At the Singapore Summit of November 2000, the APT leaders agreed to establish a more formal East Asia Study Group (EASG), at the initiative also of Kim Dae-jung. This body, consisting of actual government officials, began its deliberations in the spring of 2001 and reported to the APT Pnom Penh summit of November 2002. A Working Group at the level of directors general was also established in July 2001; it met in Seoul and enhanced communication and coordination among the three Northeast Asian countries.

57. The APT members did agree, however, that 10 percent of the swaps could be implemented without an agreement with the IMF. See Randall Henning, *East Asian Financial Cooperation* (Washington, DC: Institute for International Economics, 2002), pp. 17–18.