The Rise and Fall of Functional Leadership in East Asian Regionalism¹

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Abstract
In the decade after the Asian financial crisis in 1997-98, East Asia witnessed unprecedented progress in regional cooperation and integration. This paper argues that, behind the decade-long development of East Asian regionalism, there was a functional equilibrium of multi-state leadership which made it possible for Japan to provide regional public goods to crisis-ridden economies, for ASEAN to build the regional institutional infrastructure, and for China to draw other players into the regional framework. However, this functional equilibrium has been under great strain in recent years. Firstly, the competing provision of public goods has drawn more attention to country-specific goods than regional goods. Secondly, the uneasy divisions within ASEAN have raised questions about the internal coherence and external relevance of East Asia’s institutional center. Thirdly, the participation incentives in East Asian regionalism have transformed from the fear of being a laggard into the desire for power balancing. As regional affairs are redefined by these new trends, East Asian regionalism has entered an uncertain period of leadership vacuum.

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1. Introduction

East Asian regionalism has entered a period of uncertainty. The prolonged global financial crisis (GFC) resulting from the US sub-prime loan crisis and the European sovereign debt crisis hurt the regional economy. Nevertheless, except for the multilateralization of the not-yet-been-used Chiang Mai Initiative in 2010 (Ciorciari 2011), the economic crisis has not brought about substantial initiatives of regional cooperation. In the meantime, several high-profile territorial disputes has escalated between Cambodia and Thailand (2008), China and Japan (2010), China and the Philippines (2012), and Japan and South Korea (2012). With a new wave of nationalism and distrust spreading across the region, the hope for an immediate breakthrough of East Asian regionalism looks increasingly unrealistic.

The stagnant regional cooperation and integration process stands in sharp contrast to the enthusiasm for regionalism following the Asian Financial Crisis (AFC) in 1997-1998 (MacIntyre et al. 2008; Beeson 2011). Not long after the AFC stroke East Asia, important regional institutions—the ‘ASEAN plus Three’ framework and the East Asia Summit being the most noticeable—were established to accommodate the growing interests in regional cooperation and integration. In a favorable institutional environment, Northeast and Southeast Asian countries reached a series of bilateral free trade agreements and currency swap agreements in the ensuing years (Kawai 2005). These deals not only bound the crisis-ridden economies to the regional framework, but also brought Northeast and Southeast Asia together in a joint endeavor for East Asian regionalism (Shu 2012).

The rapid progress of regional cooperation prompted scholars to find explanation for such an unprecedented development in East Asia. Leadership is one of the key factors being discussed in the literature. In an edited volume entitled China, Japan and Regional Leadership in East Asia, Dent (2008) and others examine the roles of China and Japan in the regional construction of East Asia. Dent argues that ‘research

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2 The territorial dispute between Cambodia and Thailand centers on the surrounding area of the Preah Vihear Temple. Tension escalated after the Temple was registered as a world heritage site in 2008. China and Japan have long engaged in the territorial dispute of the Senkaku/Diaoyu Islands. The collision between a Chinese fishing trawler and two Japanese Coast Guard boats in 2010 and the nationalization of three islands by the Japanese government in 2012 severely raised the tension. China and the Philippines both claim the sovereignty of a group of Islands in South China Sea. In 2012 government vessels from the two countries faced off for several weeks at the Scarborough Shoal. Both Japan and South Korea claim the Takeshima/Dokdo Island. Korean President Lee Myung-bak visited the Island in 2012, triggering a diplomatic crisis.
on China and Japan should yield new understandings concerning the nature of regional leadership’ (Dent 2008: 301). Several studies are conducted to explain the regional leadership of China and Japan (Terada 2001; Shambaugh 2005). Some concludes that ‘fierce rivalry [between China and Japan] for taking the initiative in regional integration has worked as a special motor to stir the cooperation process’ in East Asia (Hidetaka 2005: 228; see also Beeson 2007). On the other hand, other scholars draw attention to the minor players in the region. For example, Acharya (2009: 172) contends that East Asian regionalism has relied critically on ‘ASEAN’s influence and leadership over Asian institutions’. His central message is that, because Southeast Asian countries lack the structural power of their Northeast Asian counterparts, ASEAN as a cohesive sub-regional group was able to provide regional norms and build regional intuitions without much suspicion. According to this view, East Asian regionalism has been led by ASEAN rather than by China or Japan (see also Stubbs 2012).

However, the lack of substantive regional response to the GFC cast doubt on these explanations of the leadership effect in East Asian regionalism. Firstly, China and Japan—the two most powerful countries in the region—still commit to broad regional cooperation and integration. The competition and rivalry between the two only intensified after their territorial dispute reemerged in 2010. Nonetheless, these ‘favorable’ conditions have not contributed positively to the development of East Asian regionalism after the GFC. Secondly, the regional institutions centered on ASEAN remain the most important regional forums. Yet, the recent summit meetings of these institutions, including the ASEAN Regional Forum, the ASEAN Plus One and ASEAN Plus Three meetings and the East Asia Summit, have produced few noticeable outcomes. To the contrary, they became the institutional sites where the division within ASEAN and the rivalry among major powers were crudely exposed. One cannot help wondering how leadership has been exercised by either powerful countries or minor players in East Asian regionalism.

This paper argues that the existing literature on leadership in East Asian regionalism is too state-centric. They often assume that regional leadership is provided by one or several, mostly powerful, states. By focusing on a pre-determined set of countries, such analyses fail to appreciate the fact that the functional properties of regional leadership may change in a dynamic setting. Indeed, 2008 marked an important turning point of the decade-long enthusiasm for regional cooperation.
On the one hand, the outbreak of the GFC hit the region economy badly. East Asian countries were reminded how much they had depended on the West for their economic growth. On the other hand, the rise of China continued to reshape the regional power structure. With China overtaking Japan as the largest regional economy in 2010, the competition for influences between China and Japan became ever more fierce and assertive. Adding to the complexity was the redefined US policy towards East Asia under the Obama administration. These new circumstances not only transformed the politico-economic landscape of the region, but directly influenced the leadership effect in East Asian regionalism.

To account for the changing dynamics of regional leadership in East Asia, this paper develops a functional theory of leadership in regional cooperation and integration. Instead of asking which (set of) countries led the region, the theory tries to address the question of how leadership functions are exercised in regional cooperative schemes. In a nutshell, it posits that three leadership functions are essential to regional cooperation and integration: (1) providing regional public goods for relevant actors, (2) building the infrastructure of regional institutions, and (3) creating participation incentives for both insiders and outsiders. Based on this analytical framework, the paper argues that the post-AFC regionalism in East Asia had relied on a delicate equilibrium of multi-state leadership. Japan, ASEAN and China had each played a unique part in foresting regional cooperation and integration during the decade after the AFC. Nevertheless, the paper also shows that the multi-state leadership equilibrium has gradually collapsed amid the growing concerns over the rise of China and the outbreak of the GFC.

The rest of the paper is divided into four sections. The next section focuses on the functional theory of leadership in regional cooperation and integration. The aim is to go beyond the state-centric explanations of regional leadership, and to provide an alternative theoretical framework to address the leadership effect in East Asian regionalism. The framework is then applied in the third section to assess the regional leadership in post-AFC East Asia. The analysis shows that Japan had played a key part providing regional public goods for the crisis-ridden economies; ASEAN had stood at the center of regional institutional engineering; and the active engagement of China had generated crucial participation incentives for East Asian regionalism. Nonetheless, the functional equilibrium of multi-country leadership gradually collapsed after the outbreak of the GFC in 2008. The fourth section details
the process through which the competition between China and Japan has changed the nature of regional public good provision; the division within ASEAN has damaged the credibility of regional institutions; and the demand for power balancing has led to a vicious circle of negative participation. Raising sober warnings of a leadership vacuum in East Asian regionalism, the final section summarizes the main arguments and concludes the paper.

2. Towards a Functional Theory of Leadership in Regionalism
Understanding leadership is one of the key themes in organizational studies. In simple terms, leadership involves motivating members in the joint pursuit of organizational goals. There have been several influential theoretical explanations for the leadership role. The trait theory of leadership, for example, stresses the typical behavior and personalities associated with effective leadership (see Kirkpatrick and Locke 1991). Such traits usually involve the desire to lead, the ability to motivate, and certain personal attributes like integrity, honesty and self-confidence. Weberian charisma is often considered as the essential trait of effective leadership (Weber 1968).

By comparison, leadership style theory seeks to answer the question of how the organization context mediates the leadership effects (see Blake and Mouton 1964). In an organization of interdependence and joint tasks, team style leadership tends to be more effective. In a loosely connected organization, the so-called ‘country club style’ of leadership probably makes a better contribution to group solidarity. In a strictly task-oriented organization, an authoritarian style of leadership is more likely to generate efficient results. Therefore, the most effective style of leadership is contingent on the type of organization and the specific circumstances under which the organization operates.

Functional leadership offers another useful theoretical approach to examining how leadership occurs. Rather than focusing on the leader him/herself, the theory explores how leadership fulfills the leadership functions of the organization (see Goodman 1986). Such functions may involve monitoring the external environment, ensuring the provision of public goods, organizing subordinate activities, motivating group members, and establishing organizational rules. By examining how leadership works rather than who the actual leader is, the functional theory of leadership offers a distinctive perspective on the operation of leadership in different
organizational contexts.

The organizational theories of leadership are very useful in the discussion of regional leadership. Regional cooperation and integration leads to a new layer of public governance above the state level. Joint policy-making and shared jurisdiction at the regional level requires an effective regional organization to coordinate the behavior and interests of individual member countries. From this perspective, the leadership in regionalism can be understood as the capability of guiding the regional organization towards further economic integration, stable political coordination and deepened cultural exchange at the regional level. The trait theory, the style theory and the functional theory of leadership each provide a unique analytical angle to decode the leadership roles in regional cooperation and integration.

Like trait theory's emphasis on the specific characteristics of the leader, effective leadership in regional integration has often been attributed to the leading country's physical properties (e.g., population size and land mass), economic strengths (e.g., economic growth, trade volumes and financial influences), and political will (e.g., desire to lead the region). Indeed, the literature on the Franco-German partnership in the European Union (EU) highlights these leadership traits (Kocs 1995; Webber 1999). The French ambition to lead post-war Europe has long been considered as one of the key factors motivating the country to promote regional integration in Western Europe. Meanwhile, the economic strength of Germany, especially the strong Deutsche Mark, is regarded as the key factor behind German-style management of the European Central Bank and the single currency. Nevertheless, though the Franco-German partnership displayed many desirable characteristics of regional leadership, the emphasis on the specific traits of leadership in regional integration limits their applicability in other regional cooperative schemes across the world.

As the leadership style theory points out, effective leadership depends crucially on the organizational context. Regional cooperative schemes vary substantially across different parts of the world. European integration features a unified regional cooperative scheme—the EU, a highly developed institutional mechanism, a sophisticated transnational legal framework, a dedicated group of supranational bureaucrats, as well as an increasingly multi-leveled structure of public governance. By contrast, regional cooperation in East Asia is characterized by the existence of
multiple sub-regional cooperative schemes (such as ASEAN, the APEC, and the SCO), respect for state sovereignty, the principle of non-interference, the lack of a solid institutional and legal framework, and prevalence of informal consultation and consensus (Shu 2009). Considering these contrasting organizational logics, it is doubtful whether the aforementioned leadership traits could play the same roles under different regional circumstances.

In fact, the European traits of regional leadership have proved counterproductive in East Asia. First of all, the physical properties of individual countries do not easily translate into the political influences on regional affairs. In maritime Southeast Asia, Indonesia has the largest population and land mass. However, its GDP per capita is less than half that of Malaysia. In mainland Southeast Asia, Vietnam has the biggest population, but its economic development lags far behind that of Thailand. The imbalance between physical properties and economic prosperity has to a large extent characterized Southeast Asian countries. Under such circumstances, it is almost impossible to identify ‘Franco-German’ style leadership in this sub-region. Secondly, if China and Japan are taken into consideration in the broader regional context of East Asia, another uneasy situation appears. It is true that China has a huge population and vast territory, and that Japan continues to possess significant economic influences in East Asia. However, due to the bitter memories of external control once imposed by imperial China and Japan, Southeast Asian countries are keenly alert to any signs of regional ambitions on the part of these two countries. Because of this, the normally desirable traits of effective regional leadership—physical strength and regional ambition—appear incompatible with each other in East Asia.

If the trait theory of leadership is not easily transferable across different regions, how can one understand leadership in regional cooperation and integration from a comparative perspective? To answer this question, functional theory provides a better analytical framework than the leadership style theory. Firstly, it is difficult to categorize the ‘style’ of regional cooperative schemes in different parts of the world. Although some regional cooperative schemes are economically-oriented and others focus on political trust-building and regional security, whether or not such issue orientations amount to stylish differences in regionalism is unclear. Secondly, regional cooperation and integration evolves over time. Even the same regional cooperative scheme may have different foci and display different characteristics at
each stage of its development. Therefore, rather than focusing on styles of leadership, it makes more theoretical sense to take a functional approach to examining the leadership effect in regionalism.

In the regional cooperation and integration process, three functional properties are essential to multilateral cooperation at the regional level: public goods provision, institutional engineering and participation incentives. First, the success of multilateral regional cooperation depends on the potential benefits that regional cooperation could bring about (Fawcett and Hurrell 1995; Mattli 1999). Such benefits may take the forms of improved economic prosperity, a stable regional security environment, or better cultural exchanges among countries in the region. How such regional public goods are provided within a regional framework is an essential functional property of regional cooperative schemes. Second, in addition to public goods provision, regional institutional engineering plays a vital role in consolidating regional cooperative schemes. Institutions not only have the effect of stabilizing the existing demarcation of powers, but also help to socialize the expectations of relevant actors in a joint pursuit of common goods (Peters 2005). Recent studies show that regional institutions vary substantially across different regional cooperative schemes (Acharya and Johnston 2007). Such variations are closely correlated with the effectiveness of regional cooperation and integration. Better institutional engineering tends to produce more adaptive and forward-looking regional cooperative schemes. Third, successful regional cooperation are also more likely to both attract outsiders to take part in the regional project and motivate insiders to deepen their existing cooperation. When it was founded in 1967, ASEAN only had five members: Indonesia, Malaysia, the Philippines, Singapore and Thailand. In the following decades, the organization managed to double the number of its member states and spread across the whole Southeast Asian region. Indeed, participation incentives are necessary to deal with potential free-riders and avoid collective action problems inherently associated with multilateral cooperation. Adequate participation incentives therefore offer regional cooperative schemes a sustainable foundation crucial to its long-term success.

How do these three essential functions of regional cooperative schemes play out in East Asia? Is it possible to identify the functional leadership of regionalism in this particular regional context? In order to answer these two related questions, the

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3 The newly-founded state of Timor-Leste submitted an application to join ASEAN in 2011.
following two sections conduct a case study of the regional cooperation and integration process that unfolded in East Asia after the AFC in 1997-1998.

3. A Functional Equilibrium of Multi-State Leadership in Post-AFC East Asia

The AFC in 1997-1998 had a long-lasting impact on domestic economic and political dynamics in East Asia. Economically, under the reconstruction programs imposed by the International Monetary Fund (IMF), Thailand, South Korea, Indonesia and the Philippines were forced to undertake painful economic reforms in order to obtain the financial support of the IMF (Wade and Veneroso 1998). Politically, the crisis led to two contrasting trajectories of regime transition and regime preservation. The long-term reign of Suharto in Indonesia was eventually brought to an end by the crisis, while Mahathir managed to consolidate his power in Malaysia, partly through his anti-Western rhetoric after the crisis (see Pepinsky 2009).

More importantly, the financial crisis has generated novel incentives for regional cooperation and integration in between Northeast and Southeast Asia (see MacIntyre et al. 2008; Shu 2012). As apparent after the crisis, it was no longer viable to rely on extra-regional support to deal with intra-regional vulnerability. Various regional initiatives were launched in the post-AFC period with the aim of coping with the new reality. Among them, the ASEAN Plus Three Process, the Chiang Mai Initiative, and the later convened East Asia Summit have all led to closer ties between the countries in a broadly defined East Asia.

No doubt, East Asia regionalism made substantial progress during the decade after the AFC. While the AFC was an important triggering event, how could one explain the leadership effect in post-crisis East Asia? It is notable that post-crisis regional cooperation in East Asia took place in a very complex regional environment. The crisis-ridden Southeast Asia became much aware of the importance of institution building in a border regional framework. The rise of China has not only shifted the power balance in the region, but also raised fears among neighboring countries. Japan also became more concerned with its waning economic influence in the region. As a result, neither ASEAN nor Japan or China alone was able to pursue bold regional agenda. However, as the following analysis shows, the three regional players managed to form a common front. By fulfilling different leadership functions, they unintentionally built a functional equilibrium of multi-state leadership that came to dominate East Asian regionalism after the AFC.
ASEAN and the Regional Institutional Infrastructure

The AFC revealed two inherent weaknesses in the existing regional cooperative schemes in Southeast Asia. The first was the inadequacy of sub-regional economic integration in Southeast Asia. As early as 1992, ASEAN leaders agreed to create an ASEAN Free Trade Area (AFTA) at their fourth summit in Singapore. The initial step was a Framework Agreement on Enhancing ASEAN Economic Cooperation. Later, the schedule of trade liberalization for AFTA was accelerated and the scope of AFTA was expanded to market integration, investment and service liberalization. Yet, efforts toward sub-regional economic integration proved insufficient when Southeast Asia faced the AFC in 1997. At the time of the crisis, most ASEAN member states were too preoccupied by their own domestic economic problems to agree on region-wide measures to deal with the ramifications of the crisis (Ruland 2000). The dysfunction of the existing regional institutions made Southeast Asian countries realize that regional economic stability should build on a broad economic infrastructure, beyond the narrow focus on Southeast Asia.

The second weakness revealed by the crisis lies in the economic cooperative mechanism of the Asia-Pacific Economic Cooperation Forum (APEC). APEC was launched in Canberra, Australia in 1989. By the end of 1998, APEC had evolved into a huge economic forum with 21 members (including Australia, Canada, China, Japan, Russia, South Korea, and the US) across the Pacific Rim. Despite its gross economic size on the surface, APEC has been weakened over the years due to disagreement between Japan and the US over its development (Aggarwal and Koo 2005). When the AFC struck East and Southeast Asia, APEC was incapable of making substantive efforts to reduce the risk-averse behavior of overseas investors in the region. Apparently, if AFTA was too small to be effective, APEC was too big to generate meaningful policy outcomes.

It was against this background that Mahathir’s early proposal of the East Asian Economic Caucus (EAEC) gained support in the region. In December 1997, the first summit meeting of ASEAN members with China, Japan and South Korea (ASEAN Plus Three, or APT) was held to discuss collective responses to the AFC. The second APT meeting set up an East Asia Vision Group (EAVG) in 1998 with the aim of producing an expert report on a future ‘East Asian Community’. The summit meeting also developed into a comprehensive forum covering economic, political
and security issues in the region. At the third summit in 1999, the leaders of ASEAN countries and China, Japan and South Korea issued a Joint Statement on East Asian Cooperation, paving the way for comprehensive regional cooperation in both socio-economic and politico-security areas. As the APT process gained momentum, various ministerial level meetings were organized to deal with functional policy areas. For example, the first APT finance ministers meeting was held in April 1999; the first APT economics ministers meeting was held in May 2000; and the first APT foreign ministers meeting was held in July 2000. As it turned out, these summits and ministerial meetings opened a new wave of regional cooperation and integration in East Asia after the financial crisis (Stubbs 2002).

The Chiang Mai Initiative (CMI) was perhaps the most notable achievement of the APT process. At the second meeting of the APT financial ministers in May 2000, it was agreed that a regional network of bilateral currency swap agreements would be set up to manage the potential risks resulting from speculative attacks or short-term liquidity crises. By the end of December 2003, 16 bilateral swap agreements were concluded, the total amount of which stood at US$ 36.5 billion (Park and Wang 2005). In 2007 it was further agreed that the 16 bilateral currency swap agreements would be pooled so as to establish a multilateral currency swap scheme covering the whole of the East and Southeast Asian region. This aim eventually realized in March 2010 when a regional pool of foreign exchange reserves worth US$ 120 billion was established.

Building on the successful experience of the APT process, ASEAN launched another regional cooperative forum—the East Asia Summit (EAS)—in 2005. Dubbed also as ‘ASEAN Plus Six’, the EAS involves the 10 ASEAN member states together with China, Japan, South Korea plus Australia, New Zealand and India in a new institutional framework. The summit has been held annually together with the ASEAN and APT meetings. Although the policy initiatives on the EAS agenda remained soft (on issues such as trade and energy), the EAS has successfully brought new and powerful actors into the regional cooperative scheme.

On the whole, ASEAN built and extended a wide range of regional institutional frameworks to deal with the new regional order after the AFC in 1997-1998. This institutional infrastructure has turned into the most important institutional platform of regional cooperation and integration in East Asia. It is fair that say that ASEAN
was able to sit in the driver’s seat, controlling the pace and direction of institutional engineering in East Asia.

**Japan and Regional Public Goods Provision**

As mentioned earlier, the AFC revealed the inadequacy of economic integration focusing exclusively on Southeast Asia. After all, with the exception of two small countries, Brunei and Singapore, most Southeast Asian states are still developing countries that aim to achieve economic growth and social development. Under these circumstances, it is difficult to rely exclusively on Southeast Asian countries to provide the public goods of regional cooperation and integration.

Japan had long been the second most important economy in the world and the most significant economy in East Asia. Thanks to its economic strength, Japan has traditionally played an important role in the postwar economic development of Southeast Asia. For instance, between 1976 and 1986 Japan’s total Official Development Assistance (ODA) increased five times. About one third of Japan’s bilateral aids were given to Indonesia, Malaysia, the Philippines and Thailand (Stubbs 1992). Another factor also contributed to Japan’s active involvement in Southeast Asia. After Japan signed the Plaza Accord with the US in 1985, the Japanese Yen experienced rapid appreciation against the US dollar. In order to cope with rising domestic costs, many Japanese companies chose to invest heavily in Southeast Asian countries. During the period between 1987 and 1996, for example, the foreign direct investment (FDI) of Japanese companies in ASEAN countries amounted to more than US$41 billion (ASEAN Centre 1997). One outcome of massive Japanese FDI has been a sophisticated production network centered on Japanese companies in the region (Hatch and Yamamura 1996). Based on these official and unofficial links, Japan was able to play a key part in providing public goods for East Asian regionalism.

Immediately after the AFC, Japan, together with South Korea, Thailand and some other Southeast Asian countries, proposed the establishment of an Asian Monetary Fund (AMF) in September 1997. The original aims of the AMF were to supplement the IMF resources for crisis prevention and resolution and to deter further currency speculation in the region. Its resources would come from the pool of foreign exchange reserves of member economies (Grimes 2009). With the then biggest foreign reserves in East Asia, Japan’s proposal for an AMF was well received by
crisis-ridden Asian countries like Thailand, Malaysia and the Philippines. However, the proposal met with strong opposition from the US and the IMF. China was not very enthusiastic about participating in the scheme, either. Eventually, the AMF proposal failed to win the necessary support.

In spite of the failed attempt at an AMF, Japan quickly launched the ‘New Miyazawa Initiative’ in October 1998. Through this package, Japan pledged US$ 30 billion to provide financial assistance to crisis-ridden East and Southeast Asian countries to overcome their economic difficulties (Kawai 2005). Half of the package was dedicated to short-term financial needs during the process of economic restructuring and reform, and the rest was offered for medium- and long-term reforms. The Miyazawa Initiative was widely regarded as key evidence that Japan was taking a leading regional role in East Asia (see Hughes 2000; Grimes 2009). Indeed, the short-term financial support provided to South Korea and Malaysia later became a model for bilateral currency swap arrangements under the CMI.

The provision of public goods is an indispensable element of successful regional cooperation. In East and Southeast Asia, some countries are still in the early stages of domestic economic and social development. A lack of economic resources often impedes important cooperative initiatives in the region. It is in this particular respect that Japan has been both willing and able to play a leading role in providing regional public goods. By providing much needed development and economic assistance in the aftermath of the AFC, Japan not only won the acclaims of neighboring countries, but also contributed to regional cooperation in East Asia.

China’s Engagement and Participation Incentives
China is the biggest country in East Asia. It shares borders with key Southeast Asian countries such as Vietnam, Laos, Myanmar and the Philippines, and maintains long-term influence over Southeast Asia. During the Cold War, communist China was regarded as a major security threat, which partly motivated the establishment of ASEAN in 1967. The border disputes between China and Vietnam over the Paracel Islands and between China and the Philippines over the Spratly Islands have not made these bilateral relationships any easier. However, after the AFC in 1997-98, China has followed a strategy of active engagement with Southeast Asia (Shambaugh 2005; Kang 2007). Though the shift of Chinese foreign policy towards Southeast Asia did not produce immediate results in the late 1990s, its growing
economic strength and political influence did make a noticeable difference to East Asian regionalism after 2000.

Since its capital account was not liberalized at the time of the East Asian financial crisis, China survived the AFC without much direct damage. However, facing the large-scale depreciation of major East and Southeast Asian currencies, Chinese exports to the European and American markets were considerably disadvantaged after the crisis. Under these circumstances, China decided to uphold its promise not to devalue its own currency, avoiding the potential downward spiral of competitive devaluation in the region (see Wang 2003). Furthermore, China chose to participate in the provision of economic assistance packages to Thailand and Indonesia immediately after the crisis. These ‘responsible’ efforts generated favorable perceptions of China in post-crisis East and Southeast Asia.

Nevertheless, China’s intention to join the World Trade Organization (WTO) brought new fears to neighboring countries over cheap Chinese products. In order to defuse such worries, China put forward the proposal of creating an ASEAN-China Free Trade Area (ACFTA) in 2000, the same year as China became a member of the WTO. The ACFTA came into force in 2010 for six ASEAN members (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand), and is intended to be extended to the other four ASEAN countries in 2015. An early harvest program dealing with trade in goods took effect as early as 2005. In addition, the two sides signed the China-ASEAN agreement on trade in services in 2007; the China-ASEAN investment agreement was then agreed in 2008. The economic impact of the proposed ACFTA has been significant. Total ASEAN-China trade has grown at a remarkable rate from under US$ 40 billion in 2000 to over US$ 200 billion in 2007 (ASEAN Centre, 2007).

More importantly, the proposed ACFTA has motivated other East Asian countries to seek closer trade relationships with ASEAN. Afraid of losing influence to China, Japan and South Korea each proposed a similar free trade agreement with ASEAN in 2003 and 2004. In the Japanese case, the two sides signed a general framework for a bilateral free trade agreement in 2003. The bilateral trade negotiations started in April 2005 and concluded in November 2007. Eventually, the Japan-ASEAN Economic Partnership Agreement (EPA) came into force in December 2008. With South Korea, ASEAN commenced the FTA negotiations in 2005. The bilateral trade deal was concluded in the same year, and took effect in July 2006. In both cases,
Japan and South Korea managed to exclude certain agricultural products from their trade agreements with ASEAN. It is obvious that domestic opposition, particularly that from the agricultural sector, has long deterred Japan and South Korea from pursuing free trade deals with ASEAN. If China had not put forward the ACFTA in the first place, it would have been much more difficult for Japan and South Korea to take a ‘brave’ step of building closer trade relations with ASEAN.

The participation incentives resulting from China’s active engagement may also be identified in the case of the Treaty of Amity and Cooperation in Southeast Asia (TAC). The TAC enshrines the fundamental organization principles of ASEAN. These principles not only guarantee mutual respect for independence, sovereignty and territorial integrity, but also detail the ASEAN norms of non-interference and peaceful settlement of disputes. Signing the TAC is therefore considered to be a precondition for joining the EAS. Originally, apart from the Pacific state of Papua New Guinea, only ASEAN countries are signatory members of the TAC. China decided to sign the TAC in 2003, and became the first non-Southeast Asian country to do so. The following year witnessed the signatures of Japan, South Korea and Russia. Then, Australia and New Zealand signed the TAC in 2005. Despite a lack of enthusiasm to engage with the military junta in Myanmar, the US also put its signature on the TAC in 2009 to signal its ‘return to Southeast Asia’. On the whole, it was not until China’s active engagement with Southeast Asia that the TAC began to attract the attention of so many other intra- and extra-regional powers.

In short, China’s policy towards regional cooperation experienced a major shift. In the aftermath of the AFC, China proposed a free trade agreement with ASEAN, signed the TAC, and participated in the ARF. Perhaps of more importance is the fact that the active engagement of China has generated crucial participation incentives in East Asian regionalism. Japan and South Korea both followed in the footsteps of China to establish a closer trade relationship with ASEAN, and then put their signatures on the TAC. Moreover, several extra-regional countries like Australia, India and Russia also began to pay more serious attention to East Asian regionalism.

4. The Collapse of Functional Leadership in East Asian Regionalism

Notwithstanding the rapid progress of East Asian regionalism in the decade after the AFC, the enthusiasm for regional cooperation and integration has waned in recent years. Several factors have contributed to the declining interest in
regionalism. Firstly, the prolonged GFC has hit the regional economy badly. As the demand of overseas market shrank and foreign direct investment withdrew, export-oriented East Asian economies faced an unprecedented challenge. Unlike the AFC, the GFC was originated from the US and Europe. Effective remedies for the crisis were well beyond the reach of East Asian countries. Instead of forming a common front, individual countries were busy coping with their own economic downturn through domestic stimulus packages. To be fair, mutual assistance appeared. The multilateralization of the CMI speeded up after the outbreak of the crisis (Ciorciari 2011). Separately, China, Japan and South Korea agreed to expand their bilateral swap lines in December 2008. However, these defensive measures have not produced further initiatives of regional cooperation (see Beeson 2011).

Secondly, the rise of China has reached a triggering point. As the Chinese economy continued to expand, the impact of the country has been acutely felt throughout East Asia. The outbreak of the GFC only strengthened such a trend. East Asian countries were reminded by the crisis how vulnerable their dependence on the Western market could become. Naturally, some looked to the booming Chinese economy as a possible alternative. After China announced the RMB4 trillion post-crisis stimulus package, many hailed it as a measure to stabilize both the domestic and the regional economy. Nevertheless, the growing influences of China also worried some neighboring countries. The Japanese economy was surpassed by China in 2010. In the same year, a Chinese fishing trawler collided with two Japanese Coast Guard boats near the disputed Senkaku/Diaoyu Islands. The uneasy diplomatic exchange following the incident only intensified the ‘China threat’ perceptions in Japan. As the rise of China divided the region between those who welcome it and those who worry about it, East Asian regionalism has suffered an internal shock unseen in the previous years.

Thirdly, the US has shifted its East Asian policy under the Obama administration. Before Obama took office in January 2009, the US policy towards East Asia could be best described as indifferent. Preoccupied with the ‘war on terror’, the US Secretary of the State Condoleezza Rice twice skipped the ASEAN Regional Forum meetings.

4 The existing yen-won swap line between Japan and Korea was expanded to USD20 billion. In addition, China and South Korea agreed on a new renminbi-won swap line worth USD28 billion. These deals were reached at a trilateral summit among the three countries in Fukuoka.

5 See, for example, the editorial by South China Morning Post on 11 November 2008.

6 Condoleezza Rice decided not to attend the ARF meeting in 2005 and 2007. It was the first
Indeed, the lack of US interest in East Asian affairs was one of the reasons why post-AFC regional cooperation had developed into an exclusive East Asian club (Bowles 2002; Pempel 2008). In an important departure from the previous administration, the Obama administration signed the TAC in 2009, the new Secretary of the State Hillary Clinton attended the ARF meeting in 2010, and Obama himself took part in the East Asia Summit in 2011. Before becoming the first US President attending the East Asia Summit, Obama announced that ‘the US is a Pacific power and we are here to stay’—a very strong message of the renewed US interest in the region.7 As the US pivot to Asia gained momentum, it not only accelerated the trade talks of Trans-Pacific Partnership (TPP), but strengthened the military ties with regional allies. Oriented towards an Asia-Pacific platform of regional cooperation, the shift of the US policy has added additional uncertainties to East Asian regionalism.

More importantly, these internal and external factors seriously disturbed the functional equilibrium of multi-state leadership that had been crucial to regional cooperation and integration in post-AFC East Asia.

From Regional Public Goods to Country-Specific Goods
Japan has long been an important donor to other East Asian countries. Mentioned earlier, it provided the major financial assistance to the crisis-ridden economies in the aftermath of the AFC. Within the first two years after the crisis (i.e., 1997 and 1998) about 85% of the USD80 billion that Japan had promised was distributed to the beneficiaries of Indonesia, Thailand, Malaysia, the Philippines, the Laos, Vietnam and South Korea (MOFA 1999). These aids not only sponsored the economic and structural reforms in these countries, but also supported human resource development and offered assistance to the socially vulnerable. Together with the New Miyazawa Initiative (USD30 billion), the regional public goods provided by Japan made it possible for East Asian economy to recover from the crisis in a relatively short period. Indeed, most crisis-ridden economies managed to regain their economic strength two or three years after the AFC (MacIntyre et al. 2008).

Japan continued to provide other East Asian countries with substantial official

7 Quoted from President Obama’s speech that was delivered to the Australian Parliament on 17 November 2011.
development assistance (ODA) throughout the 2000s. However, the total amount of the assistance has been decreasing. According to the Ministry of Foreign Affairs, Japan provided an average of USD10 trillion per year to the world between 1997 and 2010. While roughly 15% of the total ODA went to East Asia between 2002 and 2005, the net flow reduced to about 6% between 2006 and 2010.\(^8\) This is partially caused by the repayment of Yen-denominated loans by recipient countries, and partially reflected the general change of the Japanese government’s ODA policy.

Just when Japan scaled back its effort to provide public goods to the region, China became more willing to offer assistance to Southeast Asia. The well-received proposal of the ACFTA convinced China that forging a cordial relationship with neighboring countries may help to counter the perceptions of China threat. Apart from opening its market to ASEAN, China began to provide substantial official aid to other countries in East Asia in the 2000s. According to some researchers, China’s aid in Southeast Asia concentrated on Cambodia, Myanmar and the Laos, the three poorest mainland Southeast Asian countries in ASEAN (Lum et al. 2008). In addition, Vietnam, Indonesia, Thailand and the Philippines also received aid from China. Combining official assistance, infrastructural investment and free trade agreement, China’s aids follow the principle of non-interference and seldom have conditions attached to them (see Woods 2008). Because such aids often focus on a few targeted countries, it is difficult to qualify them as non-exclusive public goods.\(^9\) Thus, unlike the post-AFC assistance provided by Japan, China’s aid appears to be country-specific goods that are not always compatible with the regional cooperation and integration process.

Yet, the growing influences of China in East Asia prompted Japan to follow suit. During the Mekong-Japan Summit Meeting in November 2009, for example, Japan promised a big package of financial assistance to regional development projects. The total amount of assistance was more than JPY500 billion over the period of three years.\(^10\) Most of the assistance went to the targeted projects of individual

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\(^9\) It should be noted that China’s official aid programs do not always have targeted countries. Some aid programs to Southeast Asia (e.g., the USD10 billion investment fund that China proposed in 2009) did take a multilateral approach.

\(^10\) See the Tokyo Declaration issued by the Mekong-Japan Summit Meeting ([http://www.mofa.go.jp/region/asia-paci/mekong/summit0911/declaration.html](http://www.mofa.go.jp/region/asia-paci/mekong/summit0911/declaration.html) last accessed on...
countries under extremely good conditions. The ODA offered to Laos, for instance, has a repayment period of 40 years and an interest rate of 0.01% per annum. In the 2012 White Paper of Japan’s ODA, the government for the first time listed freedom, democracy and common strategic interests as the main conditions for official assistance (MOFA 2013). The main objective, according to the national broadcaster NHK, is to distribute Japan’s ODA in a more strategic way in order to counter China’s impact on international affairs.11

As Japan and China compete for influences in East Asia, it is foreseeable that the two countries would put more emphasis on targeted official assistance. Whether such aid program qualifies as regional public goods or country-specific goods is probably subject to individual circumstances. Nonetheless, the essential leadership function of public good provision has been much diluted by these targeted aid programs. Furthermore, as aid-recipient countries compete for country-specific assistance, East Asia regionalism is confronted with the threat of another dangerous centrifugal force.

Uneasy Divisions among ASEAN Counties
ASEAN has been celebrated as a rare example of security community among developing countries (Acharya 2001). So, when the border dispute occurred between Cambodia and Thailand in 2008, the escalated situation surprised many observers. The incident, however, was a sober reminder of the destructive impact of nationalism and domestic interest on regional affairs.

In July 2012, the triumph of domestic interest over regional affairs re-emerged at the ASEAN foreign ministers’ meeting. During the gathering of 10 Southeast Asian countries, Vietnam and the Philippines attempted to bring up their territorial disputes with China in the South China Sea. Their intention was to forge a common ASEAN position so that the negotiation with China could be conducted on a multilateral platform. Nevertheless, China rejected such proposals due to the fear of possible meddling by other countries. Instead, it claimed that the territorial disputes in the South China Sea should be handled in a bilateral way, involving only the claimant countries. It turned out that Cambodia—the host country of the ASEAN meeting—was in support of the Chinese position. According to some media reports,

30 March 2013)
11 See the NHK report Emphasizing Strategic Distribution of ODA on 20 March 2013.
Cambodia claimed that ASEAN should not take sides in bilateral disputes at the foreign ministers’ meeting. It tried to stop other countries from raising the issue, and later issued a Chair’s statement without mentioned the territorial disputes. As the Philippines refused to sign the statement, the ASEAN foreign ministers’ meeting ended without a diplomatic communiqué for the first time in its history.

Some observers attribute the failure of the ASEAN meeting to the close relationship between China and Cambodia. It is argued that the large amount of Chinese aid and investment had ‘bought’ Cambodia at the ASEAN foreign ministers’ meeting. What has been overlooked is the fact that several other non-claimant members of ASEAN similarly took a low profile during the meeting. When disagreement surfaces in ASEAN, the usual approaches of the ‘ASEAN way’ is to avoid outright conflict, conduct extensive consultation, and forge possible consensus. However, these approaches proved insufficient to deal with the heightened tension among ASEAN members (see Narine 1997). Though the country-specific goods provided by China was an important factor to be reckoned with, the failed attempt to produce a diplomatic communiqué at the meeting reveals something more serious. Six months later, the Philippines announced that it decided to take the territorial disputes of South China Sea to the UN for arbitration after the government had exhausted ‘almost all political and diplomatic avenues for a peaceful negotiated settlement’.

No doubt, the division among ASEAN members has seriously damaged the credibility of the institutional center of East Asian regionalism.

Just as ASEAN found it difficult to form a common position on the South China Sea, the US-led trade negotiations of TPP divided ASEAN in the economic arena. TPP has become an important element of the US policy towards East Asia. Under the Obama administration, the US intended to use TPP to push for high-level trade liberalization among the Asia-Pacific countries. However, the TPP initiative has posed a difficult choice for ASEAN. By the end of March 2013, 11 countries have formally taken part in the TPP negotiations. Among them, only Brunei, Malaysia, Singapore and Vietnam

14 See ‘Philippines to bring South China Sea dispute with Beijing to tribunal’, the Guardian, 22 January 2013. (http://www.guardian.co.uk/world/2013/jan/22/philippines-south-china-sea-beijing)
15 Japan decided to join the TPP negotiation in March 2013. It is currently on the way to join the US-led trade talks.
are ASEAN member states. For itself, ASEAN has been on the way to build an EU-style economic community in 2015. Being a common economic space, it would be difficult for ASEAN to have some member states inside TPP and others outside. Yet, the US-led TPP is bound to sideline ASEAN in the regional web of free trade agreements. In the long term, ASEAN would probably find it difficult to maintain a central position of in Asia-Pacific economic regionalism. Because of these concerns, the two most important Southeast Asian economies—Indonesia and Thailand—still chose to prioritize the ASEAN arrangement and take a wait-and-see position on TPP.

In short, ASEAN has faced a difficult situation of uneasy division in both economic and political fields. While the internal disagreement surfaced only recently, it seriously challenged the institutional credibility of ASEAN. For more than a decade, ASEAN has been the institutional center of East Asian regionalism. By attracting neighboring countries into its institutional framework, ASEAN managed to stay at the center of regional cooperation and integration. Nevertheless, as the internal division of ASEAN deepened, the presence of new actors created another dynamics of power balancing in East Asia.

Growing Desire for Power Balancing
When the East Asia Summit was first proposed by the East Asian Vision Group in 2001, the aims were to transform the annual meetings of ‘ASEAN Plus Three’ into an institutionalized framework and to achieve high-level regional cooperation and integration (EAVG 2001). However, the summit turned out to be more inclusive, and less productive, than it was originally envisaged. When the East Asia Summit was inaugurated in December 2005, it had an extended list of participants. Apart from the 13 members of ‘ASEAN Plus Three’, Australia, India and New Zealand were invited to join the meeting. Dubbed also as ‘ASEAN Plus Six’, the East Asian Summit has become a separate regional institution in parallel to the ‘ASEAN Plus Three’ framework.

As several observers have noted, the inclusion of additional members in the East Asia Summit was a conscious step to counter the growing influence of China. The Japanese Prime Minister Koizumi called the inclusion of Australia and New Zealand in East Asian regionalism as early as in 2002. At the time, the bilateral relationships between China, South Korea and Japan were at a historically low point due to Koizumi’s controversial visits to the Yasukuni Shrine. For Japan, calling for other
countries to join East Asian regionalism was a strategy to both expand its diplomatic space and include potential partners in the regional process. The policy was also in line with the US concerns over its absence in the emerging institutional framework of East Asia (see Terada 2010). The growing clout of China in the ‘ASEAN Plus Three’ framework also worried several ASEAN members. Singapore and Indonesia, in particular, worried that China would dominate the ‘ASEAN Plus Three’ process. If the East Asia Summit were based on ‘ASEAN Plus Three’, ASEAN’s central position in the regional framework would be in danger (Camroux 2012). At the end, despite the reservations of China and several other ASEAN members, the invitation of the East Asia Summit was extended to the three countries well beyond the normal geographical understandings of East Asia.

As it turned out, the tacit strategy of power balancing weakened the newly established East Asia Summit. Firstly, China saw its influence diluted in the new institutional framework. It thus took a less enthusiastic attitude towards the Japan’s proposal of CEPEA (Comprehensive Economic Partnership for East Asia)—a free trade area involving the 16 members of the East Asia Summit. Partly as a result of China’s passive participation, the policy outcomes of the East Asia Summit have been much less substantial than its name would suggest. Secondly, the extended membership of the summit brought divergent visions about the future of East Asian regionalism. At the East Asian Summit meeting in 2009, for example, the Japanese proposal of ‘East Asian Community’ met with a counter-proposal of ‘Asia-Pacific Community’ that was advocated by Australia. After Russia and the US joined the East Asia Summit in 2011, there was increasing concerns on whether East Asian regionalism would be subsumed under a broad Asia-Pacific framework.

An even greater source of power balancing stemmed from the US pivot to Asia under the Obama administration. The US pivot was designed to both counter the growing Chinese presence and reassert the US influence in East Asia. Economically, the US continued to push forward the trade talks of the TPP, aiming at creating an Asia-Pacific free trade area in the long run. Politically, the US strengthened its military ties with Japan, Australia, and other regional allies. In different ways, the Obama administration also lent support to the claimant countries that have territorial disputes with China. For Japan, the US reaffirmed that the US-Japanese

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security treaty covers the Senkaku/Diaoyu Islands; for the Philippines, the US agreed to sell additional weapons to the country; for Vietnam, the US started to hold joint navy exercises with the Vietnamese navy. These policies quickly set off a chain reaction of power balancing in the region (see Ross 2012). Japan soon signed strategic partnership agreements with the Philippines and Vietnam. China also became even more assertive in dealing with its territorial disputes in the East and South China Sea. Most recently, the Philippine Foreign Secretary claimed in an interview that the country intended to sign a defense treaty with Japan, and wanted to form alliance with other US allies in the region.17

As the participation incentives in East Asian regionalism transformed from the fear of being a laggard into the desire for power balancing, the nature of regional cooperation has been changed. The rise of China still caught the attention of other countries both inside and outside the region. However, the continuing interests in East Asian regionalism are mostly derived from the desires to balance against China. In many ways the US pivot to Asia has been feeding such a demand. With power balancing dominating the regional politico-economic landscape, East Asian regionalism has entered an uncertain period of leadership vacuum.

5. Conclusion
In the decade following the AFC, East Asia witnessed closer regional cooperation and deeper regional integration. The AFC in 1997-1998 not only woke Southeast Asian countries up to the inadequacy of sub-regional economic integration, but also alerted them to the insufficiency of the grand APEC forum. Learning from these lessons, regional cooperation in East Asia has been taking the format of an ‘ASEAN Plus’ structure in the post-crisis era. On the one hand, regional initiatives heavily relied on the existing institutional framework of ASEAN. On the other hand, ASEAN actively sought the participation and support of non-Southeast Asian countries in the newly established regional institutions. Ten years after the AFC, the ‘ASEAN Plus’ strategy has proved to be fairly successful in mitigating intra-ASEAN disagreements and mobilizing extra-ASEAN countries within a regional framework.

Notwithstanding the successes of the first post-AFC decade, leadership in East Asian regionalism remains an elusive concept. More often than not, commentators refer

to the Franco-German partnership in European integration for possible guidance on how to answer the leadership question in East Asia. Some argue that ASEAN had played the key role in moving forward the regional institution-building process of East Asia (Acharya 2009). Others contend that China and Japan have been competing for regional leadership and their rivalry had speeded up the regional cooperation and integration process (Beeson 2007; Hidetaka 2005). Still others look into the hierarchical power structure in traditional East Asia for possible clues to regional leadership today (Kang 2003).

This paper argues that these state-centric explanations fail to shed light on the leadership question in the dynamic evolution of East Asian regionalism. In East Asia, big countries are usually constrained by a lack of economic strength (e.g. Indonesia), a lack of mutual trust (e.g., China), or the memory of historical animosity (e.g., Japan). Consequently, the desirable traits of effective regional leadership do not come together in a single country in East Asian regionalism. Instead of focusing on specific countries, it makes more theoretical and empirical sense to adopt a functional approach to examining regional leadership in East Asia.

If successful regional cooperative schemes depend on three essential functional properties: public goods provision, institutional engineering and participation incentives, it is then possible to identify a functional equilibrium of multi-state leadership in post-AFC East Asia. More specifically, ASEAN had built an essential institutional infrastructure for East Asian regionalism: the ‘ASEAN Plus Three’ Process, the East Asia Summit and the ASEAN Regional Forum; Japan had become more willing to provide regional public goods to stimulate regional economic growth and reduce regional economic inequality; China’s active engagement had not only placed it at the forefront of East Asian regionalism, but also generated important participating incentives to bring other countries on board. Put together, it is fair to say that ASEAN, Japan and China had played a joint leadership role in the regional cooperation and integration process of post-AFC East Asia.

Nevertheless, the functional equilibrium of multi-state leadership has been under great strain in recent years. First, the competing provision of targeted official assistance has drawn the donor countries’ attention to country-specific goods. Much less efforts have been made to ensure the supply of regional public goods in East Asian regionalism. Second, ASEAN has been divided not only by the territorial
disputes in the South China Sea but also by the US-led TPP trade talks. Such divisions have raised questions about the internal coherence and external relevance of East Asia's institutional center. Third, against the background of growing Chinese influences and the US pivot to Asia, the participation incentives in East Asian regionalism have changed from the fear of being a laggard into the desire of power balancing. Put together, these factors seriously challenged the multi-state functional leadership that was once crucial to regional cooperation and integration in East Asia. As regional affairs are redefined by these novel trends, East Asian regionalism has entered an uncertain period of leadership vacuum.
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