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INTERNATIONAL COOPERATION IN THE WORLD OF SOVEREIGN BUT  
INTERDEPENDENT NATION STATES: ASIA PACIFIC ECONOMIC  
COOPERATION AS AN INTERNATIONAL REGIME

by

Chien-Hong Lee

A Dissertation  
Submitted to the  
Faculty of The Graduate College  
in partial fulfillment of the  
requirements for the  
Degree of Doctor of Philosophy  
Department of Political Science

Western Michigan University  
Kalamazoo, Michigan  
December 2001

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Chien-Hong Lee

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## CHAPTER I

### INTRODUCTION

#### Statement of the Problem

Economic development has always been a top priority on national policy agendas. According to Paul Kennedy, the strength of nation-states depends on how well they can manage the three demanding tasks simultaneously: “to provide military security for its national interests, to satisfy the socioeconomic needs of its citizenry, and to ensure sustained growth” (1987, p. 446). If we accept his argument, it follows that the task of sustained growth is the very foundation for ensuring the affordability of the other two required tasks: military expenses and socioeconomic needs.

In most parts of the contemporary world, national economic development is characterized by globalization of the economy. This outward-looking policy in turn leads to a dramatic increase in the level of economic interdependence among nations. The increasing exposure to the international economy affects domestic politics of countries around the world. It is becoming increasingly difficult for politicians to avoid the necessary policy changes to deal with the challenges of globalization. Some of those changes that are intended to lower the costs of production to their nation’s firms may entail significant social costs to their publics.

Trade liberalization in the current world economy means the removal of barriers to the free movement of goods and services between countries. Among these

barriers are tariffs imposed on imports and non-tariff such as import quotas or quality rules designed to limit or exclude imports that might threaten domestic industries. The rationale underlying the free trade policy is based on a theory of comparative advantage (Moon, 2000a). The idea is that if tariff and non-tariff barriers are removed, local industries will be exposed to international competition and only the most efficient and competitive will survive. Inefficient firms and industries will be forced to close and the capital invested in them will move to more successful industries. Consequently a country's resources and capital will become concentrated on those areas in which it does best, leading to greater economic efficiency. Countries end up, then, specializing in those areas in which they have a comparative advantage and use the incomes earned to buy the things they no longer produce.

One of the most remarkable features of the contemporary world is the rapid development, diffusion and application of transportation, information and communication technology. The intensive application of those technologies has reinforced the trend toward trade liberalization and an international division of labor. As costs of these technologies have fallen, producers around the world with their respective comparative advantages now can and are more willing to operate in a global market. They reduce the cost of their products per unit by economies of scale and therefore they have incentives to expand their markets beyond national borders. Another implication of using those technologies is the international division of labor. Firms spread the different parts of their operations around the world according to where each part can be done most cheaply. For example, Nike shoes are designed in the

United States, prototyped in Taiwan, manufactured in over 40 different Asian locations and distributed to hundreds of different markets (Korten, 1995). In some cases, multinational companies can avoid political and legal limitations by changing their operational strategies. For example, Honda Motors exports its USA made cars to Israel although Israel has an embargo on Japanese cars (Wiseman, 1998).

Although free trade theories generally imply that trade liberalization is in the interest of all countries, it does not necessarily benefit all groups within a country. There is an important problem of adjustment costs (Cohen, Paul, & Blecker, 1996). When we analyze gains from trade in a comparative advantage theory, we are comparing an economy that has already fully adjusted to free trade with an economy that has restricted trade. This kind of comparison does not take into account the social, economic and political costs of removing existing trade restrictions and making the transition to free trade. For those workers and firms that can not compete with foreign imports, factories are shut down and jobs are lost. Consequently the social costs may include increased welfare dependency, family problems, and crime. No democratically elected government can continuously and completely insulate the loud pleas of workers and firms for protection from economic dislocation. There is always an incentive for some politicians to place limitations on the import of goods and services in direct competition with domestic production and this is especially true if the local constituents of those politicians suffer serious losses from import competition.

The advances of information technology have reinforced economic interdependence. Modern communication technologies now allow for the rapid movement

of complex financial investments and capital movement across national borders. Billions of dollars can be moved from one country to another at the touch of the “Enter” key. And yet interdependence implies sensitivity or vulnerability to an external shock. The Mexican bond crisis in 1994, the Asian financial crisis in 1997, and the Russian financial crisis in 1998 have provided dramatic reminders that countries that open themselves to capital inflows become more vulnerable to large capital outflows when investor sentiment turns downward. This could trigger sharp currency depreciation, social instability and political upheavals. A case in point is Indonesia. As security threats have been lessened in the post-Cold War period, the legitimacy of some Asian leaders was based upon economic performance. The financial crisis had tested the limitation of that legitimacy and had forced President Suharto to step down.

The fact that few states in the contemporary world have deliberately promoted self-sufficiency as a national policy goal implies that the material costs of a country to provide all of its needs from its own resources are simply too huge to bear. The capital to be saved from less costly imports and the gains to be derived from exports are too attractive to ignore. Why then is the issue of free trade still controversial? Indeed, over the long term, increasing global integration through trade and investment will improve the well being of both developing and developed nations. But this process, at least in the short term, also entails difficult political, social and economic adjustments in both developed and developing nations.

The recurring dilemma between the propensity for globalization and the need



for national autonomy defines much of what happens in the contemporary international political economy. This dilemma corresponds to what Karl Polanyi called the "double movement" (Polanyi, 1944, p. 130): an increase in the role of self-regulating market inevitably meets with a self-protection response from society. For him, modern society must be understood both as a result of the expansion of the self-regulating market mechanism and the self-protection of society against the negative consequences the market mechanism generates.

Polanyi's double movement still dominates debates in public policy today. Economic liberalism in general and free trade in particular have spread in most of the countries in the world. So too have voices for protection of unemployment, inflation, and the sharp fluctuation of exchange rates. The pitfalls of globalization need not necessarily dictate nations to make a "U" turn and promote autarky simply because it is too costly to do so. But what is then the appropriate role for nation-states to play in an era of globalization characterized by the interdependence among them? For Polanyi, national governments should play a major role in double movement-facilitating market mechanisms and protecting society from instability, including political control (the ability to impose losses on losers) as well as redistributive policies (social welfare).

Drawing from Polanyi's insights that markets cannot be sustainable without embedding themselves in political and social institutions, Rodrik further elaborates by pointing out that "these institutions serve three functions without which markets cannot survive: they regulate, stabilize, and legitimate market outcomes" (Rodrik,

1998, p 17-18). For a functioning society, social and political institutions regulate markets by creating a level playing field for preventing unfair competition and fraud; they stabilize markets by manipulating macroeconomic policies to deal with boom and bust cycles; and they legitimate market outcomes by providing welfare programs for those who cannot benefit from the market.

If we accept Rodrik's analysis, it follows that we need some sort of world government to regulate, stabilize, and legitimate global capitalism. And yet, to be sure, nation-states will not relinquish their sovereignty. As such the mismatch between globalization and global governance is sure to create problems of control for nation-states. For example, increasing economic interdependence has undermined national governments' abilities to manage social spending. Welfare programs are costly but politically very popular. As Inglehart (1997) argues,

a key reason why capitalism is thriving today is the fact that it had already made a series of incremental but cumulatively massive reforms that brought about some much needed governmental regulation of the economy and society and had developed extensive welfare state institutions. (p. 216)

And yet social spending may not be possible in all countries. In developing countries, for example, social spending has been strongly affected by the necessity of reducing the budget deficits to avoid inflation and the negative reactions of financial markets. In addition, financial liberalization has increased the mobility of capital which "has rendered an important segment of the tax base footloose, leaving governments with the unappetizing option of increasing tax rates disproportionately on labor income" (Rodrik, 1997, p. 6).

Indeed, today nation-states are interconnected so that policy changes in one

country may produce changes in other countries. This reality can be captured by what Robert Jervis describes as a ripple effect; as he argues, "ripples move through channels established by actors' interests and strategies" (1997, p.9). As such, domestic policies are increasingly exposed to international scrutiny. For example, if a country increases its corporate tax rate, it may give its firms an incentive to relocate their production to other countries. If country A has stricter rules for worker safety and environmental standards, its factories may have an incentive to move to country B who has low requirements. For the sake of international competitiveness, the race to the bottom may not necessarily be the ultimate outcome, but globalization is sure to exert strong pressures on nation-states for policy convergence.

Within democracies, citizens elect and put their representatives in the government and hold them accountable for our social and economic welfare. To the extent that other people in foreign countries are making important decisions that affect their lives, it is legitimate for them to question their government's accountability. If no political party (be it right-wing, left-wing or the third way) can deliver what they have promised, globalization is sure to be called into question.

For some people, globalization has caused a lot of frustration and resentment. Indeed, there is a growing global network of non-governmental organizations (NGOs) that oppose current trends toward economic globalization and are seeking to affect social change. NGOs are widely considered to be one of the most important themes in international relations today and they demonstrate a new political reality in the structure of global governance (Keck & Sikkink, 1998; Mathews, 1997;

Simmons, 1998). The key driving force behind the thriving of NGOs may be the inability or inadequacy of multinational corporations (MNCs), national governments, and the international economic organizations to respect and include a variety of development issues other than their own agendas. Technically, the advances of information technology have helped to spread the idea of democracy which enables citizens and consumers to compare their conditions with others in different places and to question their governments to explain policy choices.

NGOs are increasingly targeting MNCs, national governments and the international economic organizations to pursue social and environmental concerns. Today, NGOs operate at every level of the world system (subnational, national, and international) and address every conceivable issue such as labor rights, human rights, environmental problems, gender and economic justice. NGOs have theories to back up their claims (Held, 1995) and they have strategies to instruct their actions (Keck & Sikkink, 1998). The activities of NGOs can be viewed as a manifestation of citizenship rights in a civil society. They use several different techniques to network advocates with each other and they use various strategies to exert pressures on the targets. Some NGOs organize demonstrations while others prefer diplomacy. Some NGOs simplify issues to justify their campaign while others provide detailed studies to inform policy makers. Some NGOs refuse to engage with their targets, while others are willing to have a constructive dialogue with them. But in any case, NGOs are capable of stirring up public sentiment through various channels against their targets. The collapse of the OECD's negotiations over a Multilateral Agreement on

Investment (MAI) in 1998 (Kobrin, 1998) and the World Trade Organization talks in Seattle illustrate the complexity of globalization that policymakers are up against. In both cases, the claims of environmental, human rights and labor groups among others point out the structural problems with current approaches to global economic governance.

In sum, economic interdependence advanced information technology and the rising of NGOs all together pose serious challenges on nation-states' maneuvering room in terms of policy choices. Instead of debating whether we are witnessing a declining role of nation-states, it may be more important to contemplate how nation-states respond to this complex environment. While nation-states may be seen as passively adapting to the forces of globalization, they can also actively learn to address these challenges collectively. We have witnessed many international economic institutions being established to facilitate economic cooperation. International economic institutions may take different forms; it can be bilateral (for instance, Australia-New Zealand Closer Economic Relations Agreement), regional (for instance, North American Free Trade Agreement), or multilateral (for instance, World Trade Organization). Through these endeavors, nation-states are trying to harness the complexity of globalization.

### The Purpose of the Study

The empirical focus of this study is the Asia Pacific Economic Cooperation (APEC) which is a regional type of economic integration. APEC was formed in 1989

under the background of the growing economic interdependence in Asia Pacific region. APEC's membership coverage and its potential leadership in the world economy attract a great deal attention to its development. APEC members include Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Russia, Singapore, Taiwan, Thailand, United States, and Vietnam. APEC's broad membership gives it a size which rivals major multilateral institutions such as the EU. In 1997, nominal GDP in the APEC region amounted to US \$16.8 trillion or over 55 percent of global GDP (APEC, 1998a).

During the first four years (1989-1992) since its inception, APEC's progress was primarily in an exploratory mode, looking for direction and ways for economic cooperation. But when the United States took the chairmanship in 1993, APEC entered a new phase. U.S. President William Clinton raised APEC's profile by holding the first leaders meeting in Seattle. At the first summit, APEC leaders in their vision statement decided to create "a community of Asia Pacific economies"(APEC, 1995b). Most people probably would agree that community-building in Asia Pacific is more rhetoric than real resolve, given the facts of cultural diversity, different political values, mistrustful historical experiences, and different levels of economic development among some of the key members. As Huntington (1996, p. 127) argues, "integration proceeds faster and further when it is based on cultural commonality." But while Huntington emphasizes the clash of civilizations, Ohmae (1995) points out industry, investment, individuals, and information (what he calls

the four "I's") that lead us to a borderless world. Indeed some scholars, especially economists, would echo Ohmae's observations. Eichengreen, for example, charges that Huntington "failed to appreciate economic interdependence as a stabilizing counterforce" (1999, p. 119).

Indeed APEC provides a laboratory to see how cultural, political, and economic forces interact. APEC members are aware of their cultural diversity and political differences, but they have been trying not to politicize APEC. For example, APEC members call themselves member economies instead of member states, and economic leaders instead of state leaders. A practice has been set for economic leaders to wear casual not business suits during the summit meeting. All of these gestures point out that APEC is trying to prevent political factors from complicating the progress of economic cooperation. To be sure, if APEC were only a transnational business club or association, it would have no difficulty focusing on business only. But since APEC involves governments, excluding non-economic factors is not possible. This is especially true when the highest rank of APEC gatherings has been promoted from the minister-level to state leaders level and APEC sets an ambitious goal to achieve free and open trade and investment by 2010 for developed countries and 2020 for developing countries.

If APEC is a community, it is one that is "imagined" and "loosely coupled"(Alder & Barnett, 1998). When discussing community-building at the international level, scholars underline the importance of shared identity among community members. Deutsch (1957) discussed the development of "we-feeling" in NATO.

Haas (1964) stressed the need for a shift from national identities to collective identity in European integration. Indeed shared identity is the key of community-building because it gives members a reason or incentive to stick together. But what is the basis of shared identity and how does it make an international community cohere? Is it cultural commonality or economic interests?

If the shared identity among APEC members is to be based upon cultural commonality, it is not only difficult but also undesirable. It is difficult because there is simply no shared cultural values that provide a sense of community attachment for APEC members which can be readily drawn upon to settle different policy preferences. Nor is it desirable to deliberately create a shared cultural value because there are many competing cultural values in APEC; and since there is no criteria to determine which cultural value should be promoted, any arbitrary choice is subject to challenges.

If the shared identity among APEC members is based only upon economic interests, one can expect that the cohesion of this collective identity will be unstable. Because, as noted above, the implications of globalization and economic interdependence have compelled governments to strike a balance between Polanyi's idea of double movement-facilitating market mechanism and protecting society from instability. Even in prosperous times, policy preferences of APEC members may diverge due to members' different domestic considerations, let alone in difficult economic times.

If basing shared identity on economic interests is shaky and cultural



homogeneity is infeasible or undesirable for that matter, does that mean shared identity among APEC member is doomed from the start? As a sociological perspective in IR theories, constructivism seems promising and well suited in terms of providing a theoretical lens to shed some light on how identities, interests, and human actions are related (Checkel, 1998; Katzenstein, 1996; Wendt, 1999). The basic idea of constructivism is that people are purposeful actors and their actions are guided in importance, part by social identities and their corresponding interests; through interaction actors reproduce or transform the social structure in which they are embedded. Put differently, in a given situation, what actors do is guided by who they are (identities) and what they want (interests). Actors and structures are codetermined, meaning that actors create structures which in turn shape agents' subsequent behaviors. But structures are not fixed; they are reproduced or transformed through actors' practices.

It is important for constructivist theorists to understand that actors' identities and interests are always in process; if actors' preexisting identities and interests have not changed after interaction, the social structure is reproduced but if they have, the social structure is transformed. At first glance, one may question that if structures determine human actions, how can actors transform structures? For constructivists, the key to this question is that in a given situation, actors may have many identities; when corresponding interests of these different identities are in conflict, actors have to decide which identity to evoke. And it is this choice that gives actors freedom to reproduce or transform the social structure.

The general purpose of this study is to investigate the relationships among

identities, interests and international public policy in terms of the institutional development of APEC. Specifically, this study has two aims. First, I develop a constructivist model of international regimes. This model consists of three parts aiming at conceptualizing, (a) how regime members' collective identity and interests are constructed, (b) how pre-existing identities and interests are activated during policy discourse, and (c) how policy stability and change evolve over time that reshape members' collective identity and interests. Second, I use this model to help analyze how APEC evolves in response to internal dynamics and external pressures in terms of policy stability and change. The main focus of the study is to analyze how processes of interaction or practices among APEC's members reproduce or transform the social structures that shape their identities and interests. The central claim of this study is that the coherence of collective identity among APEC's members is essential to policy learning for institutional development. The remaining chapters are to justify this claim.

### Significance of the Problem

From the theoretical aspect, Robert Jervis (1998) raised concerns that the International Political Economy (IPE) subfield, after a strong period of development in 1970s and 1980s, seems to be stagnating. He argues that most applications of major theories in international relations (IR) have been to security or general international politics, with less attention to internal dynamics, identities, and cultures of international economic institutions. The consequence of these developments, according to

him, is that economists, more so than political scientists, have shaped the public debate on international economic policies. Indeed the complex implications of globalization on nation-states clearly demonstrate the need for collaboration among different fields. I share with Jervis' concerns and this study is an effort to address his call.

From the empirical aspect, the end of the Cold War has heightened the growing research interest in international economic cooperation. Compared with European economic integration, which has received considerable attention in the political and economic research over the past decades, much less work has been done on the Asia regional economic integration. This study is an attempt to address this imbalance. Conducting research on international cooperation on APEC is important because although it is a region with a high intensity of economic interdependence, this is also a region consisting of nation-states with different levels of economic development, different political systems, and different cultural and historical experiences. It is interesting to understand how nation-states in the Asia Pacific region can reconcile their differences and cooperate with each other.

### Organization of the Study

The remaining chapters of this study will proceed as follows. Chapter II reviews theoretical literature on international regimes adopted in this study to analyze APEC. It begins with a clarification of the concept of international regimes. The second section reviews major approaches to international regimes in the International Relations literature. Specifically, I compare power-based, interest-based and

knowledge-based theories of international regimes and this comparison allows me to take the next step, which is developing a model to analyze APEC. The last section will discuss constructivism, which is one variant of knowledge-based regime theories. Specifically, I will outline the essential elements of constructivism, explain why constructivism is adopted as the theoretical point of departure for this study, and respond to criticism of constructivism.

Chapter III introduces a constructivist model of international regimes, which allows me to derive a series of propositions for empirically analyzing APEC. This model is integrated to the extent that it also draws insights from literatures of complex adaptive systems (to be discussed in the proper place). This model consists of three parts aiming at conceptualizing how regime members' collective identity and interests are constructed, how pre-existing identities and interests are activated and may be changed during policy discourse, and how policy stability and change evolve over time that reshape members' collective identity and interests.

Chapter IV presents a broad overview of the changing international and regional context for the Asia Pacific development during the postwar years, and discusses how that context has shaped economic interdependence in Asia Pacific region over time. In the international context, I trace the evolution of policy ideas about international political economy in the postwar years that have defined the state-society relations; this survey provides us with an understanding of different ideas on the current debate of globalization. In the regional context, I concentrate on the US and Japanese roles in fostering the economic interdependence in Asia-Pacific region

during the postwar years.

Chapter V provides an understanding of the establishment of the APEC. It begins with an investigation of pre-APEC economic institution-building in the region; this in turn gives us a profile of factors that inhibit and facilitate the formation of the APEC. I then trace the initial motivations of different key actors in the APEC and study how these motivations might reflect on the preferences of institutional design.

Chapter VI studies the substantive policy issues in the APEC process. The focus of this chapter is to investigate what APEC members do might affect their collective identity either positively or negatively. The policy issues to be discussed are not randomly selected but based on the idea of complex adaptive system (CAS). As an open system, CAS must respond to internal dynamics and external pressures in order to sustain.

In terms of the internal dynamics, there are two major policy agendas in the APEC process: trade and investment liberalization and facilitation (TILF) and economic and technical cooperation (ECOTECH). Whereas the developed member economies have tended to approach ECOTECH as a concession to the developing member economies in order to secure their commitment to TILF, the developing member economies consider ECOTECH as a requirement of capacity-building to fully accept TILF. These two ideas simultaneously exist within APEC competing for policy directions and priorities. I will discuss the interaction between these two ideas in terms of policy stability and change.

With regards to how APEC adapts to its external pressures, I will discuss two major issues: the Asia financial crisis and the non-governmental organizations. The Asia financial crisis was a test of the cohesion of collective identity among APEC members. I will mainly focus on APEC's response to the crisis and how the impact of the crisis affects the members' collective identity. The other issue to be discussed is NGOs. In 1997, Canada proposed an idea of global civil society for broader engagement when it took the chairmanship. I will discuss NGO attitudes and actions toward APEC and APEC's policy on NGOs. Chapter VII concludes with a summary of the study and recommendations for future research.

## CHAPTER II

### REVIEW OF THE THEORETICAL LITERATURE

One of the most important developments in the study of international cooperation in American international relations has been the study of international regimes. In the beginning of the 1980s regime theory was launched in part as a reaction against what was seen as neorealism's de-emphasis of the importance of international institutions (Krasner, 1983). Neoliberal regime analysts (Keohane, 1984) found that even if the anarchy of the international system poses problems for collective action and constrains states to cooperate, they nevertheless can work together on many policy issues due to the rising interdependence among them. Nation-states adopt rules either through international organizations or informal arrangements and they share some expectations about what behavior is preferable and what is acceptable. Interest in international regimes also arose because theorists and practitioners observed that comprehensive and hierarchical international organizations were ineffective and inefficient in operation.

To begin with, regime analysts shifted attention away from specific international organizations such as UN and toward a wide range of substantial issues. Examples of international regimes are rules governing international telecommunications (Cowhey, 1990), for example, the Arctic Environmental Protection Strategy (Young, 1989), and GATT (Grieco, 1990). Since the 1990s the theoretical debate of

international regimes between neorealism and neoliberalism has gradually been replaced by the contest between rationalism (including both neorealism and neoliberalism) and constructivism. This shift in the debate is between material structures (power and interest) vis-a-vis social ones such as ideas and norms (Katzenstein, Keohane, & Krasner, 1998).

### The Definition of International Regimes

John Ruggie (1975) first introduced the concept of international regimes. The purpose for his endeavor was that there was no proper concept for international cooperation not performed by international organizations. As he argues:

In depicting the 'collective response' of states to collective situations occasioned by science and technology, I will differentiate among three levels of institutionalization: (1) the purely cognitive, which I will call 'epistemic communities;' (2) that consisting of sets of mutual expectations, generally agreed-to rules, regulations and plans, in accordance with which organizational energies and financial commitments are allocated, and which we are calling 'international regimes;' and (3) international organizations. (p. 569)

Ruggie's definition of international regimes was later modified at a conference chaired by Stephen Krasner. Since then basically all discussions of international regimes proceed from this so-called consensus definition:

Regimes are sets of implicit or explicit principles, norm, rules, and decision-making procedures around which actors' expectations converge in a given area of international relations. Principles are beliefs of fact, causation, and rectitude. Norms are standards of behavior defined in terms of rights and obligations. Rules are specific prescriptions or proscriptions for action. Decision-making procedures are prevailing practices for making and implementing collective choice (1983, p. 2).

According to Krasner (1983, pp. 3-4), the definition has two advantages.



First the definition encourages analysts to pay attention to the relationships among the various regime elements. Second, it enables us to distinguish two levels of regime change. If principles or norms change, a change of the regime itself takes place and a new regime emerges. On the other hand, changes in rules and procedures are changes within the regime.

Although the consensus definition was designed to reconcile differences between different intellectual camps, it still has received its share of criticism. Kratochew and Ruggie (1986), for example, challenged the internal consistency of the consensus definition. They argued that rules and procedures are about observable behavior whereas principles and norms are about shared beliefs. These different elements of regimes have to be studied differently. They pointed out that the definition's stress on convergent expectations as the basis of regimes gives regimes an intersubjective nature. But given the dominant epistemological position in regime analysis was positivism, their conclusion was that ontology contradicted epistemology in regimes literature. Instead they called for the interpretive epistemology.

Other critics claim that the definition is too complex and includes too many elements. Instead, for example, Keohane defined international regimes as "institutions with explicit rules, agreed upon by governments, that pertain to particular sets of issues in international relations" (1989, p. 3). To him, international regimes are one form of (international) institutions which are defined as "persistent and connected sets of rules (formal and informal) that prescribe behavioral roles, constrain activity, and shape expectations" (1989, p. 3). International institutions come in one

of three forms: (1) formal intergovernmental organizations (IGOs) or transnational nongovernmental organizations (NGOs), (2) international regimes, and (3) conventions (informal institutions). Keohane contends that there is a tendency toward evolution from convention to regime to organization and each step forward in the sequence is a step towards increased institutionalized.

Krasner's definition is instructive to the extent that it illustrates what different elements various theorists concern themselves with. But it appears that some regime theorists have echoed and addressed Kratochwil and Ruggie's concerns and their efforts have made them occupy a significant place (constructivism) in American IR theories (Katzenstein et al., 1998). Keohane's definition is helpful to the extent that he makes a distinction among international organization, international regime, and conventions within the framework of international institutions. But it is limited in discussing what shared ideas, such as collective identity, might affect regime development.

Indeed, developing a definition is crucial because it is the building block of a theory. And yet it is premature to devote much effort at this time trying to specify a standardized definition that is simultaneously "intuitively satisfying, empirically rigorous, and scientifically useful" (Isaak, 1985, p. 102) when theories of international regimes have not converged into a consensus perspective. In light of new observations, it is not uncommon to modify the original definition back and forth in order to refine a theory throughout the process of theory building. It seems that a minimum requirement of a definition is to include those variables that researchers

want to investigate in their theoretical perspectives.

Although the concept of international regimes was developed in mid-1970s, its latest development has been influenced by the new institutionalism (March & Olson, 1984). Many researchers of international regimes contend that international regimes are international institutions (Krasner, 1999; March & Olsen, 1998; Young, 1999). According to Young, for example, "International regimes, the central concern of most contributors to the new institutionalism in international relations, are institutional arrangements whose members are states and whose operations center on issues arising in international society" (1999, p. 11). In this study, I start with Young's definition, but institutional arrangements clearly need to be further elaborated. In this regard, I will adopt March and Olson's definition of an institution which is sociologically oriented. The main reason for the use of their definition is that it is consistent with the proposed model in this study. March and Olsen argue that

In a general way, an "institution" can be viewed as a relatively stable collection of practices and rules defining appropriate behavior for specific groups of actors in specific situations. Such practices and rules are embedded in structures of meaning and schemes of interpretation which explain and legitimize particular identities and the practices and rules associated with them. (1998, p. 948)

This definition's emphasis on appropriate behavior for actors is related to a distinction March and Olsen (1989) make between two logics of social action: a logic of consequence and a logic of appropriateness. Common in economic approaches, a logic of consequence sees actors as rational utility-maximizers. The actors come to institutions with a fixed set of preferences which they are able to rank. Actors engage in a strategic exchange with others within the constraints set by institutional rules. If

the institutional rules change, actors usually change their strategies but not their preferences. Common in sociological approaches, institutions dictate a logic of appropriateness. Institutions indicate to actors what they are supposed to do in a certain situation. Instead of asking myself how can I maximize my self-interest, an actor asks, given who I am (identity), how should I act in this particular situation. Putting it differently, in rational choice models of international regimes, actors are playing a strategic game of exchange, whereas in sociological models actors are role-players of a community who participate in a policy discourse.

In March and Olsen's definition, actors' identities are crucial for their actions. In a given situation, human action has a tendency of evoking an identity or role and matching the obligations of that identity or role. They argue that "Human actors are imagined to follow rules that associate particular identities to particular situations, approaching individual opportunities for action by assessing similarities between current identities and choice dilemmas and more general concepts of self and situations" (1998, p. 951). To say that actors follow rules according to the logic of appropriateness is not to say, "it is irrational or stupid" (Finnemore, 1996, p. 29). In practices, actors may find in a given situation that they have to choose from conflicting identities (collective or individual) to invoke and different rules (for example, sovereignty vs. efficiency) to follow. All of these choice dilemmas may involve complex reasoning process.

## Theories of International Regimes

The development of international regime theory has its roots in American IR scholarship in the mid-1970s. Since then interest in international regimes has spread not only in the United States but in Europe as well (Rittberger, 1993). European scholars divide theories of international regimes into power-based (or realism), interest-based (or neoliberalism), and knowledge-based (or cognitivism) approaches (Hasenclever, Mayer, and Rittberger, 1997), whereas American IR theorists use different categories which are neorealism, neoliberalism, and constructivism respectively (Katzenstein et al., 1998). Looking into specific theories under these two different sets of categories, one finds that both American and European classifications of regime theories are similar in important part because most of their overlap. I will adopt the European classification because it intuitively points out the key variable (power, interests, and knowledge) different theories emphasize for regime analysis.

In this section, I will describe how different theories explain regime formation. It is important to understand why nation-states want to establish a regime in the first place because it will give us a profile of what the initial motivations of regime members are and it will affect the subsequent regime development in terms of depth and width.

### Power-based Theories

The basic premise of power-based theories of international regime is that the competitive pressures of the international structure characterized by anarchy will lead

self-interested states to focus more on self-help than other-help. Even with the understanding that mutual gains (absolute gains) exist, states still must be concerned with the distribution of those gains (relative gains) because of the possibility that potential rivals become more powerful. Therefore, international regimes are difficult to establish and maintain (Grieco, 1988; Kirshner, 1999). Nevertheless, within this difficulty, power-based theory point out international regimes will emerge under certain conditions.

One variant of power-based theories is hegemonic stability theory. Its basic argument is that the rise of a hegemon increases the possibility of regime formation. By the same logic, if the power of a hegemon erodes, the regime will decline. Kindleberger (1973) originally proposed the hegemonic stability theory. As he argued, "for the world economy to be stabilized, there has to be a stabilizer, one stabilizer" (p. 305). The theoretical foundation of his argument is based on Olson's classic work on collective action (Olson, 1965). According to Olson, a group of individuals will not work together to achieve their common interest if this interest is nonexcludable, meaning that once the common interest is provided there is no way to prevent any individual from consuming it. As such, each individual sees that it is not in her best interest to contribute her share of the cost of providing a public good, but to take a free ride on those who are willing to do it. But if every individual has this same mentality and waits for others to do it, chances are that public goods will not be provided. But under some conditions, according to Olson, the public good will be provided: (a) if the group is quite small, (b) if one individual or a group of individuals

(privileged group) is willing to provide the public good alone, or (c) if there is coercion or some other special device to make individuals to pay their shares (1965, p. 2, p. 49).

A liberal world economy was considered as a public good by Kindleberger (1973) and the empirical support for his argument was that Britain played the hegemonic role in the nineteenth century, but it was exhausted after World War I. As such, Britain was unable to provide the infrastructure for the liberal world economy. The United States was unwilling to provide it because of an isolationist strategy. The consequence was rising protectionism, the Great Depression, and finally military upheaval. Gilpin (1987) continued the argument of hegemonic stability theory as he pointed out that the United States used its dominant position to promote the GATT, IMF, and World Bank in order to reintegrate world economies after World War II. But as American dominance declined, the international economic order drifted away from the original design of the Bretton Woods system.

Balance of power is another variant of power-based theories which argues that the rise of a hegemon decreases cooperation because it induces the other states to turn to balancing against it. According to Waltz (1979), there are two basic ways that states can balance against a hegemon. States can try to catch up a potential hegemony by building up their own capabilities (internal balancing). If they cannot go it alone, they will seek allies against that hegemony by forming an alliance or coalition (external balancing). But the interesting question is why a weaker state does not bandwagon with but balance against a hegemon? Waltz's explanation is that

"secondary states, if they are free to choose, flock to the weaker side; for it is the stronger side that threatens them" (Ibid, p. 126). Walt (1987) proposes another explanation which is an important modification of Waltz's position, suggesting that states tend to balance against threats rather than power per se. These perceived threats are derived from the assessments of opponent's intentions. Walt argues that

in general, the weaker the state, the more likely it is to bandwagon rather than balance. This situation occurs because weak states add little to the strength of a defensive coalition but incur the wrath of the more threatening states nevertheless. (1987, p. 29)

### Interest-based Theories

The basic argument of interest-based theories of international regimes is that the rising intensity of interdependence among nation-states in many issue areas poses strong demands for regime formation. International regimes can be considered as a "special device" (as Olson suggests) to facilitate the provision of public goods. International regimes emerge to solve collective action problems, market failure, coordination problems, and transaction costs that stand in the way of international cooperation. By accepting power-based assumptions of international regimes such as self-interested states and anarchy in the international system, interest-based theorists claim that, under certain conditions, international cooperation may nevertheless occur. Interest-based theorists do not deny the importance of power and self-interest, but they claim that structural realists such as Waltz, Gilpin and others exaggerate the degree to which the international system is anarchical (Keohane, 1982, 1984, 1993; Milner, 1997; Young, 1998). Although there is no formal hierarchy of authority in



international system, informal elements of global governance exist in the form of international regimes.

Robert Keohane may be the most influential scholar of interest-based theories of international regimes. In fact, both proponents and opponents of interest-based theories of regimes have discussed his works as preface to their own research. According to him, "Conflict may be the rule; if so, institutionalized patterns of cooperation are particularly in need of explanation" (1982, p. 325). Keohane points out that states often make individual agreements in many policy issues with other states. As the degree of the world economy deepens, states recognize that it is inefficient to negotiate each bargain with different countries from scratch individually. The process will be much more efficient if states begin with some baseline rules and then negotiate individual agreements from there. By performing this baseline function, international regimes can reduce transaction costs, coordinate different expectations, and facilitate the negotiation of specific bargains.

In 1984, Keohane published one of the most cited works in IR literature - *After Hegemony*. In this book, he tries to convey two basic main points. First, power-based assumptions can reach interest-based conclusions. Without relying on the General Will, according to Keohane,

even on the restrictive assumptions of Realism and game theory, gloomy conclusions about the inevitability of discord and the impossibility of cooperation do not logically follow. Egoistic governments can rationally seek to form international regimes on the basis of shared interests. (1984, p. 107)

Second, Keohane has demonstrated that international regimes are needed regardless of whether or not a hegemon exists. He develops a functional theory of international

regimes, also known later as neoliberal institutionalism (Keohane, 1993). He then tests his theory by examining issue areas of oil, money and trade. He finds that even after 1970s, when he believes the United States ceased to be a hegemon, the advanced industrial countries have continued to coordinate their policies in the international political economy. The world has not gone back to the beggar-thy-neighbor policies of the 1930s (discriminatory and protective measures such as erecting trade barriers, capital restrictions, and so on) and the world has not formed rigid economic blocs.

### Knowledge-based Theories

Knowledge-based theories explain regime formation as the result of consensual knowledge or shared ideas acquired by state actors. Before states can agree on whether an international policy issue exists and, if it does, how to deal with it, they must reach some consensus about the nature of the problem. According to knowledge-based theorists, between international structures and human agents lies interpretation (Hasenclever et al., 1997; Wendt, 1987). Actors must use interpretation to make sense of the structure in which they are embedded and in turn their interpretation depend on their own ideas or knowledge. As such, without denying human agents are purposive, proponents of knowledge-based theories maintain that it is improper for rationalists to treat actors' interests as given because they may have different ideas about the content of interests. Rather, actors' interests should be further analyzed in order to understand where their preferences come from.

Hasenclever et al. (1997) characterize those knowledge-based theorists such as Peter Haas (1989, 1992) as weak cognitivists because they want to complement but not to engage a fundamental attack on rationalist theories. Haas emphasizes the role of epistemic communities for the creating and maintaining of international regimes. He defines an epistemic community as "a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue-area" (1992, p. 3). Given the intensity of interdependence among states and the increasingly technical nature of international policy issues, policymakers experience uncertainty about how to define their interests. As such, policymakers often demand expert advice. The role that an epistemic community can play to help policymakers is in "articulating the cause-and-effect relationships of complex problems, helping states identify their interests, framing the issues for collective debate, proposing specific policies, and identifying salient points for negotiation" (Haas, 1992, p. 2).

In his study of pollution abatement in the Mediterranean, Haas (1989) demonstrates that epistemic communities not only provided the technical knowledge regarding the nature of pollution in the Mediterranean, they also made the policy alternatives possible. Scientists successfully persuaded government elites to redefine their interests and cooperate with other members despite their initial differences in terms of how to deal with pollution. Although Haas stresses the importance of epistemic communities, he does not de-emphasize the role of power. This is especially the case in which "scientific evidence is ambiguous and the experts themselves are split into

contending factions, issues have tended to be resolved less on their technical merits than on their political ones" (Haas, 1992, p. 11). As such, if members of epistemic communities can be promoted into formal positions of governments, they arguably exceed the role of advisers and can exert more influence on policy.

Another variant of knowledge-based theories is what Hasenclever et al. (1997) characterize as strong cognitivism, which not only undertakes a radical critique on rationalism but also challenges it with rival perspectives. Strong cognitivists such as Adler and Barnett (1998) and Alexander Wendt (1994, 1999) focus the role of collective identity in security community or international regime formation. According to Wendt (1994) "through interaction, states might form collective identities and interests, redefining the terms of Olson's [collective action] problem altogether" (p. 384). Among the variables that Wendt (1999) identifies as the causes of collective identity formation, two variables are particularly related to international regime formation- interdependence and common fate. Interdependence between states, for example, due to international trade, can encourage states to form an international regime for policy coordination. Common fate refers to the situation in which states feel they are on the same boat. For example, states may form a regime when they perceive a common enemy or threat that they can not protect themselves unilaterally. As we can see the interdependence argument is basically indistinguishable from the argument of interest-based theories and likewise the common fate condition is the core tenet of power-based theories (balance of power or threat). Yet what distinguishes Wendt's argument of these two conditions from that of power-

based and interest-based theories is that interdependence and common fate relate to collective identity, not just behavior only. Putting it differently, whereas power-based and interest-based theories can explain states' behavioral cooperation, knowledge-based theories point out a shared identity may be developed from states' cooperation.

To conclude this section, it appears that the differences persist between rational choice theorists who deliberately exclude details for the sake of analytical tractability and knowledge-based theorists who would sacrifice a degree of formal rigor for the sake of factual richness. Indeed parsimony is a virtue in the process of theory building and yet that should not be the only consideration. Excessive parsimony may sacrifice accuracy for clarity. Depending on the research questions at hands, it is the responsibility of the researcher to explain why a particular perspective is chosen over another.

### Constructivism

In this section, I will discuss constructivism which is part of a growing literature on the importance of ideas and norms in international relations (Checkel, 1998; Copeland, 2000; Hopf, 1998; Ruggie, 1999; Wendt, 1995, 1999). In so doing I first locate the place of constructivism in the IR field, discuss the basic arguments of constructivism, explain why I adopt this approach as the theoretical point of departure in this study, and finally respond to some critiques on constructivism.

### An Overview of Constructivism

Constructivism is one variant of knowledge-based theories of international regimes (in particular) and international politics (in general). It is challenging and sometimes confusing trying to locate knowledge-based approaches in IR theories. Different scholars use different labels to classify IR theories. The oft-cited classification is the one offered by Robert Cox who argues that there are two kinds of theory in IR: "problem solving theory" and "critical theory" (1986, pp. 208-209). To Cox, questions of theory are inseparable from purpose. Problem solving theorists take the existing order as given and for them the purpose of theory is to solve the particular problem to reproduce the status quo ante. In contrast, critical theorists are trying to reveal the structures that make the existing order possible and identify how it may be changed. Based upon Cox's classification, Wendt (1995) argues that critical IR theory is a family of theories including postmodernists, constructivists, neo-marxists, Frankfurt School critical theorists, and feminists. Apparently these theorists have quite different research agendas, but what unites them, according to Wendt, is an interest in:

how international relations is socially constructed which involves two basic claims: the fundamental structures of international politics are social rather than strictly material (a claim that opposes materialism), and that these structures shape actors' identities and interests, rather than just their behavior (a claim that opposes rationalism). (1995, pp. 71-72)

Wendt identifies himself as a constructivist and argues that social structures of international politics have three elements: "shared knowledge, material resources, and practices" (1995, p. 73).

The first element of social structures of international politics is shared knowledge, expectations or understandings. In a given structure, actors use their intersubjective understanding to define a situation and the nature of their relationships. Wendt uses a comparison between a security dilemma and security community to demonstrate how shared knowledge works. A security dilemma emerges when states interpret each other as an enemy that leads to a structure in which worst case assumptions are made about the intentions of other states; subsequently they define their interests in self-help terms. A security community, instead, is a social structure based upon shared understandings in which states consider each other as a partner and trust each other; as a result they are willing to settle their differences peacefully without resorting to violence.

The second element of social structures of international politics is material resources such as oil and nuclear weapons. But unlike rational choice theorists' "desocialized" view of such capabilities, constructivists maintain that "material resources only acquire meaning for human action through the structure of shared knowledge in which they are embedded" (1995, p. 73). Thus, according to Wendt, it is a wrong question to ask when ideas matter as opposed to material resources such as power and interest, "ideas always matter since power and interest do not have effects apart from the shared knowledge that constitutes them as such" (1995, p. 74). For example, consider nuclear weapons. Constructivists contend that it is not nuclear weapons themselves that matter but who holds them. Apparently the United States will not worry much about nuclear weapons held by the UK. However, the United

States is very much concerned about the possibility that North Korea might possess just one or two nuclear weapons.

The third element of social structures of international politics is practices. Social structures are produced, reproduced, or transformed by what actors do. As Wendt argues:

Self-help and power politics do not follow either logically or causally from anarchy...If today we find ourselves in a self-help world, this is due to process, not structure. There is no “logic” of anarchy apart from the practices that create and instantiate one structure of identities and interests rather than another; structure has no existence or causal powers apart from process. Self-help and power politics are institutions, not essential features of anarchy. Anarchy is what states make of it. (1992, pp. 394-395)

In other words, what Wendt suggests is that power politics and self-help are not inherent properties of the international system but rather it is an intersubjective understandings based on past experiences of actors’ practices that makes the system work the way it does now. This insight has important implications for constructivist theorizing because it enables constructivists to account for the process of structural change that redefines actors’ identities and interests.

Contemporary constructive research has been influenced by scholarly works such as, Berger and Luckmann's ideas of the social construction of reality and the structuration theory of Anthony Giddens among others. For Berger and Luckmann (1967), social construction involves objective, subjective and intersubjective knowledge. Constructive research in IR investigates how the objective features of international politics (for example, international regimes) are constituted or defined by subjective meanings of actors (for example, regime members) and intersubjective



processes such as discourses in social interaction.

Following Giddens' contributions, constructivists maintain that constructivism is ontologically structurationism/holism not individualism/reductionism (Giddens, 1984; Isaak, 1985; Ruggie, 1999; Wendt, 1987, 1999). Structurationism contends that explanations of political phenomena are not reducible to agent or structure. Instead, constructivism suggests a process through which agents and structures coevolve and mutually shape each other through interaction or practice. Agents create structures which in turn shape agents' subsequent behaviors. But structures are not fixed; they are reproduced or transformed through agents' practices.

#### The Rationale for Taking a Constructivist Approach

Several reasons can be identified to support the adoption of a constructivist approach as the theoretical departure in this study. According to Green and Shapiro (1994), a major weakness of rational choice theorizing stems from "a method-driven rather than problem-driven approach to research, in which practitioners are more eager to vindicate one or another universalist model than to understand and explain actual political outcomes" (p. 33). In other words, formal precision is followed and the cost is a loss of relevance for the complex world in which we live. Rational choice theorists have applied sophisticated models and fine statistical estimation techniques, but the complexity of the empirical world remains hidden from scientific view. By assuming states' preferences are exogeneously given, power-based and interest-based theories of international regimes assume states have the same interests,

be it absolute gains or relative gains. However, before defending national interests in the international regimes, member states have to define their national interests in the first place. It is reasonable to assume that states want to maximize wealth. But wealth for whom? For multinational corporations or small-medium sized enterprises or average citizens? Even if most economists agree that free trade is the best economic policy, they are describing the macro aggregation, not the micro distribution. Globalization is indeed a contested word for different people.

Some states view one another as enemies; others see one another as allies. According to Stein (1999), models of strategic choice "decontextualize" the relationship between states. He poses a question that "Because the alliance problem is a prisoner's dilemma and the armament choice between enemies is also a prisoner's dilemma, does that mean there is no difference between alliances and rivalries in international politics" (p. 222)? For instance, the complex relationship between Taiwan and China clearly demonstrates the point that there may be a gap between economists' consensus views on what is economically rational and government elites' perceptions of what is politically rational. From the economic angle, the Taiwan government has every reason to remove the restrictions set to discourage investments in China, but politically it is not rational to do because, based on past historical experiences and practices, government elites in Taiwan believe China is still hostile to them. There is always a risk that China will use Taiwan's economic dependence on her to force Taiwan to make political concessions. Identity and history matter indeed.

In order to translate research problems into a determinate system of equations, research strategies for both power-based and interest-based theories are based on rational choice theory which can be defined as: (a) self-interested actors (b) utility-maximizing behavior, (c) stable preferences, and (d) market equilibrium (Green & Shapiro, 1994; Morrow, 1994). State representatives come to a negotiation table (market) to play a strategic game of bargaining (exchange); they use various strategies, such as issue-linkage, side-payment, or bottom line, until a deal is done, that is, an equilibrium is reached when no actor can improve its position on its own. To describe the same situation, knowledge-based theorists of international regime instead use different words like policy discourse, deliberation, identity, persuasion, or social learning. Whether or not rhetoric is important in politics is debatable, but why worry about such elusive concepts as identity or ideas if in the end we can explain or predict the same policy outcomes with a "simpler" model? If this is the case, parsimony would compel us to choose power-based or interest-based approaches. As Kenneth Waltz argues, "A scientific assumptions cannot be true or false, only more or less instrumental for the purpose of theory-building. The trick is to explain much by little, not much by much" (cited in Mouritzen, 1997, p. 77). But knowledge-based theorists do claim that a simplified situation does damage to our understanding of the complex situation and turns our intellectual efforts in the wrong direction. For instance, Wendt (1995, p. 80) argues that:

Indeed, what is so striking about neorealism is its total neglect of the explanatory role of state practice. It does not seem to matter what states do: Brezhnev, Gorbachev, Zhirinovsky, what difference does it make? The logic of anarchy will always bring us back to square one. This is a disturbing

attitude if realpolitik causes the very conditions to which it is a response; to the extent that realism counsels realpolitik, therefore, it is part of the problem.

Wendt's warnings may be interpreted as the problem of what Robert Merton (1968) describes as a self-fulfilling prophecy. If we define situations as real, they are real in their consequences. If we always treat our counterparts as rivals or enemies, they may become rivals and enemies eventually. Since power-based and interest-based approaches treat states as self-interested and utility-maximizing actors, the consequences of policy prescriptions from both approaches may become the problems they want to cure. Knowledge-based theorists are not naïve to assume states are always other-regarding and they do not deny states' behaviors are intentional or purposive either. But they add a theoretical step by problematizing states' preferences--a crucial step that expands their theoretical leverage in terms of explaining both international conflict and cooperation.

### Criticism of Constructivism

The problem of causality: Kowert and Legro (1996) argue that constructivists typically take norms as a key independent variable when conducting empirical research. But in doing so constructivists violate their own assumption that actors and structure are mutually constitutive. In other words, if structures are so rigid that agents feel compelled to follow the norms, then where is agents' autonomy?

It is ironic when some constructivists respond to rational choice theorists' call for establishing independent idealist variable to influence states' behavior; now the accusation is internal inconsistency within their models ontologically if

constructivists choose to do so. Neither way will satisfy rational choice theorists. Nevertheless the accusation is not totally incorrect. I would argue that since constructivists take structurationism as the ontological position, they have to accept the theoretical implication of indeterminacy. Constructivism is a theory of process. For constructivists, by assuming that structure and actors are codetermined, meaning that neither structures nor agents have ontological priority, the question of which (structure or actors) has the causal primacy cannot be theoretically predetermined. But this is not necessarily a drawback. The mentality of prediction and control that preoccupies positivists has compelled them to search for a determinate model. But if the rationale behind this mentality is based on the demand for policy prescriptions, constructivists have something to recommend too (for example, the diplomatic idea of constructive engagement).

The problem of value: Mearsheimer (1995) contends that critical theories (including constructivism) are value-laden and therefore they are not scientific approaches. On the other hand, as a postmodernist, James Der Derian (2000), questions that "If we do indeed construct the world we live in, if our theories are inextricably interdependent with our practices, why do we go on reproducing so much of its violence, criminality, and outright evil" (p. 781)? This is indeed a serious and powerful normative question. I agree with Wendt's argument (1995, p. 74) that: "If critical theories fail, this will be because they do not explain how the world works, not because of their values". Still, there is a distinction between postmodernists and modernists. Constructivists are modernists who adopt the scientific methodology to

falsify their propositions with evidence. Therefore, Checkel (1998) points out that "constructivists have rescued the research of identity from postmodernists. By arguing for its importance using methods accepted by the majority of scholars, they have been able to challenge mainstream analysts on their own ground"(p. 325).

## CHAPTER III

### A CONSTRUCTIVIST MODEL OF INTERNATIONAL REGIMES

#### Identities and Interests

Constructivists have charged rationalists on the position of treating actors' interests as given, but what are their alternatives? The answer is identity. Most constructivists claim that actors' interests have been in an important way guided by their identities. Although there are many definitions of identity, most start with the understanding of oneself in terms of others (Alder & Barnett, 1998). In other words, identity can be divided into individual and collective identity and they are co-constituted because individual identity receives social meaning only with reference to the identities of others through interaction. Therefore Weller (2000, p. 50) suggests that we can "conceive of a concept of collective identity that treats the individual as the bearer of identity and uses the term 'collective identity' for the relation of correspondence between the individual identities of the members of this group." To follow his suggestion, the very basic question is to ask who is the individual bearer of identity we want to investigate. The individual bearer of identity, namely the unit of analysis, can be a state or a coalition of states. For example, one can discuss the individual identity of APEC and its collective identity as a coalition within WTO. Or one can analyze the individual identity of United States and its collective identity as a member of APEC.

Alexander Wendt (1992, 1994, 1999) has discussed the relationship between identities and interests in the analysis of state-as-actor in international politics and I will draw from his insights to develop a proposition. Wendt's basic argument is that "Interests presuppose identities because an actor cannot know what it wants until it knows who it is (1999, p. 231). According to Wendt, states have two kinds of identities: corporate (or individual) and collective (or social).

Corporate identity is defined as "the intrinsic, self-organizing qualities that constitute actor individuality"(1994, p. 385). Wendt (1999) suggests that the corporate identity of the state has four corresponding interests (the same as national interests to him): (1) physical survival, (2) autonomy, (3) economic well-being, and (4) collective self-esteem. States must meet these four basic needs in order to reproduce themselves. To Wendt, these four basic interests or needs do not entail self-interest to the extent that self presupposes an other or others and these four basic needs have to be satisfied with or without interaction with others. If states do interact with other states, then states' self-interests become meaningful for analysis. When states interact, how a state meets its corporate interests depends on how it perceives its relationship with other states and this is where collective identity fits in. Collective identities, according to Wendt, involve an "identification" with the fate of the other. Identification refers to "a continuum from negative to positive-from conceiving the other as anathema to the self to conceiving it as an extension of the self" (1994, p. 386). Self-interest and collective interest are effects of the degree to which a state identifies with other states. Just as self-interest implies what a state wants, collective interest is



what states want as a group or community. Exactly how collective interest will be materialized is a matter of degree, depending on how much a state extends the boundary of self to include others.

To illustrate the relationship between state identities and their corresponding interests, Wendt (1999) has discussed three (Hobbesian, Lockean, and Kantian) cultures of anarchy. In so doing, he demonstrates that as a corporate interest of states, physical survival can be pursued in many different ways, depending on intersubjective ideas of collective identities among states. In a Hobbesian culture, states view each other as enemies; violence is employed as a basic tool for physical survival. In a Lockean culture, states perceive each other as rivals which has characterized the modern state system since the Treaty of Westphalia; states may use violence to pursue their interests, but they refrain from eliminating each other. In a Kantian culture, which has emerged only recently in relations between democracies, states conceive of each other as friends; states do not use force to settle conflicts and work as a community against security threats.

Interestingly, as a critique to Wendt's constructivist claims in the analysis of anarchy, Mercer (1995) draws on social identity theory (SIT) to reach the neorealist conclusion. Social identity theory suggests that actors engage in categorization, identification, and comparison in their construction of a self-image (Tajfel & Turner, 1986). First, on the basis of similarities and difference, we divide the social world into categories for the sake of cognitive economy. Second, we identify the categories or groups to which we perceive ourselves as belonging. Third, we then compare the

in-group (the group to which we belong) and the out-group (a rival group); to the extent that the in-group is perceived to be better than the out-group, our social identities are enhanced. Because of the need for positive social identity, social identity theory contends that in-group members have the tendency to positively stereotype their group and negatively stereotype their rival group members.

Applying social identity theory to analyze anarchy in international system, Mercer suggests that social identity has a nature of “the double-edged sword-in-group identity promotes intergroup discrimination” (1995, p. 245). He argues that there is growing empirical support for the proposition that collectivist culture and intergroup discrimination are positively related. In other words, the more collectivist the culture, the stronger the in-group social identity, and the stronger the intergroup discrimination. Using ethnocentrism as evidence, Mercer (1995) claims that “it seems likely that the more collectivist the culture, the more applicable SIT. To the extent that SIT has been confirmed using predominately male Western individualists, it has passed the hardest test” (p. 246). He then equates intergroup with interstate relations. To Mercer, competition between states is not necessarily triggered by security or economic concerns; “instead, competition results from categorization, comparison, and a need for a positive social identity” (1995, p. 246). His conclusion is that “groups are inherently competitive; this supports the neorealist claim that the principle of action in anarchy is self-help” (1995, p. 247).

At first glance, Mercer is correct that in-group members have a tendency to devalue outgroup members, according to social identity theory. But a closer look at

his arguments might reveal that he only emphasizes one aspect of the whole complex situation and fails to take other equally important aspects into account. For one thing, Mercer equates intergroup with interstate relations; namely the boundary of categorization is drawn along the lines of the state system. But the state as an actor can use many different categorizations to perceive the world. In a world dominated by states, domestic politics and cultural ethnocentrism clearly reinforce a national identity. But with the end of the Cold War, the perceptions of states are increasingly affected by other institutions that offer alternative categorizations for forming collective identity (for instance EU as a community of states or NAFTA as a trading bloc). I am not arguing that national identities are not dominant expressions in international relations today, but it is theoretically unjustified to exclude the possible influence from other categorizations of in-group and out-group that states find themselves in.

For another thing, even if we equate intergroup with interstate relations, the cultural barrier of ethnocentrism has to be somehow discounted by the efforts of intercultural communication and the spread of democratic values around the world. Because of different historical experiences, every country has its own unique social and political culture. As such, it is not difficult to find that an appropriate behavior in one country is deemed inappropriate in another country. But culture is socially constructed and therefore is subject to change. While some cultural characteristics are reproduced, others are transformed. It can be argued then that whether ethnocentrism will be manifested to cause interstate conflict is historically contingent, depending on what states do to each other in the past and current practice. Put differently,

ethnocentrism may be considered as an intervening variable; it will recede into the background if no other independent variable inhibits interstate cooperation and it will manifest to worsen the situation if other independent variables do exert influence to cause interstate conflict.

Theoretically, Wendt's constructivist perspective on interstate relationships is not incompatible with the arguments of social identity theory. It can be argued that Wendt's conception of corporate identity has taken care of Mercer's concerns that competition and self-help inherently characterize interstate relations. In addition, although state sovereignty and domestic politics clearly play a crucial role in reinforcing a national identity, they are moderated by the state's participation in international society. "As the ability to meet corporate needs unilaterally declines, so does the incentive to hang onto the egoistic identities that generate such policies, and as the degree of common fate increases, so does the incentive to identify with others" (Wendt, 1994, p. 389).

Wendt's theoretical perspective clearly has more explanatory leverage than Mercer's, but what about states' identities that are in conflict in a given situation? Wendt emphasizes that if different identities are in competition with one another, there is no way to predict a priori which identity states will evoke. Still, he suggests a general hypothesis: "in any situation the solution to identity conflicts within an actor will reflect the relative 'salience' or hierarchy of identity commitments in the Self" (1999, p. 230). Clearly this hypothesis does not take us very far; it needs further specification. Ironically, Wendt argues that in terms of identity hierarchy, if a

state's corporate and collective identities are in conflict, corporate identity will tend to be selected. Wendt's apparent concessions to the rationalist theories do not mean corporate identity will always be dominant. For example, the state can learn to be other-regarding. I will discuss the process of learning in the next part of the model. In terms of identity salience, it can be argued that the solution to states' identity conflicts will be resolved by the degree to which a state is committed to a particular relationship. For example, if the United States values APEC, it may go against some important domestic interest groups in terms of policy choices where the cohesiveness of APEC is at stake.

Proposition 1: In a given situation, if a state's corporate and collective identities are in conflict, corporate identity will tend to be selected.

Proposition 1.1: The more a state is committed to maintaining interstate relationships, the higher the salience of its collective identity relative to corporate identity.

### Policy Discourse: Policy Learning and Communicative Action

Rational regime theorists assume that actors' interests and identities are constant, as such their models are unable to explain how actors may change their identities and interests during policy discourse or interaction. In contrast, many constructivists have paid attentions to the social or policy learning to explain how actors' identities and interests might be changed. Before discussing the crucial role of learning in constructivism, it is important to specify the dynamics through which states' identities

can be changed during policy discourse.

Drawing from Mead's idea of reflected appraisal, Wendt argues that "identities and their corresponding interests are learned and then reinforced in response to how actors are treated by significant others" (1999, p. 327). To illustrate his argument, Wendt assumes two actors, Ego and Alter, in the process of interaction to play an iterated prisoner's dilemma game. While Axelrod's (1984) strategy of Tit-for-Tat can explain why interaction between two self-interested actors can lead to behavioral cooperation, Wendt emphasizes identity effects through the game. Wendt's understanding of how collective identity might be changed in the process of collective action between Ego and Alter bears quoting at some length (1999, p. 346):

When people choose to "defect" in a social dilemma they are simultaneously choosing to reproduce the egoistic identities that constitute that dilemma. And conversely for prosocial behavior: by choosing to cooperate in a social dilemma Ego implicitly takes a collective identity, acting "as if" he cares for Alter, even if this is initially for selfish reasons, and signals to Alter, "I expect you to do the same in return" (altercasting). If Alter reciprocates then Ego's tentative new identity will be reinforced, leading to further cooperation and, over time, an internalization of collective identity on both sides. On the "we are what we do" theory of social interaction, in other words, by acting as if it had a new identity, and teaching the Other what it must do to help sustain that identity, each actor erodes his previous identity and learns to see himself in the mirror of the Other, changing his conception of who he is.

After explaining the learning process of how actors' identities might be changed, Wendt then draws references from Nye (the conceptions of simple/complex learning) and Haas (the conceptions of adaptation/learning) and suggests that "Learning sometimes goes no deeper than these behavioral effects ('simple' learning), but constructivist approaches highlight the possibility that learning may also have construction effects on identities and interests ('complex' learning)" (1999, p. 327). His

strategy is to use simple learning to capture the process of structural reproduction and to use complex learning to explain the social structure change. Yet a closer look at both Haas and Nye's original definitions, one can not find the explicit connection between interests and identities change. Nye (1987, p. 380) makes a distinction between simple and complex learning in explaining foreign policies:

Simple learning uses new information merely to adapt the means, without altering any deeper goals in the ends- means chain. The actor simply uses a different instrument to attain the same goal. Complex learning, by contrast, involves recognition of conflicts among means and goals in causally complicated situations, and leads to new priorities and trade-offs.

Haas (1990, pp. 23-24; pp. 33-34) distinguishes adaptation and learning which captures the same difference between simple and complex learning, but refers more specifically to the internal dynamics of international organizations:

By "learning" I mean the process by which consensual knowledge is used to specify causal relationships in new ways so that the result affects the content of public policy. Learning in and by an international organization implies that the organization's members are induced to question earlier beliefs about the appropriateness of ends of action and to think about the selection of new ones... Adaptation, in our context, is the ability to change one's behavior so as to meet challenges in the form of new demands without having to reevaluate one's entire program and the reasoning on which that program depends for its legitimacy.

The distinction between simple and complex learning is useful to the extent that it underlines actors' interests and preferences can be changed during policy discourses. Whereas rational regime theorists can only explain simple learning, constructivists remind us that states can change causal beliefs not only on policy means but ends as well through complex learning. Yet the connection between complex learning and collective identity is unspecified. Does it mean that when complex

learning occurs in an international regime, the collective identity of regime members will become more coherent? I would argue that basing constructivist explanations of interests and identities change on complex learning is incomplete because it cannot capture two important situations: (1) complex learning occurs but it does not affect actors' preexisting collective identities, or (2) complex learning does not occur but actors' collective identities have been changed during policy discourses.

The first situation is when complex learning does occur but has less to do with a change of collective identity. For example, Finnemore (1996) argues that the World Bank provides a setting in which states are socialized to redefine the meaning of economic development. The rising GNP used to be the only policy ends of economic development in the Third World. But in the late 1960s, the meaning of economic development expanded to include distributional concerns. In this case, states have learned to accept new policy goals and new values without necessarily changing their collective identities.

The second situation is the possibility that actors' actions in policy discourses contribute to their collective identity positively without complex learning or changes in beliefs about ends. Indeed to some researchers and practitioners of public policy, it is very difficult for political actors to go beyond simple learning. For example, in discussing the policy learning in the advocacy coalition framework, Sabatier & Jenkins-Smith (1999) contend that certain policy debates between two coalitions are irreconcilable because each coalition holds a different 'belief system' and it is impossible to find a compromise. A typical example is the debate between the economy



and ecology. Clearly, some issues in international policy discourse such as environmental protection or labor standard is contested between developed and developing countries. But if at the end of interaction, two coalitions holding incompatible belief systems can agree to disagree without imposing their own respective values on each other, they can leave the negotiation table without resentment. In this case they might reinforce their positive collective identity due to mutual respect to their differences or at least keep the current collective identity at the same level without degenerating into a worse one.

I would suggest that constructivists could draw insights from what Risse (2000) calls a logic of arguing to accommodate both the idea of complex learning and the two situations I describe above. Basing his study on Habermas's theory of communicative action, Risse proposes a logic of arguing which refers to social actions when "actors try to challenge the validity claims inherent in any causal or normative statement and to seek a communicative consensus about their understanding of a situation as well as justifications for the principles and norms guiding their action" (2000, p. 7).

According to Risse (2000, p. 6), a logic of arguing is compatible with a logic of appropriateness and in fact the former is an elaboration of latter. Most constructivists followed the logic of appropriateness to describe actors' social actions in their models (Finnmore, 1996; Katzenstein, 1996; March & Olsen, 1998). Although the logic of appropriateness is often associated with a structural approach to the study of social actions, as previously noted, March and Olsen also mention rule-guided

behavior as a conscious process. In a given situation when actors' identities are in conflict or there are different rules to choose from, actors have to make a choice. The introduction of a logic of arguing into March and Olsen's model makes the actors become more active.

In a discourse, communicative action based on the logic of arguing or communicative rationality is oriented toward consensus by persuasive arguments. When actors deliberate in a discourse, they try to reach communicative or "reasoned" consensus on two issues:

- (1) whether their assumptions about the world and about cause-and-effect relationships in the world are correct (the realm of theoretical discourses); or
- (2) whether norms of appropriate behavior can be justified, and which norms apply under given circumstances (the realm of practical discourses). (Risse, 2000, p. 7)

When communicative actions prevail, actors do not search to maximize their fixed interests and preferences but are prepared to change their own views in light of a convincing or better argument.

In contrast, strategic action based on the logic of consequence or instrumental rationality is oriented toward an agreement or a compromise through positive or negative incentives (March & Olsen, 1989, 1998). When strategic actions take control in a discourse, actors do not change their preexisting identities and interests, even in light of a better argument; instead they use threats or rewards or both to reach an agreement.

In a policy discourse, there are several preconditions for actors to conduct communicative actions in order to search for reasoned consensus: (1) "actors requires

the ability to empathize, that is, to see things through the eyes of one's interaction partner"; (2) actors need to share a 'common life world' which consists of "a shared culture, a common system of norms and rules perceived as legitimate and the social identity of actors being capable of communicating and acting"; and (3) "actors need to recognize each other as equals and have equal access to the discourse, which must also be open to other participants and be public in nature" (Risse, 2000, pp. 10-11).

At first glance, one may quickly dismiss such preconditions as ideal and the notion of the "ideal speech situation" simply does not exist in practice, especially in international policy discourses. But a closer look at these preconditions, one may have a second thought. Let me first describe what aspects are indeed more difficult and then point out what aspects are more realistic in terms of observing and applying preconditions of communicative actions in practice or for a research purpose.

In the first precondition, where actors have an ability to empathize, communicative actions are self-evident. But it is difficult to distinguish between cheap talk, deception and rhetoric from communicative action in practice. In addition, to some constructivists who have tried to operationalize Habermasian notions in this aspect, the task is viewed as "daunting" (Checkel, 1999). For research purposes, students of constructivist regimes may be advised not to follow this path.

The aspect of a shared culture in the second precondition is too strict in terms of a requirement for communicative actions. Without doubt, actors with a shared culture tend to have the same world view and this is conducive to mutual understandings. But as previously noted, a deliberate or intended promotion of a particular

cultural identity is unfeasible and undesirable. As such one should not overburden actors with a precondition of a shared culture in order to conduct communicative actions. The fact that people in modern democracies characterized by multiculturalism can live peacefully together is not because their shared or social identity is based upon a particular culture (by definition). Instead their shared identity is based upon democratic legitimacy and I think it is this aspect of Habermas's contributions that is promising and well-suited for further research.

It is not surprising then that many critical theorists (on Cox's classification), including constructivists, have turned to the Habermasian notions of equal access, legitimate rules, and broader public participation (Bohannan, 1999; Dryzek, 1996; Held, 1995; Hurd, 1999; Wendt, 1999). But even realists cannot underestimate the power of legitimacy. For example, as Schweller and Priess (1997, p. 24) argue, "If the hegemon adopts a benevolent strategy and creates a negotiated order based on legitimate influence and management, lesser states will bandwagon with, rather than balance against it." For another example, Stephen Krasner (1999), a prominent realist, proposes an idea of "organized hypocrisy". According to him:

Organized hypocrisy occurs when the logic of appropriateness and the logic of consequences are in conflict. To secure resources from the environment, rulers must honor, perhaps only in talk, certain norms but at the same time act in ways that violate these norms, if they hope to retain power and satisfy their constituents...Political organizations win legitimacy and support through a logic of justification as well as through a logic of justification as well as through the provision of resources. A ruler might pay off his clients through import licenses and at the same time claim to a wider group of voters that he was protecting his country from the depredations of global capitalism. (pp. 64-66)

Krasner's point is well taken but it only reconfirms the power of legitimacy.

Because it is difficult in public discourses to justify one's claims on self-interested grounds. Even rhetorical arguments that try to justify self-interests must refer to commonly accepted norms. If the importance of legitimacy is agreed upon between rationalists and constructivists, do they have the same idea about what legitimacy refers to? Legitimacy can be defined as "the normative belief by an actor that a rule or institution ought to be obeyed" (Hurd, 1999, p. 381). For this study, it may be useful to follow Scharpf (1997) to draw a distinction between two types of legitimacy: input-oriented and output-oriented. Whereas input legitimacy is based on "the agreement of those who are asked to comply", output legitimacy is based on effective performance to the extent that "effective policies can claim legitimacy if they serve the common good and conform to criteria of distributive legitimacy" (Scharpf, 1997, p. 153). In other words, input legitimacy emphasizes procedural fairness while output legitimacy is more concerned with policy performance.

In discussing the case of EU, given many different ideas competing for policy directions, Scharpf himself goes for the output legitimacy on the grounds that it reduces the transaction costs associated with unanimous rule and increased general welfare can be redistributed. Proponents of input legitimacy would argue that institutions are not only instruments for technical performance, they are part of a political order that make it possible for different groups in conflict to coexist peacefully in the first place (March & Olsen, 1995). In other words, it is not only what you do but how you do it that matters. Obviously input legitimacy is compatible with the preconditions of communicative actions. As such constructivists are more oriented

toward input legitimacy whereas rationalists are more oriented toward output legitimacy.

I would argue that constructivists should not underestimate the connection between output legitimacy and collective identity among regime members for reasons I will explain in the next section. Figure 1 illustrates a conceptual framework of how regime members interact with one another during the policy discourse and here it is sufficient to derive a series of propositions based on analysis above.

Proposition 2: Communicative action is positively correlated to collective identity among regime members. The more the regime members conduct communicative actions, the more the cohesiveness of regime collective identity.

Proposition 2.1: The more an international regime is based upon legitimacy, the higher the probability the regime members comply with the regime norms, and

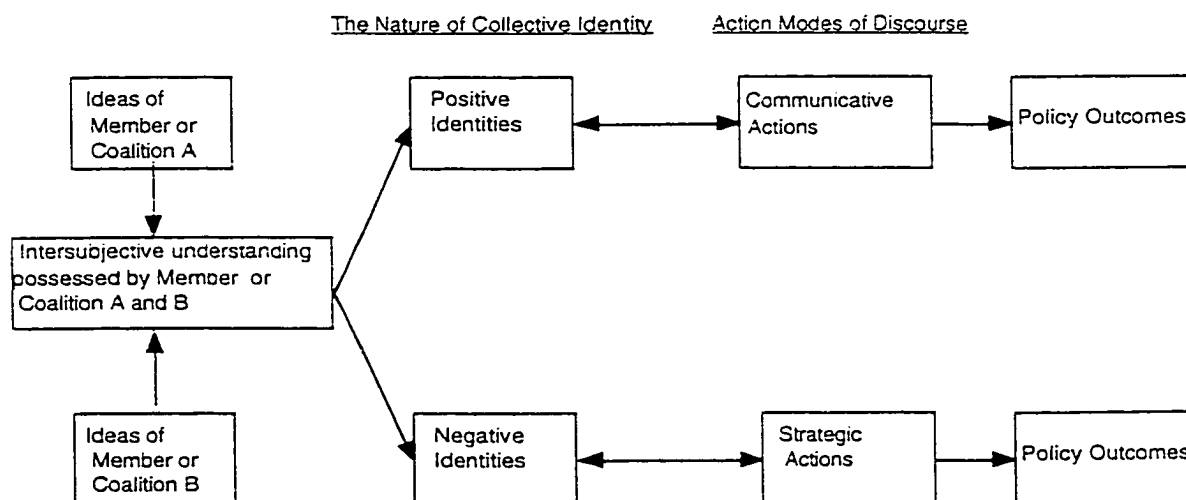


Figure 1. A Constructivist Model of International Regimes.

the more the cohesiveness of regime collective identity

Proposition 2.2: The more the regime decision-making processes involve all decision-affected actors, the more the regime is based upon legitimacy, the higher the probability the regime members comply with the regime norms, and the more the cohesiveness of regime collective identity.

### Institutional Development: Policy Stability and Change

Constructivists have good reasons to focus more on input than output legitimacy. They study policy issues, but concentrate more on norms, procedural rules, and practices than policy competence, policy change and substantive issues. This imbalance, I would argue, is unnecessary because there is a connection between policy performance and collective identities among regime members. Regime constructivists treat states as actors and assign them with corporate and collective identities. If we take it one level higher, it follows that an international regime can be also considered as an actor with its own corporate and collective identities. As such, an international regime, just like a state, must satisfy its corporate needs or interests in order to survive. For example, what is APEC (corporate identity)? What does APEC want (corporate interests)? This is where the output-oriented legitimacy becomes connected to collective identities among APEC members. Input legitimacy is important to serve as a buffer to lessen the negative consequences of policy failure, but if the policy failure continues for extended periods such that the corporate needs are not provided in time, the fate of APEC is doomed. If APEC decays or even disbands, the

collective identities among its members are surely damaged. Therefore both input-legitimacy and out-put legitimacy are important to collective identities among regime members. So, I would argue constructivists should also look into the relations among identities, interests and institutional development.

Constructivists have been strong on theoretical foundation, but the devil has been in the details. For example, Wendt is one of the leading constructivists today because he provides a solid theoretical perspective to rival rationalist ones. He connects identities with interests to explain political actions (corporate/collective identities) and explain how collective identities among states might be changed (a logic of reflected appraisal). But in terms of probability of structural change, this is what he says:

It is true that one reason for emphasizing processes of social construction is to highlight possibilities for change that might otherwise not be seen, but it is no implication of the argument here that change is easy. Indeed, I am impressed with how resilient the state is. No matter how much transnational actors grow in importance, no matter how much state autonomy is undermined by international regimes or economic interdependence, state keep trying...to reproduce themselves. (Wendt, 1999, p. 238)

Wendt's concessions to the realist conclusion that states are still jealous of their sovereignty do not mean states cannot learn to be more other-regarding. As he argues, "If self interest is not sustained by practice it will die out. The possibility of structural change is born out of that fact" (1999, p. 369). Still, his contributions are more of a theoretical nature. I suggest constructivist regime theorists can view states' practices as different policy ideas negotiating for policy choices. In this way, they can step into both procedural and substantive policy and investigate the relations



between collective identities and policy change. I would argue that without violating the basic tenet of constructivism (shared ideas, practices, and structurationism), constructivists are well equipped to elaborate institutional and policy change. What they need is to learn from other fields or disciplines to develop a theory of institutional selection. Below I will address this important element.

As previously noted, constructivists contend that explanations of political phenomena are not reducible to agent or structure. Instead, they point out a process of interaction through which agents and structures are codetermined. Agents create structures which in turn shape agents' subsequent behaviors. But structures are not fixed; they are reproduced or transformed through agents' practices. This ontological structurationism of constructivism is particularly suggestive of the model of complex adaptive system (CAS) which is one version of complexity theory more associated with evolutionary biology. In this study, CAS refers to an open system consisting of many agents who (a) interconnect and interact with one another and with their environment through feedback loops, (b) act on local knowledge, and (c) are capable of adapting their actions based on experience (Anderson, 1999; Rosenau, 2000). Although complex theory was developed from natural sciences, in recent years its applications have been found in political science (Axelrod & Cohen, 1999; Cederman, 1997; Jervis, 1997; March & Olsen 1998; Pierson, 2000; Rosenau, 2000; True, Jones, & Baumgartner, 1999). The model of CAS helps researchers understand the process of a system's evolutionary trajectory. As James Rosenau argues:

Like any complex adaptive system in the natural world, the agents that comprise world affairs are brought together into systemic wholes that consist of

patterned structures ever subject to transformation as a result of feedback processes from their external environments or from internal stimuli that provoke the agents to break with their established routines. (2000, p. 41)

I think the CAS model can help constructivist regime theorists elaborate the dynamics of institutional selection. Generally students of political science use the metaphor of path-dependence (Pierson, 2000) or punctuated equilibrium (True et al., 1999) to explain the process of institutional and policy change. I would argue that the CAS model could accommodate these two important concepts within its parameters for an integrated understanding. To justify my argument, clarifications of key elements in a CAS are in order.

Feedback/Interconnection/Interaction: When agents in a CAS interact with one another, they will adjust their behaviors based on the feedback they receive from their interconnected structures or loops. Feedback is the key to understand the evolutionary trajectory. Feedback is usually seen either as negative or positive. Feedback is positive "when a change in one direction sets in motion reinforcing pressures that produce further change in the same direction" (Jervis, 1997, p. 125). Feedback is negative "when the change triggers forces that counteract the initial change and return the system" (Jervis, 1997, p. 125). In other words, whereas negative feedback reduces or cancels out any deviation from a given state, positive feedback would amplify it or widen the gap. A typical example of negative feedback is the theory of balance of power. No state can dictate the international political order by itself. An ambitious hegemon is always subject to counterforce by an alliance of less powerful states. Another example is a central heating system. When one sets the room

temperature at, say, 75-degrees, if the temperature goes below a certain degree, an adjusting mechanism is set in motion, which turns the heating on until the 75-degrees is attained. The gap between the required and the actual temperature is thus closed.

Examples of positive feedback can be illustrated by two familiar old stories. One is how the Sony Beta machine was out competed by the VHS format machine, despite its technological superiority. Both machines provided the same function, but due to a network effect (more VHS tapes in rental video shops) Beta was eliminated from the market due to refusing to share technology. Apple Computer made a similar mistake with its operating software and lost market share to the less user-friendly DOS operating system. The point is that once DOS locked in the market, Microsoft could spread its costs over a large base of users. The result of the competition in these two examples was not predictable in advance. Once both DOS and VHS got ahead, they locked in the market. These two examples are typical illustrations of economic interpretation of path dependence (I will describe the constructivist one shortly). Both examples cast doubts on the ideal efficiency of agents' rational choices. There might be a more efficient path, but once derailed the cost of getting back on that path are prohibited (Arther, 1994; North, 1990; Pierson, 2000).

Self-organizing/Emergent properties: Now when agents in a CAS interact and mutually adapt to each other through feedback loops, there is no way for agents to know in advance which feedback (positive or negative) will apply because agents only have local but not global knowledge to understand the structure or network of interconnectedness and other interconnected agents' responses of their initial actions.

And it is this indeterminacy that characterizes the CAS with emergent properties. Complex adaptive systems with emergent properties resist reductionist determinism, because feedback loops preclude holding some agents constant in order to study others; namely it is "interaction not additivity" (Jervis, 1997). Agents self-organize themselves based on their experiences and form an overall system property, and no single agent has a complete knowledge of whom he has interconnected with, and unlimited resources to dictates the collective behavior of the system. For example, a comprehensive reform may have short-term effects, but its sustainability is unpredictable because reformers cannot have complete knowledge about who might have been affected by reform programs and their feedback effects.

Hierarchical/Open system/Coevolution: CASs are said to be hierarchical to the extent that each level of an emergent CAS serves as an agent of a higher level CAS. For example, relevant agents (say, NGOs, MNCs, governments) self-organize themselves to form an emergent CAS (the United States) which in turn serves as an agent in a CAS of higher level (APEC). The hierarchical nature of a CAS gives us a general idea about the structure or network of interconnection of agents in a CAS. As an open system, agents in a CAS not only interact with other agents within their CAS, they also interact with their environment. Now the idea of coevolution characterizing a CAS takes the concept of Darwinian evolution to the next level. Instead of adapting to a stable environment, agents in a CAS are facing a changing environment which consists of many other CASs and agents doing the same thing of adapting. If we understand the idea of coevolution, it is not difficult then to follow that there are

two types of coevolution: micro and macro (McKelvey, 1997). Whereas micro-evolution refers to mutual adaptation between agents within a CAS, macroevolution points out mutual adaptation between a CAS and its environment with interconnected CASs and agents. The importance of coevolution to a CAS is underlined by James Rosenau (2000, p. 42)

Human systems face challenges from within or without, and the adaptive task is to maintain an acceptable balance between their internal needs and the external demands. At the same time, in the process of changing as they adapt, systems coevolve with their environments. Neither can evolve in response to change without corresponding adjustments on the part of the other. On the other hand, if a system is unable to adjust to its environment's evolutionary dynamics and thus fails to adapt, it collapses into the environment and becomes extinct.

Path dependence/Punctuated equilibrium/Regime competency: Now we are in a position to explain how the CAS model could accommodate these two important concepts, path dependence (PD) and punctuated equilibrium (PE), for an integrated understanding of institutional and policy change. Scholars who adopt either PD or PE all use the ideas of positive or negative feedback but in different ways to explain institutional and policy change. Let me be specific. Proponents of PD use positive feedback to explain institutional and policy stability, and they use misfit between an institution and its environment to explain abrupt change. Proponents of PE, on the other hand, use negative feedback to explain policy stability and positive feedback to explain rapid change in a short transition period.

March and Olsen (1998) portray inefficient history of institutional development as “path dependent in the sense that the character of current institutions depends not only on current conditions but also on the historical path of institutional

development” (p. 959). In other words, institutional change is not always fast because institutional history may prevent institutions from quickly responding to environmental pressures. March and Olsen evoke the idea of positive feedback to explain why institutions are relatively robust against environmental change:

The rules, norms, institutions, and identities that drive human action are seen as developing in a way that cannot be predicted from prior environmental conditions. They co-evolve with the worlds in which they act. They are subject to local positive feedback that traps them at local optima. Rules are understandable only by understanding their histories. (1998, p. 958)

On the other hand, True et al. (1999) also evoke the idea of positive feedback, but interestingly they use it to explain rapid policy change instead of policy stability. According to them, in the United States different interest groups or coalitions are competing to shape the image of policy issues. When one coalition become dominant in shaping policy image of a particular issue, they then occupy so-called policy monopolies. They use negative feedback to explain the continuance of a policy monopoly and they use positive feedback to explain its collapse. As they argue, "Macropolitics is the politics of punctuation-the politics of large-scale change, competing policy images, political manipulation, and positive feedback. Positive feedback exacerbates impulses for change: It overcomes inertia and produces explosions or implosions from former states" (True et al., 1999, p. 102).

Because of the limit of our sights in time (at a particular moment) and space (at a particular location), we tend to describe this change in system either gradually or abruptly. In other words, our local knowledge makes us unable to see those forces that are behind the scene waiting to surface. From the CAS model, agents in an open

system are always coevolving with other agents and their environments. If the system is reproduced, this ostensible stability is dynamic, not an immovable one. The state or property of system at "stable" time can be explained by path dependence. However, the old ideas never die but recede below the surface; they have a possibility to reappear under different condition.

To return to the beginning of this section, I argue that there is a connection between policy performance and collective identity among regime members. Now I would follow March and Olsen's ideas of exploration/exploitation to derive a series of propositions to analyze the coevolution of a regime's path-dependent capability with the regime's environment. The importance of their ideas lies at a connection between microcoevlution and macrocoevolution.

When an international regime has been established, its members have to decide the identity of the regime, namely, what does the regime stand for? Now there may be many ideas competing for that identity and it surely involves arguing, interpretation and reinterpretation. At some point when regime members have reached consensus of regime identity, they begin to develop procedural rules, substantive policy issues, and programs for implementation. As times go by, regime members accumulate experience with existing practices and rules as they try to adapt to their internal dynamics and their external environments. At some point in a regime's development when a particular set of rules and practices have been used repeatedly, members become familiar and competent in using them and as such regime member tend to use them further. Now this is when the local positive feedback kicks in and

produces what March and Olsen call the competency trap: "the tendency for a system to become firmly locked into a particular rule-based structure by virtue of the development of familiarity with the rules and capabilities at using them. These refined capabilities strengthen a system in the short run and make it resistant to change" (1998, p. 964). The implication of competence trap is that as the environment changes and requires institutional adjustments, the current regime competency becomes the enemy of adaptation. As March and Olsen argue:

The accelerating development of competence with particular institutional arrangements and practices is a major feature of institutional history and is one of the more obvious reasons why history is path dependent. The local optima produced by competence elaboration are resistant to new opportunities. For that reason, they are also potential precursors to long run obsolescence and to the discontinuous, contested, and problematic change associated with "punctuated equilibria", "critical junctions", and "performance crises". (1998, pp. 964-965)

On the other hand, the opposite extreme is the incompetency trap, which refers to the situation in which institutions have too many undeveloped ideas and too little competence. In order to get out of the competency and incompetency traps, March and Olsen (1995, 1998) suggest an organization should balance between exploration of new possibilities and exploitation of old certainties. Exploration is associated with experimenting new ideas, strategies and knowledge to find new alternatives that are better than current practices, whereas exploitation involves improving existing capabilities, elaborating upon agreed ideas, and measuring performance. The returns from exploration are distant in time and uncertain whereas the returns from exploitation are immediate in time and more certain. As such March and Olsen (1998) contend:

It is not easy for an organization to justify experimentation that, at least in the



short run, does not make sense in terms of immediate local return. What is required is a willingness to engage in experimentation that is unlikely to succeed and particularly unlikely to be rewarding in the temporal and spatial neighborhood of the experiment. Unfortunately, although too little experimentation is likely to be disastrous in the longer run, too much experimentation is likely to be disastrous immediately...Few organizations do well with the problems associated with balancing exploitation and exploration, and there is little reason to think that international organizations will be particularly clever about it. (p. 965)

The following propositions derive from the implications of the analysis above of exploration/exploitation for regime adaptations over time:

Proposition 3: In a stable environment, regimes' exploitation adaptation is likely to exceed exploration adaptation.

Proposition 3.1: Expectations for exploitation adaptations are more likely to be used as operational goals to produce measurable performance outcomes.

Proposition 3.2: Expectations for exploration adaptations are more likely to be used to achieve non-operational learning outcomes such as new ideas and capabilities.

Proposition 4: In turbulent times, regimes' adaptation to the environment is likely to be both enabled and restricted by the regime unique historical path dependence of exploitation and exploration adaptations.

### Research Methodology

As mentioned previously, Kratochw and Ruggie (1986) suggest that researchers should use interpretive epistemology to study regimes. But since constructivists claim to stand in the middle of postmodernists and positivists, they

should not rely solely on interpretive methodology. Indeed, collective identity is an intersubjective understanding that is manifested in regime members' consciousness, rather than a material entity that can be measured quantitatively. It is therefore not easy to prove that a particular actor shares a collective identity with others (Cronin, 1999). For example, how do you know in a given case whether a collective identity exists and whether this identity affects subsequent policy choices? But if constructivists fall back on behavior only to infer collective identity, it is not reliable either. For example just as success to reach consensus does not necessarily confirm positive identity, failure to do so can not necessarily confirm negative identity between regime members.

Recognizing these potential problems, I would rely on both empirical observations and counterfactual arguments to examine the nature of discourse that characterizes the interactions among APEC members. The empirical investigation of this study seeks to answer three questions:

1. How are APEC members' collective identity and interests constructed?
2. How are pre-existing identities and interests activated during policy discourse?
3. How do APEC's policy stability and change evolve over time that reshape members' collective identity and interests?

To answer these questions, as discussed above, I have developed a set of propositions for further investigation.

## CHAPTER IV

### THE HISTORICAL DEVELOPMENT OF INTERNATIONAL POLITICAL ECONOMY IN THE ASIA-PACIFIC REGION

The purpose of this chapter is to place the changing international and regional context of the Asia-Pacific economic development in an historical perspective and to discuss how that changing context has shaped economic interdependence in Asia-Pacific region over time. In the international context, I trace the evolution of policy ideas about international political economy in the postwar years that have defined the state-society relations; this survey provides us with an understanding of different ideas on the current debate of globalization which in turn might shed some light on policy preferences of different APEC members. In the regional context, I concentrate on the U.S. and Japanese roles in fostering the economic interdependence in the Asia-Pacific region during the postwar years. Historical analysis is complex because there may be a number of interpretations for virtually every event. What is presented below is one of the interpretations that seems to me to be more important and plausible in terms of where and when the analysis begins and what factors and events are highlighted.

## Winds of Change

### From Embedded Liberalism to the Washington Consensus

In *The Great Transformation*, Karl Polanyi wrote that "for a century the dynamics of modern society was governed by a double movement: the market expanded continuously but this movement was met by a countermovement checking the expansion in definite directions" (1944, p. 130). Polanyi's argument is that a self-regulating market cannot sustain itself without embedding in social and political institutions. He traced and interpreted the economic instability of interwar period--the collapse of the gold standard, the rise of economic nationalism, and the Great Depression of the 1930s--as the effects of society's self-protection from the negative impact of laissez-faire liberalism.

The collective experience of the turmoil during the interwar period had formed a shared idea among postwar economic planners that redefined the state-society relations. Drawing from Polanyi's insights, Ruggie (1983) labels this shared idea as "embedded liberalism" which was a compromise: "unlike the economic nationalism of the thirties, it would be multilateral in character; unlike the liberalism of the gold standard and free trade, its multilateralism would be predicated upon domestic interventionism" (p. 209).

At the end of World War II, the United States emerged as the dominant actor in the international political and economic system. As such any historical account of the postwar international political economy must explain the role of the U.S. in terms

of the transformation of the global economic order. Despite the historical isolationism of the United States, postwar American foreign economic policy sought to create a functioning and multilateral global economic system (Moon, 2000b). American leaders were preoccupied with traumatic experiences during interwar period and World War II finally convinced them that a multilateral world economy, based on institutions to regulate international trade and finance, was necessary to prevent destructive political conflicts among nations. The key question of global economic order for postwar planners was how to protect national economies from external disturbance without sacrificing the benefits of international economic interdependence. And it was this context that enabled the idea of embedded liberalism to become dominant in shaping the original principles and design of postwar international economic institutions: the Bretton Woods system.

In order to ease the tensions both within and between nations, postwar planners had come to a consensus on two general principles on the economic order: a welfare system within nations and a free multilateralism between them (Kapstein, 1999). The connection between these two principles was that free trade promoted prosperity through the increased efficiencies arising from the international division of labor. But at the same time postwar planners recognized that a welfare system was necessary to protect those who were economically dislocated by the free trade policy.

A welfare system was strongly influenced by the Keynesian idea that government policy can effectively improve the economic conditions in society (Tanzi & Schuknecht, 2000). Prior to the Keynesian thesis of assigning a greater role for

government, the dominant paradigm of classical economics was pro-market. But the Keynesian ideas effectively invalidated the optimistic belief in the capacity of market system for automatic or fast adjustment towards equilibrium in the years of the Great Depression. As such the desirability of state intervention designed to maximize economic growth and full employment became the dominant view among postwar planners. In fact the enormous impact of Keynesian ideas on national policymaking continued for three decades since the end of the World War II that made this period the Keynesian era.

In terms of international economic relations, in 1944 representatives of 44 nations met in the town of Bretton Woods in the United States to discuss the processes and institutions that would govern the postwar economy (Moon, 2000a; Ruggie, 1995; Underhill, 2000). This led to the establishment of the three key international economic regimes of the postwar period collectively known as the Bretton Woods system: the World Bank, the International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT).

The World Bank was initially established to help finance the postwar reconstruction of the European economies. However, this task was primarily undertaken through the Marshall Plan. This program involved direct financial assistance to European countries provided by the United States. The World Bank's role increasingly became one of fostering economic development in Third World and less developing countries through the provision of loans and the promotion of free market economic policies.

The IMF was established to help maintain the stability of international exchange rates by assisting countries that were having temporary problems with their current account balance. It also strengthened monetary systems by overseeing the Bretton Woods system of fixed exchange rates. The problem of liquidity was solved by the agreement of using a combination of gold and the U.S. dollar, which were linked by the U.S. Federal Reserve's commitment to freely exchange gold and dollars at the rate of \$35 per ounce. The IMF was given the authority to set members' currency values in relation to gold, approve changes in that value, and oversee member economic policies that might affect currency values. It is important, however, to note that IMF allowed national governments to impose control on capital flows.

In the area of the international trade, the International Trade Organization (ITO) was initially proposed as a multilateral trading regime to establish and enforce a more comprehensive set of rules on a number of issues to avoid repeating the type of protectionism that existed in the interwar period. However, agreement on this was not reached in 1944 and it took until 1995 for a similar institution, the World Trade Organization, to be established. Meanwhile, the compromise was the GATT which provided an institutional framework for negotiations about tariffs and trade in the postwar years. It is important to note that the GATT contained a number of national safeguard measures or escape clauses that recognized the inherent tension between the trade liberalization and other domestic economic goals.

In sum, the IMF helps states in short term adjust the imbalance of the national current accounts; the World Bank helps states deal with long-term economic

development problems; and the GATT with some national safeguard measures regulates and facilitates trade liberalization. The Bretton Woods system thus attempted to strike a balance between the liberal world market (free multilateralism between states) and the domestic responsibilities of states (a welfare system within states). As Moon argues:

Without the flexibility it provided, nations would neither have agreed to the obligations implicit in acceptance of Bretton Woods initially nor would they have been capable of meeting them subsequently. At stake was the very political legitimacy of the state itself, which must not only achieve economic prosperity but also maintain enough control over the domestic political economy that its claim to being responsive to the citizenry is seen as plausible (2000b, p. 344).

This compromise of embedded liberalism sustained three "golden" decades of economic growth and social progress in many countries since the end of the World War II. The point was that the embedded liberalism enabled nations to reap the benefits of integration while still left them enough autonomy to pursue different paths of economic development. Hence, western European nations decided to integrate themselves and to pursue a system of welfare states. Japan caught up with the West using a mixed economy that combined a number of efficient export sectors with inefficient and protected sectors such as service and agriculture. Taiwan and South Korea created their economic miracles relying on industrial and trade policies that have since been illegal under the current rules of the WTO. And until the middle of 1970s, some developing nations in Latin America, the Middle East and even Africa had generated unprecedented economic growth rates and they had done so with their import substitution policies that insulated them to a large extent from the world economy



(Rodrik, 2000).

However, the Bretton Woods system was largely abandoned since the middle of 1970s and the balance between market (efficiency) and society (legitimacy) started to lean toward the former. The increasing propensity toward the idea of neoliberalism reached its peak in the late 1980s with what John Williamson (1990) called the Washington Consensus of the IMF, World Bank, and GATT/WTO. The Washington Consensus prescribes the structural adjustment policies (SAPs) for the national economic development through liberalization of trade and investment, deregulation of government control, privatization of state-owned enterprises and fiscal discipline among others—in a word, the opposite of the Keynesian ideas. How and why did this happen? The matter will be long debated. It is, however, possible to identify some key factors of this transformation from the perspectives of both developed and developing countries.

From the perspective of developed countries, the United States acted as overseer of the Bretton Woods system until the early 1970s. During the 1950s and 1960s the strength of the United States economy led to the U.S. dollar being treated as the de facto international currency. But as Underhill (2000) argues:

The world economy needed an ample supply of dollar liquidity to ensure growth and trade, yet the more dollars there were the more shaky would be the ability of the United States to honor its pledge to convert unlimited amounts of dollars to gold on demand at the fixed price of \$35 an ounce. (pp. 109-110)

Due to the costs of financing the Vietnam War, the declining competitiveness of foreign trade, and the outflow of foreign direct investment, the United States had

contributed to swell the dollar holdings of foreign countries. As such, by the late 1960s there was increasing international concern about the ability of the United States to meet its international financial commitments. In 1971 the British government requested that payments be made in gold rather than U.S. dollars. In response, President Richard Nixon broke the connection between U.S. dollars and the price of gold. By adopting floating exchange rates, the United States had thus broken the Bretton Woods agreement. Before long most nations followed suit by letting the national currencies float. The adoption of floating exchange rates and the increasing liberalization of capital control and trade had considerable consequences in the subsequent international economic order. These actions together made it difficult for nations to manage their economies. As investors begin to seek preferred investment locations in terms of low inflation, higher interest rates and less strict labor standards, nations may find their preferences of economic and social policies incompatible with that of investors (Rodrik, 1997; Underhill, 2000).

As noted above, the Keynesian ideas had dominated the economic and social policies in many countries in the first three decades in postwar years. The role of states is crucial in the Keynesian economics. States could use budget to correct any tendency to deflation. In times of recession, public investments can be used to encourage demand and foster economic growth, whereas in times of strong economic growth, the government debt can be paid off through increased tax revenue and therefore inflation can be prevented. But when two oil crises occurred in 1973 and 1979, many nations were unable to bring the deficit and inflation under control. It could be

argued for example that one of the factors contributing to the election victory of President Ronald Reagan in 1980 was the economic troubles of the late President Jimmy Carter years. As the inflation and unemployment were going up at the same time (known as stagflation) in late 1970s, the Keynesian ideas were called into question which thus paved the way for the neoliberalism or monetarism or supply-side economics associated with policy prescriptions such as lower tax rates, cuts in government spending and deregulation of government control (Mundo, 1999).

In terms of international trade and investment liberalization, the propensity of the United States to turn to the aggressive unilateralism became salient since the middle of 1970s. In order to reduce the trade deficit, the U.S. government passed a series of trade acts, seeking to not only negatively reduce imports but to actively increase exports as well. As a result, the United States increasingly put pressure on nations that depended on the U.S. market to liberalize, privatize and deregulate their economies. To the U.S. trading countries, the most controversial measure is the “Super 301” provision of the Omnibus Trade and Competitiveness of 1988. The main purpose of the “Super 301” was to select foreign countries who adopt “unfair” trading practices and to set a deadline for these countries to correct them. The United States Trade Representative (USTR) has, under “Super 301”, established a “Priority Watch List” of major violators and a “Watch List” for minor offenders. To those countries in the list, the message was clear: eliminate trade practices or face retaliation. To the United States, these aggressive actions were justified by the principle of reciprocity and fairness. Though a number of countries have complied with U.S.

demands, many U.S. trading countries have questioned the legitimacy of these intrusive U.S. trade policies (Dunkley, 2000; Moon, 2000a). The policy implications of U.S. aggressive unilateralism will be further discussed in the next section.

From the perspective of developing nations, one of the important factors contributing to the swing to the Washington Consensus was the problem of debts. As more and more developing nations faced debt problems that required financial assistance from the IMF and World Bank, especially in the early 1980s, these institutions used their leverage to push national policies in a neoliberal direction. As a condition for granting loans, they required that borrowing countries liberalize the international trade, deregulate capital control and dismantle barriers to investment flows. In addition, Japan, South Korea, Taiwan, Hong Kong and Singapore were being treated as exemplars of the success of the pro-market model, whereas the economic failure of governments in Latin America and Africa was increasingly represented as evidence of the shortcomings of the import substitution policies. As such, because of the success of these nations in East Asia in exploiting the opportunities offered by globalization, many debt nations did not greatly resist this pressure, and others even embraced the Washington Consensus with enthusiasm. According to Rodrik (1999), the Washington Consensus was embraced enthusiastically by policy makers in Latin America and post-socialist Eastern Europe, while the acceptance was more cautious in Africa and Asia.

Many developing countries had undertaken import substitution industrialization (ISI) as economic development policies in first three decades since the end of

World War II. At first ISI worked rather well and it brought unprecedented economic growth to many developing countries in Latin America, the Middle East, and Africa. According to Rodrik's survey (1999), more than 40 nations' economic growth rate exceeded 2.5 percent per capita from 1960 to 1973. But then came the two oil shocks which subsequently had serious repercussions on the economies of many oil-importing developing countries, despite their attempts to insulate themselves from global economic fluctuation. The oil crisis suddenly made fuel extremely expensive and undermined economic growth. Dollars were being borrowed to fund the industrial development. And yet the debt problems became even worse by the fact that most loans were floating-rate based. If rates went up, debt countries would owe far more than they had borrowed. The interest rates did go up during the late 1970s and early 1980s and subsequently the increased cost of loans made it more difficult for the debt countries to repay the loans (Haggard & Maxfield, 1996).

In sum, rising oil prices and interest rates were two blows against oil-importing countries; consequently debt problems became widespread. Many debt countries then turned to the IMF for assistance. To qualify for the loan, debt countries had to sign agreements with the IMF, promising to implement IMF-approved SAPs. This would be the beginning of the policy change of debt countries from state-led and inward-looking industrialization toward market-led and outward-looking reforms.

### From Washington Consensus to Post-Washington Consensus

The IMF and World Bank-approved SAPs were prescribed to the developing nations to dismantle inefficient strategies associated with strong state intervention and were said to be a means of exploiting the opportunities of globalization. However, since the late 1990s the Washington Consensus has been called into question as it failed to deliver on its promise. For example, in Latin America where the SAPs were implemented most enthusiastically throughout 1990s, the results were discouraging in terms of growth, poverty reduction, income distribution, and reduced unemployment (Rodrik, 1999; Stiglitz, 1998). Furthermore, the Mexican bond crisis in 1994, the Asian financial crisis in 1997, and the Russian financial crisis in 1998 have demonstrated that financial liberalization could be the source of severe macroeconomic instability.

In reaction to the Asian financial crisis and the IMF response to the crisis, the former chief economist of the World Bank, Joseph Stiglitz, suggests many ideas for the Post-Washington Consensus. Although a Post-Washington Consensus has not yet emerged, according to Stiglitz (1998, p. 33), "whatever the new consensus is it cannot be based on Washington". It should be noted however that many ideas about the Post-Washington Consensus do not oppose the Washington Consensus per se but its incompleteness. As Stiglitz suggests,

The post-Washington consensus recognizes both that a broader set of instruments is necessary and that our goals are also much broader. We seek increase in living standards—including improved health and education—not just increases in measured GDP. We seek sustainable development, which includes preserving natural resources and maintaining a healthy environment.

We seek equitable development, which ensures that all groups in society, not just those at the top, enjoy the fruits of development. And we seek democratic development, in which citizens participate in a variety of ways in making the decisions that affect their lives. (1998, p. 30)

One crucial aspect of incompleteness of the Washington Consensus is that it tends to focus attention on the policies of removing market distortions caused by government intervention but to de-emphasize the positive role of government in the situation of market failure. Instead, the Post-Washington Consensus emphasizes the need to improve the institutional capacity of a developing country. It is often the case in developing nations that the political and economic institutions are too weak to absorb the disruptive forces released by structural adjustment policies. And since economic liberalization will expose nations vulnerable to external shocks that may trigger domestic instability, it is insufficient to adopt structural adjustment policies indiscriminately without counting the social costs. Therefore ideas such as capacity-building, institution-building, and social safety nets have emerged in the debate of globalization as a new focus (Rodrik, 1999).

Adding to the complexity of "ideas battle" about globalization is the rising salience of NGOs, a trend that reflects the increasing democratization around the world. The proportion of nations with some form of democratic government rose from 26.9 percent in 1974 to 61.3 in 1997 as illustrated in Table 1. As citizen participation in politics grows, so does the number of NGOs. NGOs assume a crucial role in articulating people's voice and pressure governments to respond. While foreign policy was once the exclusive domain of government officials, in recent years we have witnessed a proliferation of NGOs that have their own views on international

Table 1  
Electoral Democracies, 1974 and 1990-1997

Year	Number of All Countries	Number of Democracies	Democracies as Percentage of all Countries
1974	145	39	26.9
1990	165	76	46.1
1991	183	91	49.7
1992	186	99	53.2
1993	190	108	56.8
1994	191	114	59.7
1995	191	117	61.3
1996	191	118	61.8
1997	191	117	61.3

Source: Diamond, L. (1999, p. 25). Developing democracy: Toward consolidation.  
Baltimore: The Johns Hopkins University Press.

affairs. In this regard, the actions of NGOs can be considered as a civil society's self-protection from the force of market mechanism to which the government is unable or unwilling to respond. Importantly, these NGOs not only have a growing influence on the foreign policies of their own countries, they also link with counterparts in other countries and create transnational coalitions on various issues such as on labor right, human right, environmental problems, gender and economic justice.

Although NGOs may or may not affect the contents of global public policy, they have demonstrated that economic globalization is not an inevitable and unstoppable force. A halt of the OECD "secret" negotiations on a Multilateral Agreement on Investment (MAI) in 1998 and the chaotic situation of the WTO meeting in 1999



were evidence of NGOs' capabilities (Kobrin, 1998; Najam & Robins, 2001).

To some observers, the significance of a breakdown of the WTO meeting is that "Seattle changed things fundamentally, not by resolving the issue but by making its further postponement impossible" (Najam & Robins, 2001, p. 60). At the heart of the debate is the legitimacy crisis of the WTO. Outside of the conference building, NGOs demonstrated their critique of globalization in general and the WTO in particular, while inside, delegates from developing nations expressed their frustration about their exclusion from decision-making processes. Even though outside and inside protests were based on different perceptions of the WTO, both questioned the input and output legitimacy of the organization. Indeed, not every argument made by protests is accepted universally, yet the claim that citizens or nations have a basic right to participate in the decision-making process that affects their fates is difficult to dismiss.

Commenting on the aftermath of the WTO Seattle meeting, a prominent free trade scholar wrote that:

There has, in consequence, been a sense of despair among some of the pro-trade groups in the United States: if trade is such a difficult case to sell at a time of unprecedented prosperity and employment, what could happen when the economy turns down, as it almost certainly will, someday? (Bhagwati, 2001, p. 15)

It can be argued that the free trade argument is difficult to sell because no matter how logical the Washington Consensus may prove to be, a given actor's acceptance of it is socially constructed. In other words, NGOs' claims may or may not be empirically sound, but the question is that they act upon what they believe. As Robert Cox put it:

The state remains a site of struggle for those who would challenge the social consequences of globalization. History does not end with globalization of the

economy despite illusory pronouncements by some ideologues. History goes on and has the potential to shape new structures of thought and political authority. The opportunity now opens to develop the forms of knowledge conducive to such innovation (2000, p. 25).

In sum, from the embedded liberalism to the Washington Consensus and now to the post-Washington Consensus, the contestation between self-regulating market and society's self-protection continues. As John Ruggie argues (1995, p. 509), "In some respects the world today finds itself faced with a challenge which is not unlike the one it faced in 1945: devising compatible forms of international liberalization and domestic stability." While Ruggie's point is well taken, at the same time it must be noted that the environment nations find themselves in today is qualitatively different and changing. How the process of international political economy evolves will be shaped by the interaction among international institutions, national governments, MNCs and NGOs and other forces.

#### Economic Interdependence in the Asia-Pacific Region

The historical trajectories of the emergent economic interdependence in the Asia-Pacific region after World War II will be explored here from two different directions. The first direction is to focus on the American role in promoting regional economic integration in the context of the Cold War. The second direction will examine the Japanese role in terms of its expanding overseas manufacturing investment in East Asia, which has profound impacts on the consolidation of economic interdependence in the region.

### The U.S. Role: The Commitment to Containing Communism

After the World War II, the United States stepped into the Asia-Pacific region as the leading economic and military power replacing Japan's regional dominance acquired since the late 19th century. The Cold War came to Asia in 1949, following the Chinese Communists' defeat of the Chinese nationalists who retreated to Taiwan. With the division of East Asia into two antagonistic blocs, different development trajectories emerged. Whereas Japan and most of its former colonies were in the U.S. bloc, China, North Korea and North Vietnam were in the Soviet bloc. It can be argued that the dramatic economic growth of an increasing number of nation-states in Northeast and Southeast Asia after 1945 was grounded in the geo-political and geo-economic interests of the United States. The U.S. commitment to containing communism led to American involvement in the Korean and Vietnam wars. American aid, military procurement, and the American open market helped the postwar economic take-off and subsequent economic growth of many Asian nations (Bowie & Unger, 1997).

Basically in the initial years after World War II, U.S. policy toward East Asia had two goals: the reconstruction of Japan and the containment of Communism. Japan was the center of American strategic policy in Asia. In the beginning, the American Occupation authorities in Japan under the leadership of General MacArthur focused on dismantling "twin evils"-imperial militarism and military conglomerates (zaibatsu). The American occupation authorities believed these twin evils were responsible for the expansion of Japanese imperialism into Northeast and Southeast

Asia in previous years (Cumings, 1987). But after having concluded that the major challenge to U.S. security interests in Asia would come from the Soviet and China, the U.S. encouraged the restoration of the zaibatsu; it committed U.S. forces to relieve Japan of the limiting of defense spending to 1 percent of the GNP; it fostered Japanese reindustrialization; and it opened the U.S. market to Japanese exports.

Recognizing that Japan would not be able to balance its trade with the United States, American policymakers sought alternative sources of raw materials and export markets for the Japanese economy. The U.S. policymakers understood that in the prewar years, Japanese colonies were important to Japanese economy; as such restoration of these links was critical to the Japanese recovery. But since China and North Korea were under the communist rule by late 1949, Southeast Asia therefore became especially important in the minds of American and Japanese policymakers. And it was against this backdrop that in late 1949, President Truman authorized NSC 48/1- “a policy position paper that envisioned a triangular structure, with Japan situated between the U.S. core and the Southeast Asian periphery”(Bowie & Unger, 1997, p. 28). In this structure, Japan would supply manufactures while the Southeast Asian nations would supply raw materials and the U.S. dollar would be the medium of exchange for all activities. The importance of Southeast Asia to Japan had been underlined by Japanese Prime Minister Yoshida in a speech in 1953:

I do not think it is necessary to dwell upon the importance of our relations with Southeast Asia, since we cannot expect much from trade with China. The government desires to extend every possible cooperation for the prosperity of the countries of Southeast Asia in the form of capital, technique, service, or otherwise, in order to thus further the relations of reciprocal benefit and common prosperity. (cited in Bowie & Unger, 1997, p. 31)

The Korean War heightened the urgency for U.S. policymakers of restoration of Japan's economic ties with Taiwan, South Korea, and Southeast Asian nations. According to Chalmers Johnson (1972), the Korean War was the equivalent for Japan of the Marshall Plan because it provided a key stimulus to industrial production in Japan as a result of the dramatic increase in the military spending by the U.S. In 1951, Japanese exports to Korea and U.S. procurement from Japan accounted for nearly half of all Japanese exports and produced over one-fourth of total Japanese dollar earnings (Bowie & Unger, 1997). Southeast Asian nations also benefited greatly from the Korean War as the price of war-related raw materials soared. The U.S. confrontation with North Korean and Chinese communists led to huge demand for military procurements to fight the war and to build the stockpiles against the possibility that the war would spread. This resulted in a boom in commodity prices. For example, the price of rubber went up from \$0.40 per pound in 1949 to \$2.20 per pound in 1951 (Bowie & Unger, 1997).

In terms of Taiwan and South Korea, the U.S. military and economic aid also went to both countries in the 1950s and 1960s. The United States established formal military ties with Japan, Taiwan, and South Korea, but unlike Japan, massive U.S. military aid did not play an obvious role in fostering national economic development in Taiwan and South Korea since both countries had to maintain significant military capabilities. However, U.S. economic assistance especially in planing and implementing the postwar land reforms in Taiwan and South Korea provided both countries the basis for economic development. The main purpose of land reforms was to

thwart communism by widening the ownership of lands. The emphasis was on providing the lower class with basic economic resources and thus reducing the gap between the poor and the rich. Furthermore, in the 1960s and 1970s, under U.S. assistance, Japanese companies relocated their operation to Taiwan and South Korea due to the rising cost of labor in Japan, which contributed to the industrial development of both countries. Like Japan, both Taiwan and South Korea also gained privileged access to the U.S. market and at the same time the U.S. tolerated South Korea and Taiwan's protected markets and their governments' tight controls on foreign investment (Wiegersma & Medley, 2000).

In terms of China's reintegration into the world economy, by the end of 1960s, the shift of U.S. strategic considerations began to pave the way for the end of China's economic isolationism. In 1969 in what became known as the Nixon Doctrine, the President Richard Nixon declared the necessity to withdraw American forces from Vietnam. The Nixon Doctrine was linked to the second "Nixon Shock" (ending fixed parity of dollar/gold being the first one) derived from Nixon's historic visit to China in 1972. Later, during the Carter administration, the United States eventually broke diplomatic relations with Republic of China on Taiwan and established them with People's Republic of China in Beijing in 1978. With the rise of Deng Xiaoping in the late 1970s, China's economic policy shifted gradually from the central planning system toward a more market-oriented direction. As China opened its door, it became a major recipient of foreign capital and thus a unified regional economy in Asia Pacific began to emerge.

From the analysis above, the United States clearly played a major role in assisting the economic development of many East Asian nations and fostering the economic integration in Asia Pacific region. Therefore as the U.S. economy worsened in the early 1970s, it was understandable that in the opinion of the U.S. Senate Finance Committee, the misguided trade policies distorted by the security concern were mainly responsible for the declining economy.

Through most of the postwar era, U.S. trade policy has been the orphan of U.S. foreign policy. Too often the Executive has granted trade concessions to accomplish political objectives. Rather than conducting U.S. international economic relations on sound economic and commercial principles, the Executive has set trade and monetary policy in a foreign aid context. An example has been the Executive's unwillingness to enforce U.S. trade statutes in response to foreign unfair trade practices. By pursuing a soft trade policy, by refusing to strike swiftly and surely at foreign unfair trade practices, the Executive has actually fostered the proliferation of barriers to international commerce. The result of this misguided policy has been to permit and even to encourage discriminatory trading arrangements among trading nations (cited in Eckes Jr., 1999, p. 85).

It was against this perception that the U.S. Congress passed the Trade Reform Act of 1974. Under the provisions of Section 301 in the Trade Reform Act of 1974, the President is given broad authority to act against foreign "unfair" trade practices. The President can authorize the U.S. Trade Representative to investigate suspect foreign trade practices to detect unfairness and, if found, the President must alert the foreign country in question that retaliatory measures will be undertaken by a certain date unless the practices are corrected. No public announcements of threats were required and thus these could be handled by quiet diplomacy. But since the passage of the 1974 trade act, Congress began to recognize that from time to time the President had acted discreetly to make concessions to U.S. trading partners. As a

result, Congress legislated the Omnibus Trade and Competitiveness of 1988 to reinforce the effectiveness of the 1974 trade act. Under the 1988 trade bill the USTR is no longer authorized by the President to act, but is formally required to act by law.

As Mundo argues:

The 1988 bill sharpened the teeth of U.S. trade law. It strengthened and expanded Section 301 of the 1974 trade bill, transferring authority to administer it formally from the president to the USTR in hopes that the latter's constant contact with groups with interests in trade would cause it to implement the provisions of Section 301 more aggressively than the president had. Moreover, Congress reduced discretion in the use of Section 301, again in hopes that doing so would cause it to be used more effectively. (1999, p. 121)

To the proponents of unilateral actions, U.S. efforts at opening up foreign markets through the use of Section 301 of the 1974 and Super301 of the 1988 Trade Act may be necessary because without these efforts, the American politics of trade liberalization cannot work. The President will not be able to manage the pressures of import-competing producers coming through Congress to reduce access to the U.S. market (Cohen et al., 1996). Therefore, according to Moon (2000b, p. 346), "By playing on the ambiguity of free trade and fair trade, these policies have enabled the United States to champion free trade and deny its disruptive impact, yet simultaneously protect the most vulnerable American industries."

Yet a wide range of critics consider the idea of fair or managed trade through aggressive unilateral actions unjustifiable because the definition of "unfair trade practices" is broad and vague, because the USTR has the arbitrary power to interpret and make decisions, and because U.S. unilateral actions have bypassed the dispute-settlement-mechanism of WTO/GATT. Furthermore even if the trade dispute



between the U.S. and its trading partners has been taken to the WTO/GATT, the strict timetable imposed on the U.S. trading partners by USTR does not give WTO/GATT enough time to complete its investigation before a USTR decision is made (Dunkley, 2000). As Jagdish Bhagwati argues:

[The] idea of fair trade guides U.S. trade policy, instilling officials with a false sense of moral authority that sparks impatience and unilateral threats and actions. Protection-seeking lobbies love the concept because it is elastic and arbitrary enough to make virtually any trade look unfair if the going gets tough...Look at each trade skirmish and you will find American suspicion of "unfair trade." At times, this prompts a rush to unilateral action-as in the banana dispute with the EU, in which Washington refused to wait for the legal process at WTO to run its course. (2000, pp. 106, 108)

In sum, the U.S. commitment to containing Communism in the Cold War period allowed the U.S. Asian allies to rely on the United States for security. The U.S. government helped its East Asian allies directly with vast amounts of financial and military assistance and indirectly with military procurement. As such the United States laid the foundation for the postwar take-off and later economic development in East Asia. With China's policy change by adopting the open door strategy in late 1970s, the prototype of Asia Pacific economic integration began to emerge. For the first three decades since the end of War World II, the U.S. was benign towards its allies in terms of trade policies, letting them reap the benefits of trade liberalization without reciprocal opening of their markets. During these decades, U.S. economic interests were subordinated to security concerns. But since the middle of 1970s, U.S. policy has changed and economic interests have come to the fore. The rise of U.S. aggressive unilateralism in the 1980s and 1990s would have to be regarded as a reaction triggered by the declining security concerns and the unsustainable trade

deficits with East Asian nations.

### The Japanese Role: The Expanding Overseas Investments

The economic interdependence in Asia-Pacific region has increased steadily over years due to the intraregional trade and foreign direct investments (FDI). As illustrated in Table 2, from 1962 to 1994 the intraregional trade within APEC increased from 53 to 74 percent of the total regional trade. For the same period the intraregional trade within East Asia, which comprises the ASEAN-6 (Association of South East Asian Nations-Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand), Japan, South Korea, Taiwan, Hong Kong and China, also increased from 33 to 50 percent (Frankel, 1997). The Japanese role in fostering the increasing intraregional economic interdependence, especially in East Asia, is substantial to the extent that not only Japan has enormous FDI in the region but its unique production networks characterized by the Keiretsu (enterprise groups) system as well. The point is that through a series of FDI in East Asia, Japanese corporations have been able to establish international production networks in the region which have increasingly integrated East Asian nations economically. The analysis below will elaborate this point and its policy implication for APEC.

The role of Japanese FDI has been important in deepening the economic integration in East Asia. There are many factors contributing to the flow of Japanese FDI to the region: the substantial appreciation of the Japanese yen, rising domestic production costs, and the increasing protectionism in the USA and Western Europe. In

Table 2

## Intra-regional Trade as a Share of Total Trade of the Region, 1962-94

Group	1962	1965	1970	1975	1980	1985	1990	1994
APEC	0.53	0.55	0.60	0.57	0.59	0.68	0.69	0.74
East Asia	0.33	0.30	0.29	0.31	0.36	0.38	0.44	0.50
ASEAN-6	0.31	0.23	0.18	0.14	0.14	0.18	0.17	0.21
NAFTA	0.36	0.37	0.40	0.38	0.34	0.40	0.38	0.43
EU	0.65	0.68	0.70	0.69	0.69	0.70	0.74	0.73

Source: Adapted from Frankel, J. (1997, p. 22). Regional trade blocs in the world economic system. Washington, D.C.: Institute for International Economics.

terms of host countries for FDI, Japanese MNCs initially concentrated on Newly Industrializing Economies (NIEs)- South Korea, Taiwan, Hong Kong and Singapore- in 1970s. In 1980s as rising wage rates made NIEs less attractive sites for investment, Japanese MNCs began to concentrate on ASEAN-4 which were in turn overtaken by China in 1990s. In terms of quantity of investment, despite American FDI in the East Asia remains substantial, Japan becomes the largest source of FDI in the region (Ozawa, 1999; Gilpin, 2000).

Starting from the early 1970s, Japan became a major investor in the East Asia region when the first wave of Japanese FDI occurred in response to the negative impact of a rise in the price of the yen caused by the "Nixon shocks", which ended fixed parity at 360 yen to a dollar (see Table 3). Japanese companies were moving

Table 3  
Japanese FDI in the Asia-Pacific (in U.S. \$m)

Period	Hong Kong	Singapore	South Korea	Taiwan	China	Thailand	Malaysia	Indonesia	Philippines
1973-76	64	146	292	111	0	71	154	550	78
1977-80	85	467	295	134	1	120	251	643	143
1981-82	30	323	59	96	8	99	77	476	55
1983-84	19	342	69	130	22	118	227	268	20
1985-86	66	198	178	385	46	112	97	93	57
1987	108	268	247	339	30	210	148	295	na
1989	116	678	257	360	206	784	471	167	na
1990	114	270	147	513	161	714	592	536	na
1991	92	240	130	405	251	807	880	576	100
1992	73	210	105	292	500	657	704	610	60

Source: Japanese Ministry of Finance (1992) reprinted in P. Gangopadhyay (1998, p. 33). Patterns of trade, investment and migration in the Asia-Pacific region. In G. Thompson (Ed.) Economic dynamism in the Asia-Pacific. London: Routledge.

overseas in order to reap the benefits of the rising yen to set up low-cost export bases in the East Asia. The biggest wave of Japanese FDI followed the sharp appreciation of the yen after the Plaza Accord of 1985. The value of yen appreciated from about 250 yen to a dollar in April 1985 to about 150 yen to a dollar in July 1987. With the dramatic appreciation of yen, the price competitiveness of Japanese home-based production and exports were abruptly reduced which speeded up the relocation of

Japanese MNCs production. The exchange rate of the yen against the dollar continued to rise from about 145 yen to a dollar in 1990 to around 100 yen to a dollar in late 1994 which further fostered the regionalization of Japanese firms. In fact, the growing regionalization of Japanese manufacturing production is reflected in the increasing concerns of industrial hollowing-out within Japan (Gangopadhyay, 1998; Hook, 1996; Itoh, 2000).

Economically Japan through FDI stands in a superior position in the East Asia region and yet looking at the data of Japanese FDI in the region alone is only part of the story. To complete the picture, one must understand Japanese MNCs' production networks in East Asia. Since the mid 1980s, Japanese MNCs have been building vertically integrated production networks which have made a substantial contribution to the growth of manufacturing industries in East Asian economies. These networks are replications and extensions of the keiretsu (enterprise groups) in Japan in which parent Japanese companies (as the center) network with Japanese affiliates and subordinate local companies throughout the region in long-term relationships (Hatch, 2000; Hatch & Yamamura, 1996).

Japanese keiretsu-type production networks traditionally have been hierarchically organized to ensure that parent companies in Japan retain the control of decision-making authority and technological capability. This hierarchical networks have resulted in tight control over foreign affiliates and the creation of relatively closed production arrangements that have tended to exclude business ties with non-affiliated local and foreign suppliers. In terms of technology transfer, Japanese

MNCs tend to have low-end manufacturing being done in Asia, with higher value added final production remaining in Japan. Japanese firms are less likely than those of other countries to transfer technology to the host country. However, affiliates of Japanese MNCs are more likely to gain access to the Japanese market. For example, according to Ito (1992), the top nine of keiretsu-typed Japanese MNCs accounted for 65 percent of overall Japanese imports in the later 1980s, giving them enormous power over foreign trade.

Regionalization of the keiretsu system through creation of regional production networks enables Japanese manufacturing firms stay competitive. As Robert Gilpin put it:

The home-based firms in these regionalized Keiretsu export high-tech and high-value-added components to their affiliates in the region for assembly into finished goods for local consumption, export back to Japan itself, and /or export to the West. Such a corporate strategy enables the parent Japanese firm to cut costs and maintain the high returns on the firm's investments in technological innovation for as long as possible, thereby retaining Japan's monopoly and comparative advantage in high-tech industries. (2000, p. 273)

Furthermore, in attempting to build and strengthen regional production networks in East Asia, Japanese MNCs receive strong support from their own government. As such Japanese MNCs have entrenched their position within the region and have generally proved to be formidable competitors. Japan provides by far the largest amount of official development assistance (ODA) to Asian economies. Japan's ODA had been deliberately used to support the expansion of Japanese production network. As Itoh argues:

Most of Japan's ODA is offered to projects for which there are processes of application and screening. From the stage of constructing project

applications, Japanese giant trading companies, in cooperation with other Japanese firms, appear and attach strings aimed at furthering their business opportunities. Thus, Japanese ODA often works in practice as a subsidy to their multinationalization of Japanese firms, especially in Asian countries. (2000, p. 123)

In terms of the government-business relationship, no Western nation assists its own corporations to the extent that Japan does. One may suspect whether or not Japan is intentionally pursuing a state-led neocolonialism or something similar to its pre-world war II effort to create an East Asian Co-prosperity Sphere. For example, Gipin (2000, p. 271) implicitly suggests that "Japan is attempting again to create an East Asian empire or exclusive sphere of influence, albeit this time through the peaceful tools of trade, finance, and investment rather than military conquest". But it can also be argued that the Japanese expansion of FDI and the setup of production networks in East Asia are responding to the market force and the changing environment; and indeed East Asian countries do benefit from increasing regional integration through the Japanese FDI. The more interesting question is why East Asian nations are willing to depend on or even "embrace" Japanese FDI.

According to Hatch and Yamamura (1996) Asian firms are enjoying the benefits of "embraced development." Asian economies are benefiting from the increasing economic presence of Japanese production networks because being affiliates of Japanese MNCs, Asian companies will gain access to Japanese capital, technology, better paying employment opportunities, and increasing opportunities to produce and export manufactured products.

In terms of trading patterns, the spread of Japanese FDI in East Asia has

erected industrial export platforms. Japanese MNCs' affiliates in the region are inclined to import from the parent company and export to third country markets especially the U.S. market. This is one explanation why most industrializing countries in East Asia have a deficit in trade with Japan and a major surplus in trade with the United States. In this sense, Japan co-ordinates a production network that links firms engaging in production and distribution in Asian Pacific region. Yet if imports from the U.S. decline, it may pose serious challenges to the economies of East Asian countries. Therefore as John Ikenberry suggests:

Over the last several decades, governments in East Asia tended to adopt Japan's export-led model of development, and this has had the ironic implication of making these Asian countries dependent on markets outside of Asia—particularly the American market. This in turn has leveraged American influence in the region and the United States has used that influence to send a message: if we are going to import your goods, you must liberalize your markets and financial systems. America's market dominance helps explain why APEC has shifted its emphasis in recent years toward policies promoting globalization, deregulation, and market openness. (2000, p. 36)

Still there are a number of ways in which the East Asian countries could cope with these challenges. For example first, these nations could enhance their economic integration, and the diversity between them will make increased integration a possibility. Second, Japan may increase its imports from this region (Gangopadhyay, 1998). In fact, the intraregional trade in East Asia is enhancing. In 1996, as illustrated in Table 4, for a majority of Asian APEC member economies, the most important export market destination is the East Asian region.

In term of the implications for policy direction in APEC, I cannot agree with Ikenberry's interpretation. Because, for one thing, being a crucial source of



Table 4

Main Export Shares of APEC Member Economies (Year 1996; %)

	United States	Japan	America APEC	Asia APEC	EU	Rest of the World
<b>Western Hemisphere</b>						
Canada	80.9	4.1	0.7	4.6	5.7	4.0
Chile	16.6	16.2	4.0	16.8	23.9	22.5
Mexico	83.8	1.4	3.2	1.2	3.7	6.8
Peru	19.7	6.6	6.4	17.0	26.6	23.7
United States		11.0	32.2	18.0	20.9	17.9
<b>Northeast Asia</b>						
China	17.2	19.9	1.6	35.3	15.4	10.7
Hong Kong	21.2	6.5	1.9	46.6	14.9	8.8
Japan	27.3		2.4	44.8	15.4	10.1
Korea	22.6	21.3	3.0	19.6	14.4	19.1
Taiwan	23.0	11.7	1.9	41.5	13.5	8.4
<b>Southeast Asia</b>						
Brunei	1.9	53.5	0.0	21.1	17.6	5.9
Indonesia	13.7	26.0	1.2	35.2	15.0	9.0
Malaysia	18.2	13.4	1.0	45.5	13.7	8.1
Philippines	33.9	17.9	1.4	26.2	17.9	2.7
Singapore	18.4	8.2	0.7	49.5	13.0	10.1
Thailand	18.0	16.8	1.3	34.4	15.9	13.5
Vietnam	4.1	12.4	0.7	53.7	11.1	18.0
<b>Oceania</b>						
Australia	6.5	20.2	2.1	46.8	10.9	13.5
New Zealand	10.2	15.3	2.3	43.1	14.6	14.5
Papua New Guinea	6.8	15.0	0.0	51.0	16.7	10.5
Russia	7.2	3.5	0.2	8.7	32.4	47.7

Source: Adapted from APEC (1999, p. 94). 1999 APEC Economic Outlook.  
Singapore: the APEC Secretariat.

controlling and providing capital and technology for East Asian countries and potentially a large absorber of their exports, Ikenberry may have underestimated Japan and over-estimated the United States in terms of leverage in shaping the policy preferences of Asian members of APEC. The point is not that the East Asian countries will always side with Japan instead of the U.S. in policy discourse in APEC since the American market is still important to them. It does suggest that if the U.S. is not sensitive to their concerns and continues to apply aggressive unilateralism, East Asian nations do have a fallback alternative.

Furthermore it becomes a second nature for Japan to keep a low-profile in foreign affairs in East Asia for fearing that any aggressive move would probably bring back East Asian countries' memories of antagonism on Japan's imperialism. Japan's tendency to taking a more conciliatory stance in foreign affairs makes Japan more acceptable to Asian countries. For example, Japan was one of the founders of the Asian Development Bank (ADB) in 1966. But to avoid resistance from other nations fearful of Japanese domination, Japan waited patiently until other Asian nations took the initiative in supporting the establishment of the ADB. Despite Japan's generous financial contributions to the development funds, the headquarter of the ADB is located in Manila instead of Tokyo. More importantly in terms of conditionality of loans, unlike American propensity toward promoting the Washington Consensus in the ADB, Japan is more willing to accommodate domestic conditions of Asian developing countries and approve loans with less string attached. In fact, the Japanese Ministry of Finance has made efforts to assign fluent English-speaking officials who

can argue with American counterparts more adequately in defending Asian views - the legitimacy of government intervention. Japanese overall actions in the ADB explain why Asian members have not formed any coalition against Japan's leadership (Wan, 1995).

In sum when East Asian nations face, on the one hand, American aggressive demands for opening their domestic markets and on the other hand Japanese adaptation to their domestic conditions, it is difficult not to conclude that if they have to choose most East Asian nations are more willing to accept a Japan-dominated region than one in which the United States would be the major power.

## CHAPTER V

### ASIA PACIFIC ECONOMIC COOPERATION: REGIME FORMATION AND DESIGN

The purpose of this chapter is to provide an understanding of regime formation of APEC. It begins with an investigation of pre-APEC economic institution-building in the region; this in turn gives us a profile of factors that inhibit and facilitate the construction of collective identity of APEC. I then trace the initial motivations of different key actors in joining APEC and study how these motivations might reflect on the preferences of institutional design. Finally by using the constructivist model of international regimes, I will discuss theoretical and policy implications of regime formation and regime design of APEC.

#### Regime Formation

##### Pre-APEC Economic Institution-Building

APEC was established as an intergovernmental ministerial forum in Canberra in 1989 at the initiative of the Australian government. The original group was made up of twelve countries: the six ASEAN countries, Japan, South Korea, Australia, New Zealand, Canada and the United States. In fact, APEC is the first regional economic regime to bring the governments of the Asia-Pacific region together in one forum. However, ideas to promote the economic institution-building in the region

have predated APEC at least two decades. One can argue that track two or unofficial efforts involving academics (the Pacific Trade and Development Conference or PAFTAD in 1968); business circles (the Pacific Basin Economic Council or PBEC in 1968); and then academics, business circles, and government officials acting in their private capacities (the Pacific Economic Cooperation Council or PECC in 1980) have been able to socialize the idea of economic cooperation in the region and thus paved the way for the formation of APEC. In fact, even today these non-governmental initiatives are still active in providing input for the APEC process (Woods, 1995).

Historically, the lack of region-wide economic institutions for inter-governmental cooperation in Asia Pacific before the birth of APEC was not surprising. As discussed in the previous chapter, the Cold War imposed a division of the region into two camps with different ideologies and economic systems. It had less time and scope to develop a sense of regional identity among Asia Pacific countries. However, the Cold War imperative cannot completely capture the negative forces inhibiting intergovernmental institution-buildings, for it would imply that with the end of the Cold War, the formation of international regimes like APEC should follow automatically as economic interdependence increasingly deepens.

It should be emphasized that the legacy of imperialism before the Cold War still has major impact on many Asian countries even today (Morrison, Kojima, and Maull, 1997). An implication of this common experience of colonialism is that those Asian countries once occupied by imperialists such as Japan value sovereignty strongly. And it is this preoccupation with the protection of sovereignty that in

important part explains why many Asian developing nations were suspicious to ideas proposed by major power to establish economic regimes in the region, for fears of renewed domination. Indeed, given these historical experiences and constraints, it is understandable then that in order to reflect the desirability of closer economic cooperation, the pre-APEC economic institution-building would have to be materialized in the form of track two or unofficial initiatives.

In 1967, believing that the formation of the European Common Market might have a negative impact on its economy, Japan's Prime Minister Miki floated an idea of forming a Pacific Free Trade Area among Japan, U.S., Canada, Australia and New Zealand. Prime Minister Miki asked Professor Kiyoshi Kojima to prepare a conference to explore his idea, which led to the first PAFTAD conference held in Tokyo in 1968. Miki's idea also encouraged the Japanese and Australian business leaders to form PBEC in 1968 which reflected that the success of Japanese economic recovery increased the need for expanded business opportunities and investment through personal networking and the exchange of information among the Pacific-basin nations (Katzenstein, 1997).

In contrast to PBEC, the PAFTAD is very much an epistemic community because participants in the conferences have predominantly been policy-oriented economists and scientists in universities or research institutions. PAFTAD's contribution has been to discuss how to enhance the economic development of the Asia Pacific economies. It generates ideas and concepts regarding desirable ways of regional economic cooperation and provides policy proposals. Initially only five

advanced industrial nations (Japan, Australia, New Zealand, the United States, and Canada) participated in PAFTAD, over time, participation has expanded to include most countries in the Asia Pacific region. With a similar academic background and less political sensitivities, participants in the PAFTAD setting are less difficult to reach a body of consensual knowledge. In terms of policy ideas, PAFTAD is much more optimistic but this innovative advantage is also a disadvantage to the extent that without governmental input, the feasibility of these policy ideas is uncertain. Therefore participants increasingly felt needs for more direct governmental involvement (Patrick, 1997).

As discussed in the previous chapter, Japanese firms began a series of FDI flowing into the region since 1970s and as such Japan felt an increasing need to develop dialogues with its trading partners for policy coordination. In 1978 the Japanese Prime Minister Masayoshi Ohira made a proposal for a Pacific community which led to the establishment of PECC in 1980. The unofficial nature of PECC provides it a greater flexibility to promote regional economic cooperation while avoiding politically sensitive concerns. For example, it was clearly recognized that participation of the ASEAN nations was essential for any form of Pacific Community. But at first ASEAN member states were not positive in supporting the formation of PECC, because they were afraid of losing their identity and coherence (Ichimura, 1998). Indeed the fear of being dominated by major power still haunted ASEAN. And yet the unofficial nature of PECC was instrumental in greatly lessening the pressure for ASEAN to participate. For government officials, PECC provides a non-committal

venue of exploration of policy ideas and thus they are inclined to conduct communicative instead of strategic actions in the PECC setting.

In sum, PBEC, PAFTAD, and PECC were important as channels for pre-APEC discussions of regional economic cooperation. They provide forums through which participants interact with and learn from each other. And due to their unofficial nature, PBEC, PAFTAD, and PECC provide a non-threatening setting in which communicative actions are easier to take place. To the extent that policy ideas generated through these unofficial economic institutions are increasingly shared among participants, collective interests have been identified which in turn has been conducive to the subsequent attempt at official cooperation, namely, APEC.

#### The Establishment of APEC

As governments came increasingly in the 1980s to recognize the forces of market-driven economic integration among the Asia Pacific economies, the desirability of more formal government cooperation became increasingly salient. However, despite the persistent efforts of track two in the economic institution-building in the Asia Pacific region, the formation of APEC was not without problems. A discussion of major actors' motivations for joining APEC will reveal that the final move to establish APEC was not smooth or inevitable.

From the Australian perspective, the motivation of the Australian government to propose the formation of APEC is mainly a defensive reaction to avoid economic marginalization in the changing context of the global economy. Both the United



States and the European Community were engaged in building up regional trading blocs at that time which threatened to exclude the East Asian countries and Australia. Australia was also disturbed by American unilateralism in international economic issues. At the same time, the Uruguay Round of the GATT looked like breaking down. Thus, the Australians saw APEC as a fallback mechanism if the Uruguay Round of the GATT were to fail and inward-looking pressures in North American and European trading blocs were to become more prominent.<sup>7</sup> To counter the US-Canada Free Trade Agreement and European Community; logically, then, the U.S. and Canada would have to be left out. Therefore, in a speech in Seoul on January 1989, when Australia's Prime Minister Bob Hawke suggested the idea of the Asia-Pacific Economic Cooperation forum, he deliberately excluded the U.S. and Canada for participation. Furthermore, by excluding the U.S. and Canada, Australia saw APEC as a good way to gain Australia's acceptance in Asia as the degree of economic interdependence with East Asia continued to deepen (McDougall, 1999; Ravenhill, 1998).

From the Japanese perspective, given the enormous economic stakes it has in the Asia Pacific region, Japan was very concerned with the increasing U.S. aggressive unilateralism and the conclusion of the US-Canada Free Trade Agreement. Of all major actors in APEC, Japan has been the most persistent in promoting the economic institution-building in the region. Like Australia, Japan wanted to establish a counterweight to defend the threats of exclusion of its exports from markets in North America and Europe. But unlike Australia, Japan wanted to include the United States

in APEC at least for two reasons. First, Japan was very sensitive that any economic regime that excluded the United States would make East Asian countries reluctant to participate for fears of Japanese economic domination. Second, by including the U.S. in APEC, Japan hoped that the pressure of U.S. aggressive unilateralism could be lessened. Thus the initial Japanese reaction to Australia's proposal was to wait for the American response. Following U.S. willingness to join APEC, the Japanese government has come to give the full support for the establishment of APEC (Funabashi, 1995; Yamamoto & Kikuchi, 1998).

In 1989, the United States was preoccupied with the US-Canada Free Trade Agreement and Uruguay Round of the GATT. The idea of APEC somehow surprised the U.S. because it underestimated the unintended consequence of the US-Canada Free Trade Agreement it would receive from other nations in the region (Funabashi, 1995). The newly inaugurated Bush administration was put in a rather uncomfortable position of having to react to a proposal in which it was not even included as a proposed invitee (Baker, 1998). The initial reaction from the U.S. was to wait and see. At that time, the U.S. had reservations on APEC. It was understandable because American preference was to deal with the countries of the region on a bilateral basis, given its huge market. But once the U.S. knew the establishment of APEC was inevitable, it insisted on being one of its founding members. The U.S. agreed to join APEC because it feared being left out of an economic institution in the region that might become Japan-centered. In the words of U.S. Secretary of State James Baker (Baker & Defrank, 1995):

I was determined that any move toward economic integration in East Asia include the United States. At State, I would try to check any move by the East Asians to exclude us, gently if I could, not gently if I must...Prime Minister Bob Hawke publicly proposed the idea of an East Asian group to promote free trade in the region. His proposal did not include the United States, but we had no difficulty persuading Hawke, a good friend of the United States and George Bush, to extend us an invitation to a November 1989 meeting of the forum for Asia-Pacific Economic Cooperation (APEC) in Canberra. (p. 609)

In the beginning, the ASEAN nations were ambivalent about the establishment of APEC. On the one hand, they were cautious about the creation of a regional agreement that might in the end come to be dominated by the major actors such as Japan, China and the United States. They feared that participation in such an agreement might increase the opportunities for foreign intervention in their domestic affairs. On the other hand, they also feared that failure to join such an arrangement would leave them isolated and vulnerable. One of the most important factors contributing to ASEAN's willingness to join APEC was the position adopted by Australia who guaranteed that the ASEAN states would be the core of APEC and that APEC would maintain the non-binding nature of any principles agreed. These promises to ASEAN significantly shaped the evolution of APEC (Funabashi, 1995; MacIntyre, 1997).

Like other actors, both China and Taiwan were facing an inward-looking economic environment in 1989; but the fact that they are not WTO members even now makes them especially vulnerable to the aggressive unilateralism and inward-looking protectionism. They thus have strong economic incentives to join APEC. According to Bob Hawke, leaving China out of APEC is "like getting married without having a

bride" (Funabashi, 1995, p. 65). Still China was not invited to the first APEC meeting due to the Tienanmen incident in June 1989. In order not to offend China, the Australian government did not invite Taiwan either. And it is this reason that the significance of joining APEC is much more than an economic considerations for Taiwan. According to a Taiwan's official of the Ministry of Foreign Affairs, "From the outset, in order to increase our international recognition, we want to join APEC at any cost except using the title of membership as Taiwan, China" (personal interview). In 1991, both China and Taiwan were accepted as member "economies" and officially Taiwan was named "Chinese Taipei".

From the analysis above, motivations for joining APEC varied among nations, but all were concerned with a threat. It can be argued that the formation of APEC was in important part a reaction to the common threat of the intensified inward-looking regionalism in North America and Europe. As the Cold War was coming to an end in the late 1980s, economic issues became more salient. Negotiations in the Uruguay Round of the GATT were stalling. Countries feared the aggressive unilateralism of the U.S. The deepening of the European Community and of the US-Canada Free Trade Agreement reinforced the perception of the world breaking into defensive trading blocs. It was in this context that many countries in the Asia Pacific region felt compelled to form a regional arrangement of their own.

#### The Competing Identities: APEC vs. EAEC

Given the perceived threat that trade blocs emerged in Europe and North

America, many Asian political leaders naturally thought about creating a corresponding one to defend themselves. The establishment of APEC apparently did not change their uneasiness since they doubted that APEC, with the inclusion of the U.S. and Canada, was adequate in addressing the particular needs of East Asian economies.

As a Malaysian scholar argues,

As a concept, 'Asia-Pacific' makes little sense. Unlike East Asia or South Asia or Southeast Asia, it has no shared history or common cultural traits. Asia-Pacific is not even an accepted geographical entity. The U.S. has vast economic ties with Europe but is not part of the European Community which jealously protects its own historical, cultural and political entity. Similarly, Japan is deeply involved in the U.S. economy but is not part of the North American Free Trade Agreement. It is only in the case of Asia, more specifically East Asia that there is a concerted attempt to suppress its collective identity and thwart its legitimate quest for a common identity. (cited in Higgott, 1995, p. 91)

Indeed, if East Asian countries are treated as outsiders by the EC and NAFTA, it is only natural for these outsiders to form a group of their own. This has led to two proposals: ASEAN Free Trade Area in 1991 (AFTA) and East Asian Economic Group in 1990 (EAEG). Whereas AFTA is not big enough to threaten the major actors in the Asia Pacific region, EAEG is much more controversial due to its proposed membership. In December 1990, Malaysian Prime Minister Mahathir floated an idea of EAEG. The group would consist of the ASEAN countries, Japan, Korea, China, Taiwan, and Hong Kong. EAEG was originally interpreted as a preferential trading bloc to counteract the NAFTA and EC. In order to mitigate excessive suspicions, the name of EAEG was changed to East Asian Economic Caucus (EAEC) at the ASEAN Economic Ministers' Meeting in Kuala Lumpur in October 1991 and was endorsed by the ASEAN Summit in Singapore in January 1992. The new

proposed membership list of EAEC removed Taiwan and Hong Kong due to China's opposition (Leong, 2000). Currently the EAEC is also known as ASEAN plus Three (Japan, Korea, and China). In terms of the identity of EAEC, Mahathir clarifies the concept at the Asia Society Conference in Tokyo in May 1993:

In proposing the East Asian Economic Group we are not only not proposing a closed, inward-looking trading bloc for East Asia but we are not even proposing any kind of trading bloc for East Asia... We are not advocating a preferential trading arrangement or an economic union for East Asia. What we wish to see is the establishment of a loose consultative forum for the economies of the region. This forum should have both a regional agenda and an extra-regional agenda... We are not particular about the name of this process. When Indonesia proposed a change from East Asian Economic Group to East Asian Economic Caucus, Malaysia saw absolutely no problem. We initially chose the word Group because of our acquaintanceship with the Cairns Group, which you know, is the Group of agricultural exporters who have played a most substantial role in the Uruguay Round. (cited in Leong, 2000, pp. 59-60)

Despite Mahathir's clarification of EAEC, it was simply unacceptable for those who were excluded from the group. Indeed, it was not so much the nature of EAEC, but its membership that caused anxieties for outsiders. From the very beginning the United States opposed it most forcefully for fearing that EAEC might turn into an anti-Western coalition. To quote U.S. Secretary of State James Baker again:

[Agitation] for an exclusively East Asian trading bloc refused to go away. Malaysian Prime Minister Mahathir bin Mohamad, in particular, continued to hawk his idea of an East Asian Economic Group (EAEG) along the line of the EC. Mahathir was not seen as particularly pro-American and was considered likely to cause mischief if crossed, so I took a moderate line on his idea in public. In private, I did my best to kill it... At the meeting in Seoul, Korean Foreign Minister Lee Sang Ok suggested his country might support Mahathir's proposal out of Asian solidarity. I reminded Lee that it was Americans, not Malaysians, who had shed their blood for Korea forty years before. My message was simple: All countries are *not* equal. The South Koreans got it, and did not press for an EAEG (Baker & Defrank, 1995, pp. 610-611).

For the United States, however, it would be the unambiguous endorsement of Japan not Korea to make the EAEC proposal to be of any significant threat. Initially Japan felt ambivalent when the idea of EAEC began to float. Japan could neither accept nor reject Mahathir's proposal. On one hand, the EAEC evokes an Asian identity in the minds of many Asians including the Japanese. According to Funabashi (1995), some Japanese fear that "if Japan rejects the EAEC today, it may suffer tomorrow if or when the United States disengages from the region and China dominates it" (p. 208). On the other hand, if Japan accepts the EAEC, there might be economic and security repercussions. From the economic perspective, as noted in the previous chapter, although Japan's trade with Asia has suppressed the trade with the United States since 1990s, the Japanese economic tie with the U.S. remains significant. For Japan, a move towards the EAEC might further American protectionist tendency and trade retaliation. In terms of security, Japan feared that an economic division between East and West might weaken America's security commitment. In September 1995, for example, Assistant Secretary of Defense Joseph Nye issued an explicit warning as saying that East Asian nations had rejected the EAEC because they understood that if they had embraced the EAEC, "we would probably withdraw our security presence" (cited from Grieco, 1999, p. 329).

Logically, Japan would like to avoid a choice between Asia and the United States, and APEC is important precisely because it contains both. Therefore, the Japanese government did not embrace the EAEC from the beginning. Japan's reluctance disappointed the Malaysian government. In an August 1994 meeting, Mahathir

told Japanese Prime Minister Murayama that "Japan should stop apologizing for World War II and start being a world leader" (cited in Funabashi, 1995, p. 206). Mahathir's encouragement implicitly indicated that the ASEAN's fears of Japanese dominance of the region have somewhat subsided.

Still, Japan continued to refrain from embracing the EAEC. In July 1995, in response to the question why Japan continued to avoid the EAEC at a press conference, spokesperson for Japan's Foreign Minister stated that "As you know the United State is still very much opposed to the idea of the EAEC" (cited in Grieco, 1999, p. 329). One month later, at a press conference after an ASEAN meeting in Brunei, a Japanese official of Ministry of Foreign Affairs stated that the Japanese government "firmly believes that the EAEC should be launched with the blessings of all APEC countries. Any attempt to divide APEC countries should be avoided" (cited in Leong, 2000, p. 78).

But it would be incorrect to assume that the idea of EAEC enjoys little support in Asia. Mahathir's idea of EAEC made him quite a figure in many Asian countries, notably Japan. To quote Dr. Mahathir again:

The United States created NAFTA and it wants to use APEC to hold back the East Asian countries. American support for NAFTA but not EAEC is quite illogical. If Washington favors one, then it ought to be in favor of both. You cannot justify NAFTA and APEC and reject the EAEC. That is hypocrisy. It is like saying, "I can do what I like, but you may only do what I let you." (cited in MacIntyre, 1997, p. 238)

Without considering the motivations behind Mahathir's claims, it is indeed difficult to justify that the United States opposes Asian nations' search for their own collective identity (EAEC) when it has one (NAFTA). Although no meetings have



ever been held under the name of EAEC, the core idea of such a more exclusive identity continues to be discussed. In fact, the vision of EAEC was brought a step further in the form of the first Asia-Europe meeting (ASEM) in Bangkok in March 1996 (MacIntyre, 1997). The ASEM resembles APEC summits, but includes only the seven ASEAN states plus Japan, South Korea, and China with the fifteen states in the EU. Prior to the ASEM Bangkok Summit, ASEAN held preparatory meetings with Japan, South Korea, and China; together these countries are identical to those proposed by Mahathir for the EAEC. It should be noted that initially Japan insisted that it would attend the ASEM only if Australia and New Zealand would attend when the idea of ASEM was proposed by Prime Minister Goh Chok Tong of Singapore in January 1995 at the World Economic Forum (Funabashi, 1995; Higgot, 1999). Japan's policy change within six months indicated that Japan is cautiously expanding its low-key regional role.

## Regime Design

### Regime Identity

As previously discussed, when an international regime has been established, its members have to decide the identity of the regime and then develop procedural rules and structures to proceed its operation. From the very beginning, the idea of open regionalism has been adopted as the regime identity to articulate the concern of APEC members regarding any prospective breakdown of the liberal international trading order and the emergence of exclusionary regional trading blocs in Europe and

North America. Asian countries realized that their economic success was largely based upon the post-war liberalization of GATT. Despite the increasing intra-Asian trade, Asian countries recognize that a large proportion of their trade occurs with countries outside the region. Therefore, it is not in the interests of these countries to form an inward-looking trading bloc because the risks from trade diversion and retaliatory closure of export markets outside the region is great (Lawrence, 1996; Petri, 1999).

The joint statement of APEC's first ministerial meeting in Canberra in 1989 affirmed that, "Every economy represented in Canberra relies heavily on a strong and open multilateral trading system, and none believes that Asia Pacific Economic Cooperation should be directed to the formation of a trading bloc" (APEC, 1995b, p. 35). The 1991 Seoul Declaration has reconfirmed the idea of open regionalism that "Asia-Pacific Economic Cooperation should serve as an exemplary model of open regional cooperation" and should "develop and strengthen an open multilateral trading system in the interest of Asia Pacific and other economies" (APEC, 1995b, p. 62).

But what does open regionalism mean? Within APEC there has been a heated debate over the meaning of open regionalism since APEC members committed themselves through the 1994 Bogor Declaration to create a region of free and open trade and investment. At the heart of the debate is the preference over the conditional or unconditional MFN (Most Favored Nation) in terms of the trade liberalization. There are two basic ways to define the idea of open regionalism in terms of the relationship

between APEC and WTO/GATT. To be consistent with WTO/GATT, APEC can base itself on the principle of either non-discrimination or reciprocity. If APEC adopts the principle of non-discrimination (Article 1 of GATT), any trade benefits granted to one contracting party should be applied to all other contracting parties unconditionally. On the other hand, if APEC decides to base itself on the principle of reciprocity (Article 24 of GATT), APEC has to set itself up as preferential trade area (PTA) along the line of NAFTA (Lawrence, 1996; Yanai, 2000).

Asian members of APEC reject the establishment of a PTA because different APEC members are at dramatically different levels of economic development, and have dramatically different economic systems (for example, the role of the government). However, the United States, Canada and some other members are unwilling to extend on an unconditional non-reciprocal basis any reductions in trade barriers to others, notably the European Union, because of the problem of free rider. As Lawrence (1996) argues:

most proponents of regional economic programs for Asian economies generally advocate some form of “open” regionalism. One approach would be for APEC nations to negotiate tariff reductions that would then be extended on a most favored nation basis to all trading partners. APEC’s trading partners would undoubtedly welcome such an initiative, but some APEC nations themselves might find it hard to justify extending “free-rider” benefits to nations from outside the region. (p. 93)

Because the somewhat ambiguous language of the Bogor Declaration (free and open trade and investment), the two ideas (conditional vs. unconditional) are competing to dominate the interpretation of open regionalism in the APEC process. How APEC has been coping with the differences among members will be elaborated

in the next chapter.

### Decision-Making Process

As previously noted ASEAN's support for APEC was premised on a gradual and flexible approach; and ASEAN was promised a prominent role by Australia. In the Joint Statement of the First Ministerial Meeting in 1989, ASEAN's institutional preferences were reflected:

Ministers also expressed their recognition of the important contribution ASEAN and its dialogue relationships have played in the development to date of APEC, and noted the significant role ASEAN institutional mechanisms can continue to play in supporting the present effort to broaden and strengthen regional economic cooperation. (APEC, 1995, p. 35)

Following APEC's first meeting in Canberra, ASEAN countries work out the so-called Kuching Consensus (Linnan, 1995) as their principles for participation in APEC:

preserving the identity and cohesion of ASEAN without diluting its cooperative relations with its dialogue partners and third countries; basing APEC on principles of equality, equity and mutual benefit, taking into account differences in stages of economic development and sociopolitical systems; avoiding formation of an inward-looking economic or trading bloc, and seeking instead to strengthen the multilateral trading system; employing APEC as a consultative forum on economic issues, rather than adopting mandatory directives for any participant to undertake or implement; facilitating mutual cooperation to promote APEC members' common interests in larger multilateral forums; and proceeding gradually and pragmatically with APEC rather than seeking rapid institutionalization. (p. 826)

The Kuching Consensus clearly indicates what the ASEAN nations fear and what they want from the APEC. The ASEAN nations fear APEC would become a closed trading bloc since they benefit from the GATT/WTO principle of non-

discrimination. What ASEAN nations want from APEC is a loose consultative institution to enhance economic cooperation so that they can keep their governments' discretion in dealing with domestic conditions. But what does the United States want from APEC? Was the United States willing to go along with ASEAN's preferences? At the initial years of the APEC process, the United States took a conciliatory position on the issue of regime design. In the words of U.S. Secretary of State James Baker (1995, p. 610):

APEC might possess limitless long-term potential. But in the short-term, it would have to choose its issues carefully. Anything too far ranging--for instance, a move to transform it rapidly into a free-trade zone--could divide APEC's members and doom it in its infancy. In the beginning, at least, our focus would be less on issues than on institutionalization. We needed first to regularize meetings, formalize consultation, and build trust. To assist in this regard, we agreed that an ASEAN nation would host every other annual meeting. Before APEC could run, it would have to walk.

Since its inception, APEC has been taking a gradual and flexible approach in terms of the procedural rules. It is gradual because decisions are made by consensus and it is flexible because decisions are non-binding and voluntary. Agreement in the APEC process is reached by consensus. However, APEC's consensus-based rule of decision-making process differs from that one adopted by international organizations such as the United Nations. The procedure rule of the UN is to make legally binding decisions through either majority-vote or unanimity-vote. APEC does not have a voting system. Consensus is reached through deliberation step by step (Hirano, 1996). APEC's focus on consensus-based decision making was critical to winning support for the regime in its early stages, but unanimity is becoming increasingly difficult to maintain as it addresses more substantive issues.

Consistent with the idea of voluntarism, commitments are not binding on APEC's members. They do, however, represent statements of serious intent and are expected to guide the policy formulation of APEC governments. APEC does not directly regulate its member's economies. There is no formal dispute resolution process and APEC has no enforcement powers. Instead peer pressure is adopted to push governments to implement their commitments. In the initial years of the APEC process, there was no controversy in terms of the non-binding rule since APEC activities had been confined to recommendations or policy statements indicating the direction that APEC should take. However since the 1993 Seattle Summit, conflicting views regarding the non-binding rule of APEC have surfaced as APEC increasingly deals with concrete issues such as the reduction of trade barriers for goods and services (Janow, 1996).

In terms of leadership, it is important to recognize that the prevailing APEC institutional structure implies that the leadership in APEC is provided by the host governments that alternates annually. Individual governments have their particular interest that they want to promote through APEC, and it is the host government that usually has a major influence on the agenda of APEC in a particular year. The rotating chair thus prevents any one member from constantly inserting its preferred ideas into the process. However, it is expected that these governments will continue to promote the activities that they had initiated when they were in the APEC chair (Khanna, 1996).

APEC was designed with a minimal regime structure and APEC's

institutionalization has been undertaken in a pragmatic way. Yet over the past twelve years, there has been a significant institutionalization of the APEC process. In 1992, APEC members agreed to establish a small permanent Secretariat located in Singapore. Although the Secretariat has expanded over the years, it continues to function as a clearinghouse. Initially, the Ministerial Meeting was the main forum for formulating the policy direction of APEC. Since 1993 the APEC Summit has taken over the task of directing APEC's developments. To implement the Leaders agreements, APEC Ministers rely on the Senior Officials' Meetings (SOM). The SOM are expected to provide coordination for the work programs and budgets of APEC committees, working groups and expert groups; to make recommendations to Ministers; and to carry out their decisions (APEC, 1999d). Figure 2 illustrates the regime structure of APEC.

#### Discussion: Implications for Constructivism and APEC

With regards to regime formation, ideas to promote the economic institution building in the region were discussed for more than two decades before APEC was created. These fora identified the need for and socialized the ideas of economic cooperation. Yet apart from unofficial cooperation in the form of PBEC, PAFTAD, and PECC, there was little support for formalizing regional economic cooperation at the governmental level. Moreover while economic interdependence in Asia-Pacific developed rapidly in the early 1980s, APEC did not occur until 1989. Therefore, economic interdependence is a necessary but not sufficient factor for the creation of

APEC. Now that ideas and interests of regional cooperation have been identified, some other crucial catalysts are needed to go beyond historical constraints and foster the formation of APEC. The U.S. aggressive unilateralism, the negotiation of the Canada-U.S. Free Trade Agreement and the EC towards a single market, and the fear of possible failure of GATT Uruguay Round were those crucial catalysts in APEC's formation. It can be argued that APEC was in crucial part born in response to common threats.

From the constructivist perspective, the formation of collective identity derived from a common threat says little about the cohesiveness of that collective identity. It would be incorrect to assume that once a collective identity is formed, states' corporate interests would subside or their collective interests would necessarily follow. There is no expectation that the initial cooperation among states produces mutual trust. Creating a collective identity is only the first step, but whether or not this collective identity will be consolidated depends on states' subsequent interaction. A policy implication for APEC is that a common threat may be strong enough to form a collective identity among APEC members; and yet eventually APEC members must face their own internal dynamics in terms of regime development. This is especially true for APEC since one of the common threats, namely the United States, was included in the regime which made APEC a hard case to prove there is a collective identity between regime members from the outset. Indeed it is difficult and yet not inherently impossible.

In contrast to rationalist assertions, the constructivist model points us to the



possibility that collective identity can be constructed and reinforced through practices. In other words, identity and its corresponding interest are emerging out of interaction, not prior to it. And it is this argument that Japan's position on the competing identities between APEC and EAEC is so instructive in analyzing Proposition 1: in a given situation, if a state's corporate and collective identities are in conflict, corporate identity will tend to be selected; and Proposition 1.1: the more a state is committed to maintaining interstate relationships, the higher the salience of its collective identity relative to corporate identity.

The U.S. signaled to Asian members that joining EAEC would divide APEC into competing coalitions and thus would hurt collective identity among APEC members. Therefore, if Japan embraces EAEC, it would imply that Japan evokes corporate identity instead of collective identity in terms of its relationship to the U.S. Conversely, if Japan rejects the idea of EAEC, the theoretical implication is that Japan evokes collective identity in order to maintain its relationship with the U.S.

Both rationalist and constructivist models can explain why initially Japan rejected the EAEC and embraced the APEC. Given that the United States is still a major absorber of East Asian exports, the Japanese government recognizes that a self-contained East Asian economic bloc is not feasible. Furthermore, Japan fears that an economic division between East and West is likely to weaken America's security commitment to its East Asian allies. The rationalist model, however, cannot explain Japan's policy change in favor of EAEC within the space of six months. A rationalist could not use the data to explain the policy change because over six

months the data did not change significantly. Security concerns remains unchanged, economic interdependence is still present.

Instead, the constructive model can provide a more coherent explanation. Without rejecting rationalist explanations, a constructivist interpretation goes deeper and would argue that the idea of EAEC came too early. The newly established APEC began a new chapter in the relationship between Japan and the U.S. Despite recent historical experiences of American aggressive unilateralism, Japan would like to give itself and the U.S. another chance to improve their relationship. If, however, the U.S. continues to take aggressive actions, it is only a matter of time before Japan will turn to the EAEC. The reason why Japan did not initially embrace the idea of EAEC was in part because that the U.S. took a more conciliatory stance in the early APEC process. In the next chapter I will empirically demonstrate how the policy discourses between the U.S. and Japan might lead to Japan's policy change towards the reception of the EAEC.

The constructivist model contends that collective identities are learned and reinforced in response to how actors are treated by significant others. In the case of EAEC, an Asian collective identity is constructed and reinforced in response to how the U.S. (a significant other) treats the East Asian region. Following this logic, a policy implication is that the future of EAEC in part depends on how APEC members treat each other. Higgott (1998b) contends that "It is the identification of European economic space and policy positions and American economic space and policy positions that is fostering the identification of (differing) Asian understandings of space

and policy positions" (p. 57). I am not arguing that the EAEC process has deepened. Neither do I wish to suggest that there is no contradiction within the EAEC. After all, it is difficult to imagine that China would allow the EAEC to become Japan-centered, given the historical experience between these two countries. These are not issues here. The point to be made is simply that an idea of Asian identity, no matter how loose, has significance to the extent that EAEC satisfies the psychological need of Asian countries to have a regional group of their own in response to being treated as outsiders by NAFTA and EU.

With regards to regime design, in order to accommodate ASEAN's preferences, APEC was created to be informal consultative processes characterized by voluntary, consensus-based and not-binding rules. This trust-building and input legitimacy oriented approach is deliberately compatible with state sovereignty. As Acharya (1997, p. 13) argues: "informal and nonlegalistic procedures are preferred by proponents of the Asia-Pacific Way because they create a nonthreatening atmosphere for exploring ways of problem-solving." If APEC's procedural rules had not been based upon input legitimacy, it would have been difficult to accommodate the political, economic, and social diversity of APEC members in the first place. In other words, voluntary, consensus-based and not-binding rules have been an essential precondition for holding such diverse countries together and, in particular, of reducing Asian members' anxieties about the possibility of American dominance.

The input legitimacy oriented rules of APEC are relevant here for analyzing Proposition 2.1: the more an international regime is based upon legitimacy, the

higher the probability the regime members comply with the regime norms, and the more the cohesiveness of regime collective identity. It can be argued that the more conciliatory stance that the United States took in the initial years of the APEC process was conducive to lessening the fears of Asian member, which in turn positively enhanced the collective identity among APEC members. Although input legitimacy is crucial, probably no international regime would want to rest its reputation on process alone. Output legitimacy or tangible policy results are important too, especially for members who have preferences over outcomes, but not over social relations. A complication is that input legitimacy and output legitimacy do not necessarily coincide. For example, to many APEC observers (Gallant & Stubbs, 1997; MacIntyre, 1997) the problem over the medium to long term is that without the benefits normally associated with a rules-based regime emphasizing reciprocity, it may be difficult to maintain the interest of the United States. However, to many Asian members procedural fairness and practices may become valued beyond their technical-functional performances. To them, then, APEC is not only an instrument for the policy achievements; it is part of a political order making it possible for different members with different ideas to coexist peacefully. The interaction between input and output legitimacy has important policy implications for the APEC process.

At least two policy implications of APEC's decision-making style can be identified. First, unlike international hard law or treaties which often reflect a narrow and lowest common denominator of collect interest, APEC's non-bonding rules are more flexible and bold in terms of policy agenda. The 1994 Bogor Declaration is a

good case in point. The Bogor Declaration to achieve free and open trade and investment in APEC by 2010/2020 has been widely viewed as APEC's most significant moment. It was a bold move by APEC members and would have been difficult to achieve if APEC's decisions had been binding. This does not necessarily mean APEC countries do not expect to implement the commitment, but it simply means that they want to keep the governmental discretion in hands to protect sovereignty in case domestic conditions do not permit them to continually pursue such commitment. Without doubt, it is also possible that the Bogor Declaration is only a cheap talk. But at the minimum level, it indicates two things. First APEC members all endorse a market-led open regionalism instead of closed one. Second, the coherence of collective identity among APEC members accumulated in previous years has been conducive to generating such commitment.

The second implication is that the consensus-based rules may generate vague decisions (acceptable for every member) that conceal underlying disagreements. In other words, the APEC decision-making style may allow internal contradictions to accumulate without effective resolution. This would not be problematic if agreements were only about statements of members' intention. However, when the time comes to deal with concrete issues, APEC members may have different interpretations on agreements. For example, what does free and open trade and investment mean in the Bogor Declaration? Does it mean a zero end point? Is every sector included in trade liberalization? These issues will be further discussed in the next chapter.

## CHAPTER VI

### APEC: SUBSTANTIVE POLICY ISSUES

The purpose of this chapter is to investigate what APEC members might do to affect their collective identity either positively or negatively, by looking at the substantive policy issues in the APEC process. Based on the idea of complex adaptive systems, the policy issues to be discussed in this chapter are selected to see how APEC responds to its internal dynamics and external pressures.

#### Internal Dynamics

APEC raised its profile in 1993 when President William Clinton initiated an annual APEC Summit in Seattle, and state leaders agreed to envision an Asia-Pacific community. The following year in Indonesia, APEC leaders, through the Bogor Declaration, committed themselves to creating a region of free and open trade and investment, by the year 2010 for developed countries, and by 2020 for developing countries. In order to implement the Bogor Declaration, APEC has identified and endorsed two major policy agendas in a 1995 economic leaders meeting (known as the Osaka Action Agenda): (1) trade and investment liberalization and facilitation (TILF), and (2) economic and technical cooperation (ECOTECH).

## Trade and Investment Liberalization and Facilitation (TILF)

### The Idea of TILF

It may be the case that, to the extent that APEC is known outside of the APEC community, it is mainly because of the TILF agenda. The Osaka Action Agenda consists of two parts. Part I deals with TILF while part II covers ECOTECH. Part I starts with nine general principles to guide TILF activities: (1) comprehensiveness; (2) WTO-consistency; (3) comparability; (4) non-discrimination; (5) transparency; (6) standstill; (7) simultaneous start, continuous progress, differentiated time-tables; (8) flexibility; and (9) cooperation (APEC, 1995). The TILF action agenda has more extensive coverage of areas than is usual in WTO initiatives. These are: (a) tariffs, (b) non-tariff measures, (c) services, (d) investment, (e) standards and conformance, (f) customs procedures, (g) intellectual property rights, (h) competition policy, (i) government procurement, (j) deregulation, (k) rules of origin, (l) dispute mediation, (m) mobility of business people, (n) Uruguay Round implementation, and (o) information gathering and analysis (APEC, 1995a).

In terms of implementing the TILF agenda, APEC members agree to adopt the modality of concerted unilateral liberalization through their individual action plans (IAPs). The implementation modality is unilateral to the extent that individual APEC members will announce their own liberalization and facilitation programs voluntarily and members will then implement them according to their domestic rules. It is concerted to the extent that their unilateral efforts will be discussed and reviewed

within APEC, in accordance with the nine general principles for cooperation. The whole process relies on peer pressures so that unilateral efforts are encouraged (Yamazawa, 1998).

The factual descriptions of the TILF agenda and its modality cannot reveal the process of serious debates leading to its outcomes. Among the most contentious issues, the principles of comprehensiveness and non-discrimination stand out. First, the principle of comprehensiveness was difficult to resolve due to a debate on whether agriculture would be included in the liberalization sectors. At the July and September 1995 senior officers' preparatory meetings for the Osaka APEC summit, Japan, with support from South Korea, Taiwan and China, indicated to exclude the agricultural sector from liberalization on the grounds that domestic conditions would not allow farm and fisheries sectors for further liberalization. However, Australia and the United States, among others with strong agricultural export interests, contested this view and strongly insisted the importance of comprehensiveness in implementing the Bogor commitments (Khanna, 1996; Langdon, 1997). As Australia Prime Minister Keating argued:

Australia's position is clear. The Bogor Declaration is unambiguous on the question of comprehensive coverage...It does not say 'free trade except for agriculture'. We all have sensitive sectors - for Australia, these might include automobiles and textiles, clothing and footwear. The effect of any APEC member excluding one sector from coverage of the free trade commitment would be that others would also look for exceptions. This would paralyze APEC...The 15-25 year time period leaders set in Bogor for the achievement of the free and open trade and investment goal provides ample scope for member economies to undertake any necessary adjustments. (cited in Woods, 1995, p. 4)

The U.S. ambassador to APEC, Sandra Kristoff, expressed the same concerns,



but in an aggressive tone: "for many of us, to provide for sectoral exclusion because of domestic sensitivities would be to turn Bogor on its head and to call into serious question the continued interest of many of us to participate" (cited in Gallant & Stubbs, 1997, p. 210). The impasse over an agricultural exception was passed from the senior officials over to the ministers. Japan was under strong pressure. As the host country, Japan wanted the APEC Osaka meeting to be successful but it also needed to address the domestic concerns. It was at this time that Japan felt a strong need to align more with Asian members. And Japan got it.

At the end of the Osaka Economic Leader meeting in November 1995, Japan, along with the ASEAN nations, Taiwan, South Korea, and China, was able to achieve an acceptable result: comprehensiveness with flexibility. APEC members agreed that the principle of comprehensiveness was upheld while its implementation were allowed to be flexible with consideration given to the sensitive areas of each APEC member. The final wording of comprehensiveness and flexibility in the Osaka Action agenda are as follows: comprehensiveness means that "[t]he APEC liberalization and facilitation process will be comprehensive, addressing all impediments to achieving the long-term goal of free and open trade and investment" (APEC, 1995a, p. 5); and flexibility means that "[c]onsidering the different levels of economic development among the APEC economies and the diverse circumstances in each economy, flexibility will be available in dealing with issues arising from such circumstances in the liberalization and facilitation process" (APEC, 1995a, p. 6).

The other controversial issue is regarding to the principle of non-

discrimination. As discussed in the previous chapter, the different views competing for the definition of open regionalism became salient as APEC began to enter the implementation phase. The debate was whether APEC should or should not develop as a preferential free trade agreement or whether APEC liberalization should be on an unconditional Most Favored Nation (MFN) basis. A preferential free trade agreement would mean that non-members would only benefit from liberalization by APEC members, if non-members made reciprocal liberalization measures. MFN-based liberalization would mean that non-members could benefit without having to take any reciprocal liberalization measures. There had been concerns that the United States might have difficulty agreeing to anything more than a preferential agreement, for the concerns of the free rider.

Asian members of APEC have shown a clear preference for adherence to the MFN principle and preferred the model of concerted unilateral liberalization leaving each country to determine its own plan in a manner that was voluntary and flexible. The United States opposed this approach as too open-ended and instead proposed a comprehensive, reciprocal and binding liberalization which would turn APEC into a preferential free trade agreement. There was intensive deliberation on how to reconcile these two approaches. As Khanna (1996, p. 262) states: "the 'Asian' inclination to evolve and the 'American' inclination to resolve."

At the Osaka leaders meeting, the Asian approach prevailed. APEC has adopted the principle of non-discrimination and chosen its modality as concerted unilateral liberalization. Arguably, the concerted unilateral liberalization can address the

concern of the free rider problem and can be consistent with Article 1 of the GATT/WTO as well. According to proponents of the concerted unilateral liberalization (Yanai, 2000), the free rider issue may be overcome through the principle of flexibility, which can be interpreted as leaving the implementation of trade liberalization to the discretion of each APEC member. Because APEC members must have considered the possibility of free riders when they decided to reduce trade barriers, the concerns about free riders were somewhat diminished. Still, the final wording of the non-discrimination principle of the TILF agenda was ambiguous enough to accommodate the principle of reciprocity (Article 24 of the GATT/WTO).

APEC economies will apply or endeavor to apply the principle of non-discrimination between and among them in the process of liberalization and facilitation of trade and investment. The outcome of trade and investment liberalization in the Asia-Pacific region will be the actual reduction of barriers not only among APEC economies but also between APEC economies and non-APEC economies. (APEC, 1995a, p. 5)

### The Policy Evolution of TILF

1996 Information Technology Agreement (ITA). The United States was frustrated with the contents of individual action plans because members' commitments were too distant and too general. As an alternative, the United States proposed a sectoral negotiations approach. The rationale underlying this approach is based upon a concept of critical mass. According to Okamoto (2000), "if the mass of participants of an agreement reach a critical level, the motivation for non-participants to join the agreement would get stronger, because the cost of not joining would surpass that of joining" (p. 8).

The idea of ITA was initially proposed by the United States at the Quadri-lateral Trade Ministers' Meeting among the United States, the European Union, Japan and Canada in December 1994. The object of this agreement was to eliminate tariffs on a list of IT products (including computers, software, telecom equipment, semiconductors, semiconductor manufacturing equipments and scientific instruments) by the year 2000 (Yanai, 2000). However, an agreement could not be reached because of the EU's objection. The EU was displeased with the bilateral preferential agreement in several IT products between the United and Japan that excluded other nations. At the Quadilateral Trade Ministers' Meeting in Kobe in April 1996, however, the EU conditionally endorsed the ITA, which was to include the EU in any agreement on IT products between Japan and the United States. Three months later, Japan and the United States agreed to end the bilateral agreement. Following the Japan-U.S. decision, the EU began to strongly support the ITA. At the September Quad Meeting, a basic coalition for the ITA among the United States, Japan, the EU and Canada was established. The total value of the IT trade of the coalition was about two-thirds of the world total, which was a major step toward reaching critical mass, defined as more than 90% of sectoral trade (Bergsten, 1997; Okamoto, 2000).

Following the September Quad Meeting, the United States started to push the ITA in the APEC setting. However, not every APEC member agreed to endorse the ITA without reservation. For example, the Trade Minister of Malaysia said "you cannot expect every country to undertake market-opening measures at the same time, at the same pace and over the same product sectors"(cited in Okamoto, 2000, p. 7).

In the end, the Leaders' Declaration stated that:

Recognizing the importance of information technology in the 21st century, APEC Leaders call for the conclusion of an information technology agreement by the WTO Ministerial Conference that would substantially eliminate tariffs by the year 2000, recognizing need for flexibility as negotiations in Geneva proceed. (APEC, 1997, p. 4)

The ITA was adopted by the APEC leaders and then forwarded to the WTO Ministerial Meeting in Singapore less than one month later and was adopted as a WTO agreement. Fifteen APEC members signed the agreement and have implemented it since April 1997. Although economies such as China, Malaysia, Thailand and the Philippines had concerns about the Agreement and did not sign at Singapore, they joined after observing a critical mass of economies had participated in the agreement (Okamoto, 2000). It was a glory moment for APEC, as a Canadian APEC related official, "it was the momentum boost to the ITA that seems to have made those outside of APEC circles sit up and take note" (personal interview).

The experience of the ITA process set a precedent for APEC's trade liberalization as an alternative model as opposed to IAPs. In this model, APEC reached voluntary agreement on a set of liberalization measures and then forwarded the result to the WTO to be converted into a binding agreement. In retrospect, several factors can be identified to explain why supporters of the ITA were able to form a critical mass. First, interests were balanced. With the promise between the United States and Japan to put the bilateral agreement to an end, the EU softened its stance so that a major coalition was able to form. Second, the contribution of IT products to economic development was widely recognized; and the changing pace of IT products is

so fast that the protection of them is counterproductive for the domestic IT industry. Third, the application of the principle of flexibility was instrumental in winning the support from the developing members of APEC.

1997-1998 Early Voluntary Sectoral Liberalization (EVSL). Encouraged by the success of the ITA, the Leaders Meeting of 1996 called for a "Early Voluntary Sectoral Liberalization" (EVSL) initiative. The idea of EVSL was originally conceived to identify a few sectors to be agreed upon more easily and implemented earlier in addition to the IAPs, thereby maintaining the momentum of liberalization within APEC. ITA was a good precedent. Sixty-one sectors were proposed as candidates for EVSL in 1997, and 15 sectors were identified as priorities for action through the discussion among member economies at the 1997 Vancouver economic leaders meeting (Yarnazawa, 1999). These 15 sectors were further classified into two categories: "Front 9" and "Back 6". The Front 9 were agreed upon for immediate actions, which included chemicals, forest products, energy, fish and fish products, environmental goods and services, medical equipment and instruments, a telecommunications mutual recognition agreement, toys, and gems and jewelry sector. The Back 6 consisted of the sectors which needed more discussions for liberalization: food, oilseeds and oilseed products, rubber, fertilizers, automotive, and civil aircraft sector (Yanai, 2000). It was also recognized that the EVSL initiative should be complemented not only by trade liberalization but also by trade facilitation and economic and technical cooperation (Okamoto, 2000).

It was scheduled so that APEC members would agree on how to implement

EVSL throughout 1998. But as soon as officials tried to put specific proposals to the nine priority sectors, the problem with EVSL began to surface. At the heart of the problem was the different interpretation of the principle of flexibility. Japan interpreted flexibility as the right to accept only partial elements of the EVSL sectors, or the right not to participate in any of the nine sectors altogether. On the other hand, the United States interpreted flexibility to mean the time period over which agreed upon liberalization commitments would be implemented and insisted on a package deal (Pau, 1999). The package deal is a classic style of the GATT/WTO negotiation and departs far from the IAPs on a voluntary basis. The process leading to the final decision of the EVSL agreement became difficult as both sides refused to compromise. An interesting debate between the two sides was described by Okamoto (2000):

The package deal group argued that, as the commitments taken at the highest level for EVSL should not be treated lightly, participants should undertake EVSL as a package. They also insisted “a big and influential member like Japan” must participate to show a good example. On the other hand, other members did not expect the process to proceed that fast. The Japanese MITI Minister and his staff attended the Meeting, thinking that they had insisted on the voluntary principle of APEC enough to ensure members’ freedom to participate (or not to participate) at Vancouver and also during other available opportunities. In addition, they thought that “a big and influential member like Japan” should clearly state its opposition towards the EVSL package for other members who were potentially against the idea but not “influential. (pp. 21-22)

At the APEC ministerial meeting in Kuala Lumpur in 1988, Asian ministers supported Japan's argument and decided to forward the tariff element of the nine sectors to the WTO. Curtis and Ciuriak (1999, p. 3) state: "APEC's eventual decision to turn over to the WTO the further work on this initiative [EVSL] marked the first

significant retreat within APEC."

### Economic and Technical Cooperation (ECOTECH)

#### The Idea of ECOTECH

In comparison to the TILF agenda, the ECOTECH agenda has been largely ignored by the broader public. As endorsed in the Osaka Action Agenda, the objective of ECOTECH is "to attain sustainable growth and equitable development in the Asia-Pacific region, while reducing economic disparities among APEC economies and improving economic and social well-being" (APEC, 1995a, p. 26). Part II of the Osaka Action Agenda identified 13 priority areas for economic and technical cooperation: (1) human resources development, (2) industrial science and technology; (3) small and medium enterprises, (4) economic infrastructure, (5) transportation, (6) energy, (7) telecommunications and information, (8) tourism, (9) trade and investment data, (10) trade promotion, (11) marine resource conservation, (12) fisheries, and (13) agricultural technology (APEC, 1995a).

The idea of economic and technical cooperation in the APEC process has been a struggle between developed and developing members of APEC. As the host country of APEC Leaders meeting in 1994, Indonesia emphasized the crucial role of development cooperation to be included in the APEC overall agendas in order for developing members to build capacity to fully embrace the trade liberalization measures. However, some developed members of APEC feared that too much emphasis on development cooperation would come at the expense of TILF agenda and turn



APEC into another development aid organization. In the end, a compromise has been reached among APEC members to use the terms 'economic and technical cooperation' instead of development cooperation (Elek & Soesastro, 1999). As such the guiding principles to conduct ECOTECH endorsed by the APEC leaders are of "mutual respect and equality, mutual benefit and assistance, constructive and genuine partnership and consensus building" (APEC, 1995a, p. 26).

In terms of the policy evolution of ECOTECH, the work projects had reached a total of 320 by the time of the APEC Leaders meeting in Manila in 1996. According to Yamazawa (1997, p. 147), these projects were difficult to "go beyond seminars, studies and research, and information gathering and make a tangible achievement." It was under this backdrop that Japan proposed the Partners for Progress (PFP) program to promote ECOTECH beyond information gathering and seminars. However, this proposal failed to gain acceptance due to the opposition from the United States. The U.S. feared that such initiative would divert APEC's attention from trade and investment liberalization and it looked like a Japanese attempt to "buy" Asian members (Morrison, 1999).

Although different APEC members may have different attitudes towards the effort of ECOTECH, the need of producing "focused outcomes" instead of intangible cooperation has been recognized. The year of 1996 saw a more serious effort to enable ECOTECH to gain equal status with TILF within APEC. Based upon the crucial elements of the Osaka Action Agenda, APEC leaders in 1996 outlined and adopted the Manila Declaration on an Asia Pacific Economic Cooperation Framework for

Strengthening Economic Cooperation and Development, which identified six priority areas of cooperation. These priority areas were: (1) to develop human capital; (2) develop stable, safe and efficient capital markets; (3) strengthen economic infrastructure; (4) harness technologies for the future; (5) safeguard the quality of life through environmentally sound growth; and (6) develop and strengthen the dynamism of small and medium enterprises (APEC, 1997).

In their 1997 Vancouver Declaration, APEC leaders endorsed the idea of mutually supportive pillars among trade and investment liberalization, facilitation, and economic and technical cooperation:

Recognizing the diverse interests and circumstances of its membership, APEC has given rise to entirely new approaches to international economic cooperation. Based on three mutually supportive pillars - trade and investment liberalization, business facilitation, and economic and technical cooperation - the APEC members develop the capacity to participate fully in and benefit from this cooperation. By connecting the community APEC has helped us to build relationships and share knowledge to improve the well-being of our citizens. These partnerships enhance our prosperity and progress, enrich our lives and foster the spirit of the APEC community (APEC, 1998b, p. 2).

However, the gap between rhetoric and policy performance continues to exist in the ECOTECH agenda. According to APEC senior officials' 1999 report on ECOTECH to the Ministers, "the ECOTECH projects still show a predominance of process-oriented activities" (APEC, 1999c, p. 5). A discussion is needed to understand why the policy performance of ECOTECH has difficulty producing more focused outcomes.

### The Limitations of the Policy Performance of ECOTECH

The following surveys of the limitations of the policy performance of ECOTECH (APEC, 1999c; Curtis & Ciuriak, 1999; Yamazawa, 1997) relate specifically to the problems faced by ECOTECH, but they have some general relevance to the broader APEC process as well.

1. Problems with producing tangible results. Unlike the results from TILF which are immediate in time and more certain (for instance, an APEC Visa in trade facilitation or zero tariffs in trade liberalization), the results from ECOTECH are distant in time and uncertain. The ECOTECH projects usually involve multi-year and open-ended objectives. As such, it is difficult to get short-term and tangible results. Examples are the APEC Agenda for Science and Technology into the 21<sup>st</sup> Century and the Action Program on Skills Development in 1998.

2. Domestic jurisdiction. APEC is an international regime, and it is likely to have most impact in areas where there is potential for international coordination. Unfortunately, much of the ECOTECH activity is behind the border. Therefore, in terms of implementation, it involves the concerns of sovereignty and depends on domestic conditions.

3. Funding of research projects and implementation activities. APEC has very limited funding. It generally relies upon members to fund initiatives. This understandably leads to members being more willing to fund initiatives if they are of direct and immediate political or economic benefit to their own economy. The problem, however, is that APEC covers a very diverse group of economies, ranging

from the most developed, to some much less developed. Although it is clear that programs and projects to assist ECOTECH in the less developed members will be critical to the longer term success of a free trade regime, it is also clear that this is often not politically attractive to the more advanced economies. Furthermore, the norms of voluntarism allow developed members to justify their little enthusiasm towards ECOTECH activities.

4. Minimal coordination and continuity in activities. Much of the APEC activity relies on meetings of experts and officials to discuss specific issues. Usually, only a minority of the experts and delegates at these meetings have been involved in other APEC meetings, and consequently, there is a lack of continuity in the people involved. This leads to waste and duplication. Because the APEC secretariat plays only an administrative role, APEC usually has difficulty providing the continuity which allows research results to be built into a coherent framework which would be useful to policy makers. APEC is relatively weak institution compared to other international regimes such as OECD, which has much larger research and secretariat capabilities. In 1998 an ECOTECH sub-committee of the APEC SOM was established to address these problems.

#### APEC: External Pressures

This section discusses how APEC adapts to its external pressures. I will examine two major issues: (1) the Asia financial crisis, and (2) non-governmental organizations. The Asia financial crisis was a test of the cohesion of collective identity

among APEC members. I will focus mainly on APEC's response to the crisis and how the impact of the crisis affected the members' collective identity. The other issue to be discussed is NGOs. In 1997, Canada proposed an idea of global civil society for broader engagement when it took the chairmanship. I will discuss NGO attitudes and actions toward APEC and APEC's policy on NGOs.

### Asian Financial Crisis and APEC

Since the 1980s, Indonesia, Malaysia, and Thailand have followed the paths of Korea, Taiwan, Hong Kong and Singapore by adopting the outward-looking policies of economic liberalization. These countries removed restrictions not only on international trade but also on international capital movements. By the middle 1990s, the East Asian region as a whole had become the fastest-growing area in the world. Then came the Asian financial crisis of 1997-1998, which began with the devaluation of the Thai baht and sharp falls in the stock markets, and then spread to neighboring countries. Despite the persistently positive economic performance of most East and Southeast Asian countries (high growth rates, low inflation rates, and high private savings), global currency speculators attacked Asian currencies and provoked a volatile withdrawal of huge amounts of short-term capital. Clearly the experiences of Asian financial crisis demonstrated that long-term flows of foreign investment could be seriously undermined by volatile movements of short-term speculative capital that had no direct relation to economic fundamentals (Goldstein, 1998; Stiglitz, 1998).

With its huge investments in Southeast Asian, Japan was quick to make an

initial response. In September 1997 at the Group of Seven meeting Japan proposed the creation of a new regional institution, the Asian Monetary Fund (AMF). The AMF would operate at the regional level to maintain monetary stability. Its total funding would be about U.S. \$100 billion with a major contribution from Japan. The idea of AMF indicated Japan's potential to assume the regional leadership in the form of a possible regional yen zone. In addition, it has been argued that the AMF would defend an Asian development model against the Washington Consensus model advocated by the IMF. In terms of dealing with the crisis, arguably Southeast Asia nations would prefer the AMF over the IMF because the AMF would be more flexible and less strict than the IMF in providing emergency funds for reform (Higgott, 1998a).

The United States and IMF immediately objected to the proposal on the grounds that the AMF would compete with the IMF and World Bank for capital and authority. According to Higgott (2000), the United States viewed the AMF as opposed to its interests because the AMF was likely to undermine U.S. ability to impose structural adjustment programs on Southeast Asian nations and prevent further liberalization of trade and finance in those countries. In the end, Japan responded to U.S. pressure by withdrawing the AMF proposal. The AMF proposal was aborted and APEC's meeting in Vancouver in November endorsed IMF's leadership in the financial rescue plan. But the IMF's operation was too little and too late. It can be argued that the contagion from the financial crisis in Thailand might have been contained if the AMF proposal with its huge amounts of funds had been adopted

in September 1997. Furthermore, the United States was accused of having double standard in terms of the conditionality of the financial rescue programs. In the case of the Brazilian financial crisis of early 1999, the conditionality of IMF's lending was much less strict than the one on the Asian nations. As Japanese economist Ito noted: "the irony was that the United States opposed the AMF and did not provide bilateral assistance to Thailand, but called for such a rescue program for Brazil" (cited in Leong, 2000).

The East Asian crisis tested regime competencies of APEC. APEC's reaction to the crisis cannot be considered adequate. On one hand, it can be argued that APEC was not designed to deal with crises in financial markets. The nature of the East Asian crisis was in the financial area which was not at the core of APEC agendas. On the other hand, the reputation of APEC as the major economic regime in the region has been hurt by the crisis. The APEC meeting in Kuala Lumpur did not address the burning problem of the Asian financial crisis well. Instead, APEC was pushing on the EVSL at the time. For APEC to push trade liberalization further during an economic crisis certainly damaged the collective identity among themselves.

The impact of the aborted Asian Monetary Fund on the collective identity was described by Higgott (2000):

Regional leaders had still not understood the power of the global financial markets, but the proposal's [AMF's] most naïve failing was to underestimate the strength of the opposition from the United States and the IMF, which felt it would not only undermine their ability to impose tough conditionality on loans but also act as a veritable threat to American interests and influence in Asia...This may, however, be a turning point for APEC. By opposing the proposal (more) seeds of polarization in the relationship between the Asian and Caucasian members of APEC were sown. (p. 256)

Indeed, for many Asian countries, the consequence of the Asian Financial Crisis may well be the rising salience of East Asia identity as opposed to an Asia Pacific one. This can be demonstrated by the development of ASEAN+3. As discussed in Chapter V, prior to the ASEM summit in Bangkok in March 1996, ASEAN convened preparatory meetings with Japan, South Korea, and China. But it did not take long time until the framework ASEAN+3 became regular and independent of ASEM. At the sixth ASEAN formal summit in December 1998, it was agreed on that the ASEAN+3 summit would be an annual event. The East Asia Vision Group (EAVG) was formed which consists of eminent intellectuals to chart a vision for mid-to-long term cooperation in East Asia in political, economic and social sectors for the 21st century (Yamakage, 1999). The membership of ASEAN plus 3 is identical with that of the controversial idea of EAEC. Whether or not ASEAN+3 is an EAEC, it certainly reflects the psychological need to search a collective identity that would give Asian countries a sense of institutional autonomy in the wake of the Asia Financial Crisis.

#### Non-governmental Organizations and APEC

The broader and meaningful engagement of civil society is becoming an increasingly important challenge for APEC. APEC leaders are aware of it. The 1996 Subic Declaration by APEC Leaders states:

This vision of community requires that all sectors of society develop a stake in the success of APEC. We therefore commit ourselves to foster greater public-private sector partnership in APEC. We also place great value on promoting more people-to people linkages. (APEC, 1997, p. 3)



It was under this backdrop, in 1997, that Canada proposed an idea of global civil society for broader engagement when it took the chairmanship. Canada organized an APEC Ministerial on Women and developed the Women Leaders' Network. However, the interpretation of civil society is elusive. Sometimes it was equated with the exploitation of women, human rights, labor rights, and child labor. At the Malaysia's Leaders Meeting, Canada proposed the establishment of an ad hoc task force to identify the ways to engage NGOs. The idea received little backing from other member economies. This author interviewed a Canadian APEC related official regarding why Canada introduced the idea of civil society into the APEC process, knowing that it would probably bring about some controversy. According to him, "because Canada is a democracy and the gender issue is less controversial." Still, the important question of how the state interacts with non-state actors in APEC remains to be determined.

In terms of NGOs' attitudes and actions toward APEC, as long as APEC remained primarily a forum for broad regional economic dialogue, it captured little NGOs' attention. But since 1993, when President Clinton raised APEC's profile by holding the first economic leaders meeting, a parallel network of NGOs, unions, human rights and environmental groups rapidly emerged. Subsequent forums on APEC have coincided with the timing and location of the APEC Leader's Summits. NGO declarations issued from these meetings continued to focus on concerns that globalization and trade liberalization are more harmful than beneficial in many different arenas: social, environmental, political. For example, in 1995 more than

one hundred NGOs and trade unions convened in Kyoto to hold the "1995 NGO Forum on APEC". They claimed that liberalization of trade and investment promotes the rapid expansion of MNCs, destroys small and medium businesses and deepens unemployment (James, 1997).

However, not all NGOs speak with one voice. Basically NGOs' attitudes and actions toward APEC can be divided into two kinds: to engage or not to engage. Many NGOs support dialogue and participation within APEC, which generally implies a more rule-based approach. Many other NGOs, however, oppose such participation because they believe that would help legitimize APEC. They prefer to develop independent, people-based strategies to challenge APEC's lack of political legitimacy, transparency and accountability. Furthermore, in some cases there is the North-South division among NGOs. Many, but not all, NGOs in the North tend to focus on single issues such as environmental or human rights. Most, although not all, NGOs in the South are broader in their concerns. Southern NGOs are concerned almost equally with the environment, social equity, economic development, democracy and sovereignty, and are opposed to participation in APEC, believing that would help formalize and legitimize it. For example, while both Northern and Southern NGOs are concerned with environmental protection, most NGOs in the South are worried that the pressures to conform to the environmental standards of the North are a protectionist disguise against the entry of products from the South.

But how does the business community regard the issue of NGOs? In the study of corporate-NGO partnership, Yamamoto (1999) argues that it is important

but difficult to involve NGOs in policy-related activities. Cooperating with NGOs can be a challenge because of a fear of proliferation of too many issues, and partly because it is difficult for NGOs to deal with interdisciplinary issues. They are often criticized as being one-issue oriented and always expecting people to agree with them.

With regards to APEC's policy on the issue of NGOs, to date private sector input into APEC discussions has been primarily from the business sector. Some academic input is obtained via the APEC Study Centers and a number of meetings (the Women's Leaders Network) and APEC Working Groups (Human Resource Development) have invited private sector participation (personal interview). But there is no APEC member with a strong commitment and sufficient power to coordinate and formulate common policies for action. It can be argued that institutional structures within APEC need to be developed to ensure broad participation by civil society in its decision making processes. A possibility of APEC's structural reform is to develop a civil society equivalent of the APEC Business Advisory Council. Still APEC is an international regime with consensus-based and non-binding rules. Therefore, APEC is primarily focused on what its member governments are willing to do and any suggestion of what APEC should do remains indeterminate.

#### Discussion: Implications for Constructivism and APEC

##### The Nature of Policy Discourse

The U.S. ambassador to APEC Sandra Kristoff's explicit threats that the U.S.

could withdraw from APEC if Japan would not give it what it wants, were typical strategic actions which sent a message to Japan that the United States was not serious about the community-building. It indicated that APEC was only viewed by the United States as an instrument to assert its trade liberalization agenda. But even if we turn our mind into strategic thinking, we doubt the creditability of Kristoff's words unless the initial motivation of the U.S. in joining APEC has changed (fear of being left out). However, the U.S. would not be interested in devoting significant resources to the ECOTECH agenda since it cannot get what it wants. From a communicative action perspective, APEC was held together by a voluntary, consensus-based, and non-binding set of principles, rather than being tightly rule-based ones. The American attempts to turn APEC into a negotiating, comprehensive and binding body clearly go against preexisting input legitimacy of APEC.

Indeed the interaction between the United States and Japan during the Osaka year in the APEC setting clearly damaged the collective identity between them as APEC members. A complication was that Japan revisited the idea of EAEC. As a continued discussion from the previous chapter, the experience of the 1995 Osaka meeting was in part contributing to Japan's policy change of acceptance of the idea of EAEC. According to a Japanese journalist, "Japan is different now especially after Osaka when most Asians rallied behind it on the rice issue" (cited in Leong, 2000). It probably should be also noted that outside the APEC setting, the American aggressive unilateralism targeted on the Japanese automobile industry around the same time. The USTR threatened to impose a 100 percent tariff on all Japanese luxury cars

priced over \$30,000 if Japan did not take a list of quantitative measures to correct the automobile imbalance by the end of June 1995. Japan appealed to the WTO, claiming the retaliatory action clearly violated the specific rules of the WTO. The stakes were high, as both parties refused to back down from their positions. In the end, as Moon (2000a, p. 144) notes, "a settlement was arranged, but it was more a public relations achievement to allow both parties to save face than a compromise that actually settled any issues." The incident of the U.S.-Japan automobile dispute was certainly not helpful in improving the relationship between the two countries.

### The Interaction Between Input and Output Legitimacy

Clearly the success of the ITA positively affected the collective identity among APEC members because both input and output legitimacy were maintained. The principle of flexibility was preserved in the process of the ITA. On the other hand, the experience of the EVSL negatively affected the collective identity among APEC members because it challenged both input and output legitimacy of APEC. For Japan and some other members, the EVSL packaging was an attempt to alter the APEC modality. The process of the EVSL took away the 'voluntary' aspect of the EVSL because it turned the exercise into a 'package deal' which is a typical style of the GATT/WTO trade negotiations. This 'all or nothing' approach challenges the input legitimacy of APEC by ignoring the principle of concerted unilateral liberalization and the principle of flexibility. For almost two years, the EVSL initiative absorbed the larger part of APEC's energy, but produced no concrete results. This

frustrating experience proved that APEC was not useful in undertaking meaningful liberalization measures.

Many APEC observers (Morrison, 1999) argue that it is unrealistic to achieve the Bogor Declaration under the current APEC practices, namely, voluntarism, concerted unilateral liberalization, and peer pressure. Indeed, it is difficult for countries unilaterally to remove protection in certain sensitive sectors, for example, textiles in the United States, agriculture in Japan, South Korea, Taiwan, and automobiles in China. Global negotiations involving binding reciprocal concessions could probably remove this protection. One argument is that APEC should change regime rules from non-binding to binding if APEC members are serious about reaching the free trade and investment by 2010/2020. But let us use a counterfactual argument here. Would it have been a Bogor Declaration, had the rules of APEC's decisions been binding from the outset? The answer would probably be no. The success of ITA and the failure of the EVSL are clear evidences that it is not the regime rules that affect the policy performance of TILF, but the underlying nature of different liberalization sectors that are the main concerns. If a certain liberalization measure is in a state's interests, it will pursue it with or without binding rules.

The issue of APEC's engagement of NGOs is relevant to analyze the Proposition 2.2: The more the regime decision-making processes involve all decision-affected actors, the more the regime is based upon legitimacy, the higher the probability that regime members will comply with regime norms, and the more the cohesiveness of regime collective identity. A challenge for APEC institutional reformers

is to establish processes of change which nurture and develop good settings for communicative actions to take place. Another challenge is to regulate the access of issues and participants to such processes. Civil society is likely to make the reform process more unwieldy. Empowering new participants may possibly lead to a stalemate. Yet, broadening the participation may possibly provide legitimacy and help redefine issues so that normative and causal beliefs converge.

### APEC's Policy Evolution

Unlike trade liberalization of the TILF agenda where the logical end point (zero tariffs) is clear, the identification of goals for ECOTECH is more elusive. For example, the objectives of capacity building are likely to be open-ended and long-term measures. Therefore the policy evolution of APEC has followed the assertions of Propositions 3.1 and 3.2. Expectations for the TILF agenda are more likely to be used as operational goals to produce measurable performance outcomes; and expectations for the ECOTECH agenda adaptations are more likely to be used to achieve non-operational learning outcomes such as new ideas and capabilities. From the perspective of out-put legitimacy, it can be argued that the experiences of the APEC process have contributed to the deflation of expectations by not meeting its objectives in the EVSL exercise and by not finding an effective way to undertake the ECOTECH agenda.

The Asia Financial Crisis is relevant to an analysis by Proposition 4. In turbulent times, regimes' adaptation to the environment is likely to be both enabled

and restricted by the regime's unique historical path dependence on exploitation and exploration adaptations. The idea of path dependence suggests that institutional change is not always fast and responsive to external pressures. Change processes depend to a large extent upon the internal characteristics of preexisting institutions. APEC is an international regime with consensus-based and non-binding rules. As such APEC is primarily focused on what its member governments are willing to do and any suggestion of what APEC should do remains indeterminate. But even before the financial crisis came to Asia, the developing economies in APEC believed that more open international trade and investment was just one of several elements for sustained development. Accordingly, they are pressing to move the emphasis away from TILF to the ECOTECH. The experience of the Crisis highlighted the urgency. By not giving primary importance to an urgent problem and instead pushing the EVSL agenda at an inappropriate time, APEC reconfirmed the perception that developed members are concerned with TILF only. Such a perception underestimated the potential contribution of economic and technical cooperation to all of APEC's efforts to enhance the capacity for sustainable economic growth, including trade and investment policy reforms. As a result, it tended to erode mutual respect and weaken APEC members' coherence of collective identity or sense of community in the Asia-Pacific region.



## CHAPTER VII

### CONCLUSION

#### A Summary of the Study

In an era of globalization characterized by intensive interaction among different actors, we begin to enter a world of complexity. This study takes a constructivist approach to analyze human interactions and their consequences in such a complex world. Constructivism assigns a crucial role to the concept of identity in terms of explaining how actors would do in a given situation. Constructivists would argue that an important part of actors taking actions is that they do so according to their identities. In a given situation, actors must define who they are (identity) before they know what they want (interests). In discourse or interaction, actors can perceive their collective identity as either positive or negative. While a positive collective identity has a tendency to make actors take communicative actions, a negative one is more associated with strategic actions.

In contrast to rationalist approaches, which assumes that actors' interests and identities are constant, constructivism argues that through the social or policy learning, actors' identities and interests might be changed. Actors learn through interacting with one another and adjust behavior according to the feedback they receive. Constructivism takes a dynamic and indeterminate view of human actions instead of making mechanical and determinate assumptions. In this sense, enemies can learn to

be friends and friends can turn into enemies.

To return to the central questions of this study posed in the Chapter I, what is the basis of shared identity and how does it make an international community cohere? Is it cultural commonality or economic interests? I argue that basing collective identities among actors upon cultural commonality is not only difficult but also undesirable. It is difficult because APEC is a multicultural regime. Nor is it desirable to deliberately create a shared cultural value because each cultural value is legitimate in its own right, and one culture simply cannot impose its values on any others. On the other hand, if the shared identity among APEC members is based only upon economic interests, one can expect that the cohesion of this collective identity will be unstable. During the heydays of economic growth in the region, APEC seemed to have clear ideas and consensus in terms of policy directions. The Asian financial crisis, however, opened up the inherent conflicts concealed in the past. The implications of globalization and economic interdependence have compelled governments to strike a balance between facilitating market mechanism and protecting society from instability. Therefore, domestic consideration may cause states to act inconsistently.

If basing shared identity on economic interests is shaky, and cultural homogeneity is unfeasible or undesirable for that matter, does that mean shared identity among APEC member is doomed from the start? I would argue that it is not necessarily the case. Indeed, different ideas are competing for procedural rules and policy directions, and they may not even be reconcilable; the historical experience of APEC cannot suggest otherwise. But this does not necessarily mean that the collective

identity of APEC is doomed from the start. One simply cannot assume only like-minded actors can cooperate or actors' ideas never change. Keohane (1984) said it well that if there is no conflict of interests, there is no need for cooperation. It all depends on *how* APEC members deal with their differences. For example the United States can learn to respect Asian points of views or vice versa.

But for this to happen, it heightens the value of in-put legitimacy or procedural fairness of APEC to ensure that all members have an exit option should the policy decisions go against their cooperate interests. And it is this understanding of input legitimacy as "insurance policy" that communicative action is likely to take place in the APEC process. An important political development of APEC has been the agreement to hold regular meetings of leaders, ministers and senior officials, which ensures regular interaction at all levels of government. Regular interaction does not ensure that conflicts of interests will be reconciled or that the collective identity among APEC members will be positively enhanced. However, no interaction is sure to be detrimental to problem solving. The most important thing for APEC members is to realize the "beauty" of its voluntary, consensus-based, and non-binding rules. And this leads to the major conclusion of this dissertation: The input legitimacy of APEC as a political order makes it possible for members to live peacefully together with enduring tensions and conflicts because procedural fairness somehow lends legitimacy to outcomes when positive collective identities are lacking.

### Recommendations for Future Research

The policy evolution of APEC does not simply reflect the internal dynamics of its members. As an open system, APEC must respond to its external pressures in order to sustain. Adding to the complexity of APEC's external environment is the rising salience of NGOs. For many governments, the collapse of the 1999 WTO meeting in Seattle demonstrated the importance of engaging civil society in the trade liberalization agenda. One can expect that APEC will also increase the scrutiny of the idea of civil society in the future. As discussed previously, there are basically two kinds of attitudes NGOs have toward their relations with corporate communities and governments: to engage or not to engage. But as Wendt notes (2001, p. 221): "Oppositional politics make for fewer messy compromises, but given the weakness of civil society, refusing to engage states in system reform is in effect saying that we're not going anywhere."

This leads to my recommendation to international regimes in global public policy to build up a trilateral network among governments, corporate communities, and civil society (Reinicke, 1998). In my view, a trilateral network among these three stakeholders in an international regime would not guarantee that a reasoned consensus or a balanced compromise could be reached to solve the problem at hand. But the more the regime decision-making processes involves all decision-affected actors, the more the regime is based upon legitimacy. And it is this sense of legitimacy that is crucial for social learning among different actors. In other words, an international regime provides a setting for governments, business, and NGOs to

address the issues that no single actor can hope to resolve by itself. Today, in a complex world with daunting challenges, every actor needs help from others in some ways in order to adapt to the environment. Ultimately, the empirical and normative tasks for social scientists are to find effective and legitimate ways for different stakeholders to peacefully coexist.

## Appendix

### Human Subjects Institutional Review Board Approval Letter

Human Subjects Institutional Review Board

Kalamazoo, Michigan 49006-5162  
616 387-8293

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 WESTERN MICHIGAN UNIVERSITY
 

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Date: 22 March 2000

To: Alan Isaak, Principal Investigator  
Chein-Hong Lee, Student Investigator for dissertationFrom: Sylvia Culp, Chair *Sylvia Culp*

Re: HSIRB Project Number 00-02-20

This letter will serve as confirmation that your research project entitled "International Cooperation in the World of Sovereign but Interdependent Nation States: Asia Pacific Economic Cooperation as an International Regime " has been **approved** under the **expedited** category of review by the Human Subjects Institutional Review Board. The conditions and duration of this approval are specified in the Policies of Western Michigan University. You may now begin to implement the research as described in the application.

Please note that you may **only** conduct this research exactly in the form it was approved. You must seek specific board approval for any changes in this project. You must also seek reapproval if the project extends beyond the ~~termination~~ date noted below. In addition if there are any unanticipated adverse reactions or unanticipated events associated with the conduct of this research, you should immediately suspend the project and contact the Chair of the HSIRB for consultation.

The Board wishes you success in the pursuit of your research goals.

Approval Termination: 22 March 2001

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