Sino-Japanese competitive coexistence, East Asian regionalism and Governance: the CMI case

Jinsoo Park
PhD Candidate
Department of Politics and International Studies
University of Warwick
E-mail: Jinsoo.Park@warwick.ac.uk
10/12/2009

Prepared for the Annual Conference of British International Studies Association Leicester City, December 13 – 16, 2009

Please Do Not Quote without Permission
1. Introduction

East Asia is a new concept of region, but it is increasingly becoming a dynamic and attention-grabbing region with the promotion of various state-led regional cooperative projects in economic, political and socio-cultural fields, which is generally referred to as regionalism. The development of the East Asian region and regionalism is highly relevant to regional leadership. Region’s two major powers, namely Japan and China, have been increasingly revealing strong aspirations to become a greater regional leader and have practically played crucial leadership roles in promoting various regional cooperative projects. In this regard, many analysts argue that the nature of regional leadership emerging in the processes of regional economic cooperation that might be provided by Japan and/or China will prove to be the most significant issue for the future of East Asian regionalism (Webber 2001; Dieter and Higgott 2003; Watanabe 2004; Ahn 2004; Higgott 2006).

This study is to examine and explain the nature of emerging regional leadership in East Asia since the late 1990s and explores how it shapes East Asian regionalism in the context of global governance. It does so with reference to East Asian financial cooperation through the Chiang Mai Initiative (CMI). The CMI refers to a regional financial arrangement for East Asia, created by ASEAN+3 countries in May 2000. It is designed to strengthen “self-help and support mechanisms in East Asia through the ASEAN+3 framework” (AFMM+3 2000). The CMI deserves our attention for at least two reasons. First, given that the evolution of the CMI has been seen as “an invaluable symbol of the development of East Asian regional financial cooperation” (Asami 2005: 3), it represents a strong case study with which to examine the nature of emerging regional leadership in East Asia and evaluate to what extent it can account for the recent development of East Asian regionalism. Second, the development of the CMI has profound implications not only for the ‘region’ and regionalism of East Asia, but also the global financial order. The CMI could be a starting point for what is called “a new monetary regionalism” in East Asia (Dieter 2000; Dieter and Higgott 2003). It could also have a large impact on the continued centrality of the US and its-dominated international financial institutions, particularly the IMF, in shaping the global financial order.

The structure of the paper will be as follows: Section 2 defines leadership briefly and identifies some crucial elements to understand the nature of emerging regional leadership in East Asia. Section 3 scrutinises the emergence of Sino-Japanese competitive coexistence in the process of the CMI. It highlights that Japan and China, of which rivalry for regional
leadership had led to the failure of the Asian Monetary Fund proposal, came to coexist in the process of the CMI. Section 4 explains the emergence of Sino-Japanese competitive coexistence. It assumes that Sino-Japanese competitive coexistence should/can be explained by dynamic reciprocal interactions between Japan’s and China’s critical strategic actions to enhance their leadership credentials and other members’ shifting propensity for followership. It argues that Japan’s critical strategic actions taken after its failure of the AMF proposal generated growing regional acceptance of its claim to leadership and the idea of creating a regional financial mechanism, and this in turn led to China’s participation in the CMI as a reflection of its critical strategic actions. Section 5 explores the impact of Sino-Japanese competitive coexistence on the evolution of the CMI. It argues that Sino-Japanese coexistence has facilitated the development of the CMI into an effective regional financial arrangement to cope with challenges caused by globalisation, but at the same time, it has shaped it as supplementing rather than supplanting global governance institutions.

2. Defining leadership

International leadership is by no means a novel concept in the International Studies but it is an ill-defined one. Some analysts use the term even as a synonym for hegemony\(^1\) (see Lake 1993). This requires this study to define leadership even briefly, reviewing discussions on international leadership in the International Studies and drawing insights from studies on leadership in the fields of domestic politics and organisations\(^2\).

According to Bass (1990), leadership can be broadly defined as a process of *reciprocal interactions* among members of a group in which one or more members *structure* the motivations and behaviours of other members in pursuit of *collective goals*. This definition provides three connotations of leadership: collective goals, structuring and reciprocal interactions. First, unlike naked power-wielding, leadership is exercised to realise collective or at least joint goals between leaders and followers (Burns 1978). This appears to quite simple but important enough to enable us to make a distinction between leadership and hegemony\(^3\).

\(^1\) Keohane and Nye (1977: 44) define hegemony as a condition in which “one state is powerful enough to maintain the essential rules governing interstate relations, and willing to do so”.

\(^2\) While these studies primarily have to do with explaining the governance of domestic politics or the management of organisations, their extended logic can help us get a more nuanced picture of international leadership.

\(^3\) Gilpin (1975; 1981; and 1987) and Krasner (1976) argued that a hegemon created and maintained an open
Second, leadership involves “a structuring or restructuring of the situation and the perceptions and expectations of the members” (Bass 1990: 19). Burns (1978) assumes that collective goals emerge in actual or potential competition and conflict among motivations of actors with different levels. In order to articulate collective goals out of actual or potential competition and conflict and induce other members to act for the articulated goals, potential leaders need to modify the motivations and thus behaviours of other members. To do so, they depend on two methods. The first involves material incentives. Leaders exchange promises of rewards and benefits or sanctions to followers for their agreements, collaboration, and compliance in pursuit of collective goals, which is called by Burns transactional leadership (1978). A materialist approach centred on the hegemonic stability theory stresses this type of leadership to facilitate international cooperation and prevent defection from the rules of international institutions (Gilpin 1975; Krasner 1976). The second method depends on leaders’ ideational capability. Leaders can shape, adjust, and elevate the motivations, values and goals of followers, which is called by Burns transformational leadership. Weber (1978) also argued that charismatic leaders raise followers’ awareness about the importance of their duty and convince them to join in the ‘divine mission’. He stressed that leadership (or legitimate authority in his term) exist only when leaders succeed in establishing and cultivating the belief of followers in leaders’ claims to leadership. This is well echoed by scholars in the International Studies such as Cox (1981), Ikenberry and Kupchan (1990) and Russet (1985), all of whom stress a leader’s or a hegemon’s ideational capability to generate broad consent of followers. This does not mean that material capability do not play a role in securing a leadership position; rather leaders’ ideational capability can be augmented by their material ones (Bass 1990). These two resources thus consist of leaders’ credentials.

The last connotational emphasis is on reciprocal interactions between leaders and followers. Potential leaders’ efforts to modify potential followers’ motivations take place through interaction between them. Such interactions are reciprocal rather than one-way. Burns (1978) delineated followers as those who have sufficient knowledge of alternative leaders and programme and the ability to choose among them. Potential leaders contend with each other “in appealing to the motive bases of potential followers” (Burns 1978: 18). This means that followers are not merely the object of leadership, but rather one of subjects in the international economic system because such a system maximised its own interests and its political interests in particular, whether or not such a system might be to the advantage of other states.
process of leadership. This nature of leadership pushes potential leaders to give attention to the motivations and the values of followers. Leaders’ behaviours are thus bounded to potential followers’ propensity for followership of them. At the same time, potential leaders also take critical strategic actions to make their claims to leadership more acceptable to potential followers than those of their competitors, reflecting potential followers’ shifting propensity for followership. Leadership thus take place through a reciprocal relationship that is reproduced through interactions in which leaders and followers exercise power one another (Jermier 1993). Consistent with this, some analysts in the International Studies assert to return the dynamics of followership into the study of leadership (Stubbs 1991; Cooper et al 1991). Pointing out that most writings about the relationship between leadership and international relations tend to focus on the behaviour of leaders alone, they argue that such a leader-centred approach has led us to the misunderstanding of the nature of leadership. They stress that leadership must be seen as a reciprocal relationship between leaders and followers.

This definition of leadership provides some elements that help us understand the nature of emerging regional leadership in East Asia: leaders’ critical strategic actions to enhance leadership credentials; potential followers’ propensity for followership; and their reciprocal interactions.

3. The emergence of Sino-Japanese Competitive Coexistence and the establishment of the CMI
3.1. Rivalry and the failure of the Asian Monetary Fund proposal
The 1997-8 Asian financial crisis had profound implications for both regional financial cooperation and governance and regional leadership in East Asia. While a market-led regionalisation had been taking place in East Asia prior to the crisis, the region had lacked significant cooperative financial institutions and arrangements to govern regional finance (Hamilton-Hart 2003). The issues of regional financial governance such as crisis prevention and management and financial stabilisation had been subject to international financial governance arrangements centred on international financial institutions such as the IMF and the World Bank. Given that these institutions have been dominated by the US and have reflected US-promoted ideas of global liberalisation and global regulatory standards and rules, the financial governance system in East Asia prior to the crisis had been ordered by US hegemonic leadership.
The Asian financial crisis revealed clearly the inefficacy of the US-led global financial system in crisis prevention and management. The IMF was unable to not only prevent the outburst and spread of the financial crisis in the region, but also alone provide funds necessary to bail out crisis-hit countries under its quota-based disbursement system. Because of congressionally imposed restriction, Washington’s ability to provide bridging funds for the IMF rescue package for East Asian countries was severely limited.\(^4\)

This imperfection of the US- and IMF-centred global financial system provided both challenges and opportunities to Japan and China which sought to exert their presence in the region. The challenges they faced were how to respond to the weaknesses of the global financial governance system and what roles they would play in stabilising regional finance. Their responses and roles might offer greater opportunities for their leadership aspirations in the region. Japan and China took quite different approaches.

Japan responded by taking an unprecedented ambitious leadership initiative. At the annual meeting of the IMF/World Bank in Hong Kong in late September 1997, Japanese finance minister formally proposed establishing an Asian Monetary Fund (AMF). The AMF aimed to provide emergency financial assistance to any Asian countries suffering a financial crisis like that hitting Thailand, acting as a regional financial governance institution to prevent and manage any possible financial crisis in the region and stabilise regional finance.

The proposed AMF embodied a regional alternative to the global financial governance system. First, it reflected the increasing material, particularly financial, capabilities of East Asia. Although Japan’s AMF proposal was premature, its basic idea was quite obvious: a regional financial governance institution mobilising the ample international reserves in the region. The proposed AMF would be a standing institution with the amount of US$100 billion. Half of its reserves would be contributed by Japan and the remaining US$50 billion were expected to come from other surplus countries in the region such as Singapore, Hong Kong and China. This signalled a regional financial institution without the US and its material contribution. Japan’s AMF proposal called for the US neither to provide any financial resource nor to assume a leading role in its implementation process. The US was not

---

\(^4\) A US Senate resolution passed after the US$50 billion Mexican bailout in 1995 was preventing the US administration from committing more than US$1 billion in any one year without congressional approval (Vatikiotis 1997; see also Altbach 1997).

\(^5\) Then Vice Finance Minister of International Affairs Sakakibara Eisuke, who played a critical role in Japan’s promotion of the AMF idea, confessed later that Japan’s AMF proposal was somewhat premature (AFP 26 May 1999).
entitled to even a membership of the AMF Japan envisioned\(^6\). It seemed quite clear that the establishment of the AMF would undermine the influence of the US in East Asia, particularly by reducing its material leverage, but instead enable Japan to assume a greater leadership role in the region through its considerable financial contribution.

Second, the AMF pursued an independent regional financial governance institution, challenging the authority of the IMF. Sakakibara (2001: 1) said later that “it was the desire to create a policy alternative to the IMF prescription that motivated the proposal to create the AMF”. While, in the face of criticism from the US and the IMF, Japanese officials asserted that the AMF would be a supplementary institution to the IMF\(^7\), no detailed manner of how to link the AMF to the IMF was given. Insofar as the AMF would be established as an alternative ‘lender of last resort’ with no or weak linkage to the IMF, it would allow crisis-hit countries in the region to secure financial resources necessary to restore financial stability without resorting to the IMF. The AMF, in this sense, represented the notion of *regional solutions to regional problems*.

Third, the AMF was expected to promote a region-specific idea for the economic and financial system. The US-dominated IMF had pushed hard on East Asian economies global financial liberalisation and global regulatory standards and rules since the early 1990s, and once the financial crises occurred in the region, imposed upon crisis-hit countries radical institutional reforms towards Western-style financial system by means of stiff conditionality. Hamilton-Hart (2003: 291) suggests that the development of a regional financial governance institution increases “the possibility for embedding local preferences regarding financial and economic policy into regional standards and rescue packages”. In East Asia, such preference had been manifested in the developmental state model. Sakaibara expected that AMF would defend the Asian developmental state model by providing emergency funds to crisis-hit countries in the region without IMF-style harsh conditionalities (Nordhaug 2000).

In this way, the AMF represented a Japanese-led regional financial governance institution that might undermine the influence of the US and the IMF on East Asia. Given this, it was perhaps inevitable that the AMF proposal encountered strong opposition from the US and the IMF that were insisting on the continued centrality of the IMF. The formal reasons for

---

\(^6\) Sakakibara (2000), cited in Lipsy (2003), envisioned the AMF as comprising of ten members: China, Hong Kong, Japan, South Korea, Australia, Indonesia, Malaysia, Singapore, Thailand, and the Philippines.

\(^7\) Finance Minister Hiroshi Mitsuzuka, for instance, said that the planned AMF “will not be competing with the IMF and other global institutions but will be a supplementary organization” (Asian Economic News 1997).
their opposition were the AMF’s duplication of IMF function and moral hazard that the AMF might incur (for the details, see Rapkin 2001). As two journalists (Kynge and Tett 1997) note, however, “what is at stake is the continuation of an important instrument of US influence in Asia”. US officials, particularly then US Treasury Secretary Robert E. Rubin and his deputy Larry Summers, perceived the AMF proposal as undercutting US interest and influence in East Asia (Kristof and WuDunn 1999). Then the IMF Deputy Director Stanley Fischer also viewed the AMF as “a threat to the authority and effectiveness of the IMF itself” (cited in Lee 2006: 358).

With the diplomatic war between Japan and the US increasingly intensifying, China’s position proved crucial for the prospects of the AMF. Without China, the second largest holder of foreign exchange reserves in the region, any regional economic arrangements could not be successfully materialised. China, however, had reservations about the Japanese plan. At the Honk Kong IMF/World Bank meeting, it withheld endorsement of Japan’s AMF plan, which meant in effect “a veto by the region’s geopolitical heavyweight” (Blustein 2001: 166). Chinese Premier Li Peng also indicated his reservations about the AMF on his visit to Tokyo in November 1997, stating that China was “not opposed to discussions on this matter by experts first” (AFP 1997).

China instead stressed the continued centrality of the IMF and China’s responsibilities as a regional big power. While Chinese representatives including Premier Li Peng (1997, see also Liu 1997; BBC monitoring service 1997) to the Hong Kong IMF/World Bank meeting argued that the IMF should respect the right of members to “choose a development road suited to one’s own national condition”, they basically supported the central role of the IMF in the economic reform and adjustment of developing countries. They also put emphasis on the responsibilities of developed countries or big powers including China for providing financial and technical assistance to developing countries so as to help their development.

China’s response related mainly to its rivalry with Japan for regional leadership. Sakakibara (Business Times Singapore 2003) and several interviewees such as Toyoo Gyohten (19 June 2009) and Kyung-Tae Lee (18 August 2009) suggest that Beijing’s

---

8 Not only did the US force directly Japan to give up the AMF proposal, but it also tried to lobby Asian countries against the AMF plan. To inform them of its opposition to the plan and propose an alternative one based on the IMF centrality, the US send a memo with the joint signature of Rubin and Federal Reserve Chairman Alan Greenspan and dispatch its diplomats to Asian countries (for the details, see Blustein 2001: 162-170 and Lee 2006: 350-59). In response to this, Sakakibara himself went on a whistle-stop tour of Asia to gather support for the AMF plan, trying to persuade a sceptical US administration (Financial Times 1997).
opposition to the AMF plan stemmed from its fear that the AMF would consolidate Japan’s economic leadership by creating a kind of yen hegemony in the region and would undermine China’s influence in regional affairs. As Watanabe notes (2004: 11):

While China wants Japan to contribute to the region on economic fronts (e.g. as a source of investment and foreign aid), it is not desirable for Japan to become a regional dominant power.

For the sake of its leadership aspirations in East Asia, China wished the current regional financial system ordered by the US and the IMF to be maintained and to restrain Japanese leadership aspirations at least until the day when it would surpass Japan in economic capability for regional leadership. It also tried to build up its ideational capability for regional leadership in a way to redefine its image as a responsible member of the regional community and to enhance its roles in the regional stages. These led to Beijing’s international financial policies in the wake of the Asian financial crisis. “In line with the guiding principle of being a “responsible country”, and within the framework of the IMF”, China provided financial assistance worth more than US$4 billion to Thailand and other crisis-hit countries in the region and maintained no-devaluation policy of its currency (Pang 2009).

Without China’s support and in the face of US and IMF strong opposition, Japanese advocacy of its AMF proposal became weakened and in the end, the AMF idea was officially aborted at the meeting of the finance and central bank deputies from fifteen Asia-Pacific countries in Manila, Philippine in 18-19 November 1997. The deputies instead agreed to the so-called Manila Framework that endorsed the central role of the IMF in regional financial governance and the international monetary systems. It is uncertain whether China’s support for Japan’s AMF proposal might have made it move ahead despite US and IMF opposition. But it is clear that China’s reluctance to participate in a Japanese-led regional financial

---

9 China’s suspicion of Japan’s underlying motivation behind the AMF proposal appeared to be reinforced by two things: the absence of Japan’s prior consultation with China and a US concern about Japanese hegemony through the IMF. On 10 September 1997, Sakakibara sent a confidential memo informing his AMF plan to Hong Kong, Malaysia, Indonesia, Singapore and South Korea, but China was not on his list (Blustein 2001: 165). Moreover, the US tried to lobby China to object the AMF by stressing the threat of Japanese hegemony (Interview with Gyohten; Lipsy 2003: 96).

10 One Western scholar’s finding suggests that although Chinese recognised that their country was far behind Japan in terms of economic, particularly financial capabilities, they were also hopeful that this would be reversed in the near future, if the rapid growth of their economy continued (Webber 2001).
governance institution was a vital part of the failure of the AMF idea. In short, the emerging rivalry between Japan and China for regional leadership in the wake of the Asian financial crisis served as a stumbling rather than a building block to the creation of a regional cooperative financial governance mechanism in East Asia.

3.2. Coexistence and the establishment of the CMI
Despite the failure of the AMF proposal and the establishment of the IMF-centred Manila Framework, the idea of establishing a regional financial governance mechanism persisted and began to re-emerge as a major agenda from late 1998. Underlying this was Japan’s consistent desire for a regional financial governance institution. Shinohara said that “Japan had not disavowed the scheme (the AMF), nor had it accepted the Manila framework as the last word, considering it just a step in the direction of the AMF’s establishment” (Mansor 1999). In October 1998, a year after the AMF idea was put to rest, the Japanese government launched the so-called New Miyazawa Initiative, to which a total of US$30 billion was committed. Not only was the Initiative to disburse financial assistance to the region in a timely manner without unnecessary intervention by a third party like the IMF and the US, but it also revisited the idea of establishing a regional financial mechanism. The official statement of the Initiative said, “it is hoped that in the long run the establishment of an international guarantee institution with a prime focus on Asian countries will be seriously considered” (MOFAJ 1998). More significantly, the Initiative created a basis for the CMI. According to the statement, to help Asian countries which face some needs for short-term capital, Japan would set aside US$15 billion in short-term fund which would take the form of swap arrangements. Under this, Japan concluded two bilateral swap arrangements (BSAs) with South Korea (US$5 billion) and Malaysia (US$2.5 billion) in 1999, which served as a precursor to the CMI.

During 1999, heads and senior officials of East Asian countries exchanged views on economic and financial cooperation and discussed a framework for strengthening the regional financial governance mechanism under the increasingly momentous ASEAN+3 framework.\footnote{In late 1998, the development of the ASEAN+3 framework gained momentum in part from the support from Japan and China. At the second ASEAN+3 summit meeting in Hanoi Vietnam in December 1998, Japan and China supported the idea of regularly holding the ASEAN+3 summit meeting. In addition China also proposed to hold an ASEAN+3 finance and central bank deputees’ meeting. With their support and active participation, the ASEAN+3 framework could become a pivotal stage in which broad regional issues including the urgent financial issue were discussed among countries in the region.}
At the ASENA+3 Summit meeting in November 1999 in Manila, heads manifested their desire to strengthen “self-help and support mechanism in East Asia” on the Joint Statement on East Asia Cooperation (ASEAN+3 1999). Following this, the idea of the CMI as a regional financial arrangement in the form of a network of BSAs among central banks was first proposed by South Korea at the 2nd meeting of Director-Generals from China, Japan and South Korea held in Japan in February 2000 (Interview with Yong Duck Kim12, 1 September 2009).

Not only did Japan welcome this idea, but it also played a crucial role in its materialisation. In the following two months, Japan prepared a draft of the CMI, consulting closely with South Korea and China13. Japan also took the responsibility of consulting with ASEAN countries on behalf of the three Northeast Asian countries (Interview with Kim). According to the Yomiuri Shimbun which had an interview with Japanese Finance Minister Miyazawa before he proposed the CMI idea to ASEAN countries, he apparently viewed the expanded swap arrangement as a stepping stone to an AMF (cited in Reuters 2000). Japan was able to gather ASEAN countries support and in the end, the CMI was agreed at the ASEAN+3 Finance Ministers Meeting in May 2000 in Chiang Mai, Thailand. The CMI included an expansion of the existing ASEAN Swap Arrangement and the establishment of a network of BSAs among ASEAN, China, Japan and South Korea (AFMM+3 2000). Although the CMI was not a regional standing governance institution like the AMF that Japan had pursued, Japanese officials, particularly Miyazawa committed full support for it with the perception that it would be “fit and convenient for the meantime” (Samonte-Pesayco 2000).

The prospect of the renewed Japanese-led initiative to establish a regional financial mechanism in the form of a BSA network became once again hinged on the attitude of China, which had opposed the initial AMF proposal with the fear that it might lead to the enhancement of Japan’s leadership in the regional financial order. Although China, unlike the AMF idea, had been involved in formulating the CMI idea, it cautiously welcomed the CMI. Chinese representatives explicitly promised its support for the CMI. The support, however, came with no definite commitment to how much China could involve itself in such an initiative. Then Chinese finance minister Xiang Huaicheng made the degree of China’s

---

12 He was then Director-General of Korean Ministry of Strategy and Finance and had participated in discussions for the CMI as a Korean representative.
13 In late March 2000 When Japanese Finance Minister Miyazawa revealed his plan for the CMI, he emphasised that China was very positive about it and the discussion for it would be pushed by Japan, China and South Korea (AFP 2000a).
involvement in the currency swap accord contingent upon “future developments” (AFP 2000c).

China’s support for the CMI signalled that it would actively participate in or even take a leadership role in developing a regional cooperative financial governance mechanism. But at the same time, China’s cautious attitude reflected its persistent concern about the establishment of a Japan-dominated financial order in East Asia. After all, rather than blocking a regional cooperative financial initiative led by Japan, China decided to join in it and exercise influence over its implementation process in a way that would enhance China’s presence in the regional financial order.

China’s participation in the Japanese-led CMI rendered it established as the first concrete achievement of East Asian financial cooperation, including all major economies in the region but excluding the US. However, the prospect of the CMI was still unclear in that it lacked the coordinated understanding between Japan and China on the future shape of the regional financial order in East Asia. Given that China was refusing to countenance Japan’s greater leadership position in the regional financial order, the future development of the CMI remained dependent upon the rivalry between them. This indicated the emergence of Sino-Japanese competitive coexistence as the regional leadership structure of East Asia. In other words, Japan and China came to coexist in the process of the CMI, while increasingly vying to exert greater influence over the shape of the financial order in East Asia.

This Sino-Japanese competitive coexistence would prove crucial to the degree and nature of the CMI. Before examining in detail the impacts of Sino-Japanese competitive coexistence on the development of the CMI, however, it is required to answer first the question of how we can account for the emergence of Sino-Japanese competitive coexistence. This will be addressed in the following section.

4. Explaining the emergence of Sino-Japanese competitive coexistence

4.1. Efficiency, Great Power Politics or Identity: Partial explanations

What explains the emerging competitive coexistence of Japan and China in the process of the CMI? Some may seek to address this question, drawing upon three dominant theoretical approaches in the study of international relations.

Liberal explanations might focus on the convergence of preferences between Japan and China as a reflection of their growing awareness of the efficiency of a regional financial
mechanism. Some Japanese officials, for example, maintained that China’s support for the CMI stemmed from its recognition that regional stability was important for China’s sustainable economic development under the globalised financial system and a regional financial mechanism could be an effective means to stabilise regional finance (e.g. Wheatley 2000). While China’s efficiency consideration may be a factor to explain its participation in the CMI, it is less compelling as an explanation for China’s opposition to the initial AMF idea that could be more effective in stabilising regional finance. What is more, given that such recognition had emerged immediately after the 1997 Asian financial crisis\(^\text{14}\), liberal explanations leave the puzzle of the timing of China’s support for a regional financial mechanism. Likewise, there are also reasonable doubts that Japan’s initiatives for the AMF and the CMI were motivated by purely economic reasons\(^\text{15}\). Many analysts believe that Japan’s continuing pursuit of a regional financial mechanism, to a considerable extent, is connected to the struggle among the major powers to shape the economic and political order in East Asia (e.g. C. W. Hughes 2000; Park and Wang 2005).

Related to this, realist explanations attempt to explain Sino-Japanese coexistence in terms of great power politics in the region. Bowles (2002), for example, argues that the deteriorating relationship between China and the US in the late-1990s forced China to participate in the Japanese-led regional financial cooperation. Some also explain that China changed its position to support the CMI because it gave its higher priority to reducing the US economic influence in the region than containing Japan (Narine 2001; Rapkin 2001). It is true that some contingencies like the mistaken US bombing of the Chinese embassy in Belgrade during the 1999 US-led NATO war in Kosovo deteriorated the Sino-US relationship and promoted a heated internal discussion within China with regard to its view of and strategies in the global order. However, the realist arguments run counter to the fact that Chinese government officials and academics, after several months of intensive debates, reaffirmed that the maintenance of a close relationship with the US, at least in the short run, would prove crucial to their country’s sustainable economic development (Shambaugh 2004; Wang 2005;

\(^\text{14}\) Disclosing China’s decision to commit US$1 billion to a bail-out plan for Thailand in August 1997, then Chinese Central Bank Governor Dai Xianglong stressed that “financial instability harms all Asian countries” (Flint and Leggett 1997)

\(^\text{15}\) By shedding light on the opposition of Japan’s private sectors to the AMF proposal, for instance, Chey (2009) and Lee (2006) refuted Lipsy’s (2003) argument that Japan’s pursuit of a regional financial mechanism was motivated by its desire to protect its private sectors in crisis-hit countries. There is also the speculation that Japan’s AMP proposal was largely a ploy to enhance Japan’s position in the international financial governance system (e.g. Rowley 1998).
Likewise, realist explanations seem less tenable in Japan’s changing leadership roles. While we may acknowledge that Japan’s desire to play a greater leadership role in the region by establishing an its-led AMF was frustrated by the power imbalance in US-Japan relations (Altbach 1997), it is still required to explain how Japan could take the lead of the successful establishment of the CMI, overcoming US opposition to an East Asian financial mechanism. In this way, Sino-Japanese coexistence cannot be fully understood only through the lens of simple power relations among the major powers in the region.

An alternative explanation may be drawn from the constructivist that stress on social interactions and shared identities. Constructivist explanations point to the shared identity of ‘East Asians’ emerging in growing social interactions through the ASEAN+3 framework (i.e. Terada 2003). They argue that such an emerging shared identity has encouraged Japan and China to cooperate in developing an East Asian financial mechanism. However, it is important to note that such growing social interactions and networks among East Asian countries at the various levels from the summits to senior financial officials could be facilitated and enhanced by the support and participation of both Japan and China, rather than vice versa. If this is the case, we are reduced to the question why they decided to participate in regional dialogues in the first place. Constructivist arguments about the importance of identity, separated from the efficiency and material factors stressed by liberals and realists, as some pundits notes (Hemmer and Katzenstein 2002: 583), ‘risk being empirically too thin and analytically too malleable’.

In sum, explanations focusing solely on efficiency, great power politics or identity cannot fully exhaust the emerging Sino-Japanese competitive coexistence in the process of the CMI. They provide only a partial understanding on the competitive coexistence between Japan and China, while missing large part of the picture.

4.2. Dynamic interactions between Critical strategic actions and propensity for followership

I assume that leadership takes place through dynamic reciprocal interactions among potential leaders and followers. A leadership position in a group can be secured when potential leaders succeed in cultivating and maintaining the confidence and consents of potential followers to their claims to leadership, but at the same time, the behaviours of potential leaders

---

16 Initially, both Japan and China did not agree with Malaysian suggestion of holding the regular meeting at the first ASEAN+3 summit meeting in December 1997, but they later changed to agree with it at the second meeting in December 1998.
competition are constrained or encouraged by potential followers’ propensity for followership of them. It is also assumed that potential leaders in competition take critical strategic actions to enhance their leadership credentials in both material and ideational terms, reflecting potential followers’ propensity for followership. This section will explain the emerging Sino-Japanese competitive coexistence by analysing dynamic interactions among the critical strategic actions of Japan and China and other East Asian countries’ propensity for followership.

4.2.1 Low acceptance of Japan’s claim to regional leadership and China’s opposition to the AMF
Japan’s AMF proposal, as noted above, reflected its desire to play a greater leadership role in shaping the regional financial order. The Japanese government’s proposal for the AMF was encouraged, to a great extent, by the success of the Japanese-led rescue package for Thailand in August 1997 (Interview with Hajime Shinohara, 23 June 2009). With the inattention of the US, Japan took the lead in organising bilateral aid packages to make up the shortage of the IMF rescue package for Thailand. Seeing countries in the region cooperate in the Japanese-led efforts, Japanese officials became confident in their country’s role as a regional leader. They also perceived that the Japanese-led rescue package for Thailand generated an ‘Asian consensus’ on the need for a stand-alone Asian fund. Such confidence and perception became a key factor in Japan’s decision to promote the AMF idea.

However, that was Japan’s misperception. Some countries in the region such as China and Singapore did not embrace the Japanese-initiated AMF idea in the first place, having concerns about the exclusion of the US and the IMF. Even those who had initially supported Japan’s AMF proposal finally turned away from the idea of an independent regional fund in the face of US and IMF strong opposition. According to Singapore Finance Minister Richard Hu, ASEAN countries shared the view that the promotion of an AMF idea was subject to IMF

---

17 According to him, Sakakibara and Haruhiko Kuroda (then Director-General of the International Bureau of MOF), Toyoo Gyothen (a retired Vice Minister of MOF and the President of the Institute of International Monetary Affairs) and himself had formulated an AMF idea after the US/IMF bail-out of Mexico.
18 The countries that had contributed to the rescue package for Thailand were: Japan (US$ 4 billion), Australia, China, Hong Kong, Malaysia, Singapore (US$ 1 billion respectively), South Korea, Indonesia and Brunei (US$ 0.5 billion respectively).
19 According to Sakakibara (2000: 180-82, cited in Lipscy 2003: 95), an “Asian sense of solidarity” pervaded the IMF-sponsored Thai supporting meeting held in Tokyo on 11 August 1997 and this encouraged him to promote the AMF plan.
blessing and the consultation with the US (Whai 1997). They saw maintaining their good relations with the US as important as establishing a regional fund. East Asian countries “were unwilling to gamble on Japan in a conflict with the United States and the IMF” at a time when they were in urgent need of financial assistance from them (Altbach 1997). On the one hand, this indicates that the US continued to have influence over the region through the IMF – at least temporarily. On the other hand, this suggests that Japan’s claim to regional leadership was called into question by its East Asian neighbours.

Given that Japan possessed enormous reserves of wealth and foreign exchange to be the primary source of funds for an AMF, the question of Japan’s leadership was related to ideational factors rather than material ones. To many East Asians, Japan demonstrated that it lacked ideational power to exercise regional leadership in shaping the financial order in the region. There was a well-known continuing regional perception that Japan had not apologized in an accepted manner for the atrocities committed during World War II. Apart from this, there were several causes that increased East Asian countries’ doubt about Japan’s leadership. First, Japan was being accused of the cause of and exacerbating the crisis. There was a pervaded perception in East Asia that the yen’s big depreciation in 1995 and 1997 undercut the competitive edge of regional economies with Japan’s exports gaining a price advantage and this deteriorated Asian current account balance, leading in the end to the financial crisis in the region (Interview with Kim). Second, the withdrawal of Japanese capitals from the crisis-stricken economies in the region and the Japanese government’s devaluation policy in the wake of the crisis, which was a quite contrast to Chinese no-devaluation policy, brought about the perception in the region that Japan was more concerned with maintaining its own interest than solving region’s problem (Bowles 2002). The third was concerned with Japan’s ambivalent attitudes. When three crisis-stricken countries, Thailand, Indonesia and South Korea asked Japan for emergency funding to avoid the stiff IMF conditionalities in their early stages of the crisis, Japan refused their requests and urge them to go first the IMF (Katada 2002: 96; Lee 2006: 345-6). This was contrary to Japan’s initiative for the AMF as an alternative to the IMF. Lastly, as evinced in Japan’s reluctance to join in the EAEC initiative in the early-1990s (see Higgott and Stubbs 1995), historical records made East Asian

---

20 It is important to note that, at that time, the US and the IMF were not yet exposed to East Asian countries’ criticism about their inappropriate diagnosis and prescription to the crisis.

21 As of the end-1997, Japan’s foreign exchange reserve was around US$ 220 billion which accounted for more than 40 per cent of the East Asian total reserves, around US$ 530 billion (see Wang and Anderson 2002: 92).

22 Sakakibara later acknowledged this as one of the major causes of the financial crisis (AFP 1999).
countries less convinced that Japan was truly willing to move forward an independent East Asian institution at the expense of a good relationship with the US. This was particularly the case of the AMF that would probably require Japan to pit itself against the US on behalf of the region. In this sense, some observers even suggest that Japan promoted the AMF idea in part to gain greater leverage in the IMF and its bilateral relations with the US (Altbach 1997; Rowley 1998). These perceptions and suspicions in the region seemed to undermine Japan’s claim to regional leadership. Japan’s ideational power were not yet strong enough to pull its East Asian neighbours together for an its-led regional financial institution.

Lipscy’s (2003) finding suggests that Sakakibara discerned that the US would be in strong opposition to the AMF idea, but promoted it without prior consultation with the US because he believed that an emerging Asian consensus would force the US to give an unwilling consent. However, the Asian consensus the Japanese government had perceived was a mirage, if any, too vulnerable to resist US strong opposition. Without whole-hearted support from Asian countries, the Japanese government was unable to overcome US resistance and finally began to retreat from the idea from late October 1997.

The low degree of acceptance by East Asian countries of Japan’s claim to regional leadership regarding an AMF favoured China that was unprepared to countenance Japan’s greater leadership position in the regional financial order. Taking advantage of Asian countries’ insufficient support for a Japanese-led regional financial institution, China could counterbalance Japan’s leadership aspirations underlying the promotion of the AMF. In November 1997, Beijing made clear that it was premature to launch the proposed AMF. Foreign Ministry spokesman Shen Guafang said (AFP 1997)

I think that the parties concerned have yet to conduct studies on this issue…which has produced different view. This has not been put on the agenda…(Asian) countries are in the stage of maintaining an atmosphere for consultation. They have not yet reached agreement on taking measures or trying to find a solution to the financial crisis.

On the other hand, China kept its efforts to build up ideational power by firming up a policy of supporting the continuing centrality of the IMF and of maintaining no-devaluation policy for its currency.
As such, the leadership roles of Japan and China surrounding the AMF proposal were constrained or encouraged by other East Asian countries’ propensity for followership. The low degree of regional acceptance of a Japanese-led AMF as a reflection of Japan’s insecure ideational power constrained Japan to give up the idea and encouraged China to hold on to the reservation about it and the IMF-centred approach to the financial order in the region.

4.2.2. Growing appreciation for Japanese leadership and China’s participation in the CMI

To many observers, Japan’s abortion of the AMF idea was interpreted as “an indisputable victory for the IMF-centred approach of the US” (and China) (Lipscy 2003: 96). Nonetheless, Japan’s promotion of the AMF idea demonstrated the potential of an alternative way to govern the regional financial order, raising questions as to the possible material and institutional basis for its emergence, that is, a regional cooperative financial mechanism mobilising the ample financial resources of the region. This is evinced by the fact that even the Manila Framework acknowledging the IMF centrality identified the need to develop a cooperative financing arrangement for the region, albeit a complementary for IMF resources, as one of the initiatives to enhance regional financial stability. Such potential gradually developed into a reality as the configuration of ideas in the region shifted, reflecting the declining legitimacy of the US and IMF and growing demands for Japanese leadership.

As 1998 progressed, the US and the IMF was increasingly exposed to criticism of their inabilities and inappropriateness in dealing with the Asian crises. Although the US and the IMF could maintain their influence on the financial order in East Asia by defeating the AMF proposal, conditions imposed by the US-dominated IMF to promote US-preferred idea of global financial liberalisation boomeranged against their legitimacy in the region. The perception that the US and the IMF not only were unable to arrest the crisis, but also prescribed the wrong medicine for the region without consideration for the peculiarities of local cultures and economic condition spread widely throughout the region (Higgott 1998). This perception, on the one hand, raised considerable doubts within the region about the competence of the US and the IMF and on the other, encouraged East Asians to consider more seriously a regional financial mechanism promoted by Japan.

23 In addition to this initiative, the Framework included three other initiatives: (a) a mechanism for regional financial surveillance to be assigned to the IMF’s Tokyo office; (b) cooperative efforts to strengthen domestic financial systems and regulatory capacities; and (c) measures to enhance the IMF’s capacity for its swift response to financial crises (AFCDM 1997).
In this context, Japan had been quietly and persistently pursuing the idea of a regional financial institution, taking critical strategic actions to enhance its leadership credentials. Japan’s actions were threefold. First, while denouncing the role of the IMF and the US in the region, Japan strived to build an intellectual constituency for a regional financial governance mechanism. From late 1998, Japanese officials became increasingly outspoken in the criticism of the IMF’s and US approaches to the Asian crisis. Miyazawa (1998a; 1998b) and State Secretary for Finance Sadakazu Tanigaki (1998) argued that the diagnosis and prescription by the IMF and the US regarding the Asian financial crisis were not appropriate. Prime Minister’s senior economic advisor Ichizo Ohara (AFP 1998) and Sakakibara (AFP 1999a) criticised US veto on the AMF as completely wrong. At the same time, Japanese officials and research institutions closely linked with the Japanese government tried to propagate the idea of regional financial mechanism in the region. Miyazawa (1998b) stressed that it was appropriate to consider establishing regional currency support mechanisms, as the current global financial system centred on the IMF had not effectively addressed the market turmoil. By the request of the Japanese government, Japanese research institutions like the Institute for International Monetary Affairs (IIMA) actively engaged in promoting the idea of establishing a regional financial mechanism in the region through publications and international seminars (Interview with Shinohara). Gyohten (1999), the President of the IIMA, for instance, stressed the need of East Asian financial mechanisms, reminding that East Asian countries had held a total of US$ 600 billion worth of official foreign exchange reserves sufficient to deal with regional financial problems, but failed to create a regional cooperative framework to use them.

Second, Japan attempted to draw closer its East Asian neighbours, enhancing the social networks between Japan and ASEAN. In early 1998, Japanese Prime Minister and Foreign Minister visited the ASEAN countries in succession. At the second ASEAN+3 summit meeting held in Hanoi Vietnam at the end of the year, Japan agreed to the idea of regularly holding the ASEAN+3 summit meeting. Through Obuchi’s four new initiatives in December 1998 (MOFAJ 1998b), the Japanese government also committed to train elites and students of ASEAN countries by inviting them to Japan or dispatching policy advisors to those countries. Not only did these diplomatic efforts reveal Japan’s efforts for its social integration into East Asia, but the enhanced social networks would serve as a useful channel to teach Japan’s idea to policy officials and elites of its neighbouring countries.
The third approach was to increase its material contribution to the region. Japan committed US$30 billion through the New Miyazawa Initiative. In December 1998, Prime Minister Obuchi additionally set up a special facility amounting to 600 billion yen (US$5 billion) to be provided for crisis-stricken countries in the region over a three-year period. Since Japan did not limit the disbursement of these new funds to the countries with IMF program in place, some of its funding served as an IMF alternative in some countries, particularly Malaysia that had rejected IMF assistance with stiff conditionality. Kishimoto (1999), cited in Amyx (2002), argued that the Japanese government hoped that these policies would cultivate greater regional trust in Japan and such trust in turn help to realise a Japanese-led regional financial institution in the future.

Japan’s critical strategic actions contributed to transforming Japan’s image from ‘Asia’s odd man out’ to a responsible leader in the region. At the 2nd ASEAN+3 summit in 1998, ASEAN expressed high expectation that Japan would act as the prime saviour to help ASEAN members get out of the throes of crisis (NIDS 2005: 38). In particular, Japanese financial support through the New Miyazawa Initiative was highly praised by various countries in the region. As C. W. Hughes (2000: 246) notes:

Japan’s money may not always be able to buy it love in the battle to shape the future political economy of the East Asia region, but by the end of 1998 it certainly seems capable of at least buying it sufficient influence to reverse the string of diplomatic and economic reverses which it had been seen to experience since the onset of the currency crises.

Japan’s leadership role was appreciated at the expense of that of the US. Singapore Prime Minister Goh Chok Tong, for instance, said that while US role was “words more than action”, Japanese role was “action more than words” (BBC Monitoring service 2000).

The growing regional appreciation for Japanese leadership roles and the declining legitimacy of US leadership roles was concomitant with the shift in the configuration of ideas in the region. Ideas such as global liberalisation, the importance of capital mobility and the primacy of the IMF, which the US took the opportunity of the crisis to promote in the region, seemed less compelling to East Asian countries (Rapkin 2001). On the other hand, the idea of a Japanese-led regional financial institution began to re-emerge as a major agenda in many
countries in the region. Thailand and Malaysia resurrected the AMF plan in July and August 1999 respectively. In November 1999, ASEAN called on Japan to make the Miyazawa Fund a permanent facility. This was the case even in South Korea that had tied closely to the US and had an unfavourable impression to Japanese leadership in the region\textsuperscript{24}. Prime Minister Kim Jong Phil offered repeatedly his support for a Japanese-led AMF during his visit to Japan in November 1998, causing controversy in his country (Korea Herald 1998). As Amyx notes (2002: 10):

> In 1997, many countries in the region had been wary of excluding the United States from a new regional institution; these same countries now welcomed Japanese leadership in setting up an institution focused more narrowly on Asia. There was the feeling that Asia needed a champion with a loud voice, and this champion could only be Japan

The shifted configuration of ideas in the region enabled Japan to exercise greater leadership in the region. The Japanese government was able eventually to lift its own agenda of a regional financial mechanism up to the major regional cooperative project in the form of the currency swap network and to take more responsibility for shaping the financial order in the region.

On the contrary, Asian countries’ growing acceptance of Japanese leadership and their growing subscription to the idea of creating a regional financial mechanism forced the US and China to yield more authority to shape the regional financial order to Japan, while pushing them to reconsider their IMF-centred approach to the regional financial order. China who had increasingly vied with Japan in winning the hearts of East Asian countries did more so. For the year and a half since the outbreak of the financial crises, China had tried to establish itself as a responsible regional leader in East Asia, acting responsibly by not devaluing its currency and offering financial assistance to the region. At the same time, it had sought to contain Japanese leadership aspirations by indirectly opposing the Japanese-led AMF idea and supporting the continued centrality of the IMF. However, as Japan was increasingly enhance its presence in the region by generating broad consent for a regional

---

\textsuperscript{24} Korean suspicion of Japanese leadership is attributed mainly to the perception that Japan has not apologised for and adequately come to terms with the historical legacy of its invasion and occupation of Korea from 1910 to 1945.
financial mechanism at its head, the Chinese government could not insist on its current policies and amend its strategy to engage itself more deeply in regional multilateral institution and financial cooperation. At the second ASEAN+3 summit meeting in December 1998, China not only supported the idea of regularly holding the ASEAN+3 summit meeting, but also proposed to hold an ASEAN+3 finance and central bank deputies’ meeting. In spring of 1999, China seemed even open to the idea of an AMF. Shinohara (2004: 3) notes:

China declared that it had never been against an AMF, but that it took a neutral position because it did not fully comprehend the scheme, that it was not too late to revive the scheme and that China was eager to study it.

In response to Asian countries’ revisiting an AMF and Malaysia’s repeated requests for China’s support in the second half of 1999, Chinese Premier Zhu officially offered his support for the idea (AFP 1999b). This did not mean that China was willing to countenance a Japanese-led regional financial institution, but rather reflected its intention to prevent Japan from gaining an uncontested leadership position in the regional financial order and to demonstrate an image of China as a responsible regional leader caring for region’s desires. This is evinced by China’s emphasis on consensus among parties concerned. Zhu attached to his support for an AMF a condition that “the final outcome still depends on the detailed consultations and exchange of views among the parties concerned”. Similarly, a spokesman for China’s Ministry of Foreign Affairs Sun Yuxi said that China supported the enhancement of financial cooperation within the East Asian region, but “as to the specific mode of cooperation, we maintained that the relevant sides should give it their full study and coordination” (Dow Jones International News 1999). This strategy led to China’s cautious welcome for the CMI. Finance Minister Xiang Huaicheng stressed that “our government is in support of such initiative because it contributes to financial and economic stability to the region” (Nation 2000). Although China was still reluctant to get involved in a regional financial institution that would cement Japanese leadership in the region, the increasing search by countries in the region for Japanese leadership and a regional financial mechanism essentially forced Beijing’s hand.

As such, the dynamic interactions between the critical strategic actions of Japan and China to enhance their leadership credentials and Asian countries’ propensity for followership
of them made two contending potential leaders coexist in the process of the CMI. This emerging competitive coexistence would prove crucial to the degree and nature of the CMI, which will be discussed in the following section.

5. The effects of Sino-Japanese competitive coexistence on the development of the CMI

Although Japan and China came to coexist in the process of the CMI, there remained significant difference between them in the shape of the financial order in East Asia. In September 2000, Japan and China, along with South Korea, held their first three-way finance ministers meeting, but they were unable to take a concerted position regarding what the CMI would be like and how it would function. While their coexistence has put the CMI into place, their continuing rivalry to take a better leadership position in the CMI and the regional financial order has determined the nature and degree of the CMI.

As a result, up to recently, the CMI has two characteristics. The first is that the CMI is a supplement rather than an alternative to the IMF. It has not yet lifted itself up to an independent regional financial arrangement since almost the whole swap funds are linked to the IMF conditionality. Second, the CMI is characterised by a stagial development in which it started at the bilateral level first and then has gradually developed into a multilateral arrangement, enhancing its capacities for an independent regional financial arrangement.

5.1. A supplement to the IMF

Over the following year after the CMI agreement in May 2000, ASEAN+3 countries had worked on a basic framework for the BSAs under the CMI. In determining it, the most contentious and critical issue was the relationship between the CMI and the IMF. After intense discussions, East Asian countries agreed that 90% of the amounts available under the BSAs would be disbursed only when the borrower agreed to an IMF programme but that 10% could be drawn without such a programme. This meant that the CMI would serve as a supplement rather than an alternative to the IMF.

The 90% linkage of the CMI to the IMF is so unique and much tight in comparison to bilateral or regional swap arrangements in Europe and North America (Henning 2002: 61-2). This close linkage to the IMF made the CMI as a limited regional financial arrangement. The close linkage to the IMF is likely to undermine the independence of the CMI in that it requires creditors to curtail their discretion over the activation of BSAs (Dieter and Higgott
2003). It is also likely to weaken the most important function of the CMI – crisis prevention – because the decision to activate IMF programme generally takes time and is not made until crisis have already occurred (Wang and Andersen 2002).

It was Japan and China that insisted on the close linkage of the CMI to the IMF and persuaded ASEAN countries to accept it. Why did they argue for it? Many observers answer this by shedding light on risk-averse approaches taken by Japan China as potential creditors. Amyx (2004) explains that in the absence of an independent and well-administrated regional surveillance mechanism, Japan and China intended to lower the likelihood of moral hazard of potential recipients and to ensure a better chance of their repayment through the close linkage. Linking the activation of the BSAs closely to the IMF can provide Japan and China with some comforts and an efficient means to enhance the credibility of the CMI (Asami 2005; Hamilton-Hart 2006). However, if such an economic consideration was the sole motivation of Japan and China, why did they argue for or support a regional financial arrangement in the first place? For understanding the close linkage of the CMI to the IMF, analysing the political dynamics of Sino-Japanese competitive coexistence is essential.

From the inception of the CMI, China had insisted that the BSAs should be completely linked to the IMF programme (Amyx 2002; Narine 2003). Behind this were China’s two considerations. First, China pushed for the 100% linkage to restrain Japanese regional leadership ambitions. Although the Chinese government participated in the CMI to address the growing regional demand for a regional financial mechanism, it did not want to see again Japan take a better leadership position by funneling huge amounts of financial resources to countries in the region through the BSAs as did through the New Miyazawa initiative. China also needed to discourage Japan’s growing ambition to use the BSAs under the CMI to expand the role of the yen in the region or promote the yen’s internationalisation. For the Chinese government, binding completely the BSAs to the IMF appeared to provide a useful means to check Japanese sole discretion in the use of swap funds and thus to Japanese leadership potentials.

Second, China wanted to use the CMI to help its economy integrate into the global economy. After its decision to participate in regional cooperation, Chinese financial officials had repeatedly emphasised that regionalism should be a mechanism to facilitate continued

25 Then Japanese Finance Minister Miyazawa said, “We had been reluctant…about the yen’s internationalization…But our hesitation is now going away…Through such things [BSAs under the CMI], I hope other countries would have a sense of affinity with the yen” (AFP 2000b).
participation into the global economy rather than to secure independence of it. In June 2000, Chinese Bank Governor Dai Xianglong said, “Economic globalisation does not exclude regional integration. On the contrary, regional integration is the foundation for economic globalisation” (Wheatley 2000). Chinese Finance Minister Xiang Huaicheng (2001) also said that “I don’t think the emerging regionalization runs counter to globalization. Rather, it means more equal participation and closer cooperation among the economies in a region, which ought to lead to a more reasonable globalized economy”. In related to these, Premier Zhu stressed that “any financial arrangement that East Asia makes will be a supplement to the functions of IMF and other international financial institutions” (MOFAPRC 2000).

Japan’s initial position was that the BSAs were necessary to be linked with IMF programme by some degree, but not necessary to be fully linked (Amyx 2002). This reflected not only Japan’s desire to develop the CMI eventually into an independent regional financial institution, but also its realistic approach to implement a regional financial mechanism as soon as possible by making the CMI acceptable to many dissidents of a regional institution, particularly the US and the IMF. Then Japanese Vice Finance Minister for International Affairs Haruhiko Kuroda stated in September 2000, “[w]e should not give up the idea to establish a new standing facility in the region…but at the same time, we have to be realistic and careful about not raising suspicion about our intention” (NishiKawa 2000).

In response to China’s strong position, Japan proposed 90% linkage. There were several reasons behind this. First, the close linkage was Japan’s inevitable decision in order to assuage the US and the IMF and obtain China’s support and in turn implement the CMI as soon as possible. The Japanese government was focusing on the early implementation of the CMI because this would help Japan demonstrate and enhance its regional leadership. Japan had learned from its failure of the AMF proposal and did not want to miss a golden opportunity for its regional leadership by insisting on an independent regional mechanism. Second, Japan could not expect to use ‘an Asian consensus card’ to force the US and China to give an unwilling consent. ASEAN split up along the lines of borrowers and lenders within the CMI (Narine 2001). The potential lenders such as Singapore and Brunei argued that the CMI would need to be supported by the IMF surveillance and condition. At the other end of the spectrum, Malaysia advocated complete independence of the CMI from the IMF. The divergent positions within ASEAN did not provide Japan a political leverage to persuade the US and China to accept the weak linkage of the CMI to the IMF. Lastly, Japan was in a strong
bargaining position against the ASEAN countries. ASEAN countries required the BSA agreements with Japan to mount an effective currency defence (Amyx 2002) and the lack of regional surveillance mechanisms appeared to justify Japan’s argument for the close linkage to IMF surveillance and conditionality.

With China’s support, Japan was able to persuade Malaysia and other opposing members within ASEAN to accept the close linkage of the BSAs to the IMF programme. ASEAN countries agreed at their fifth finance ministers meeting in April 2001 in Kuala Lumpur that “the BSA would be complementary and supplementary to IMF facilities” (AFMM 2001). Although Malaysia strongly resisted the idea, it was a lone voice. It finally agreed to the close IMF linkage with the conditions of reviewing possible revision of the linkage requirement in three years and establishing a studying group to consider an Asian surveillance mechanism that could be more sympathetic to local circumstances.

The coexistence of Japan and China in the process of the CMI helped it be the first regional financial arrangement to prevent the disruptive effects of global financial markets, but their continuing rivalry to take a better leadership position in the region have characterised it as a supplement to the IMF. While the CMI, as discussed in the following section, increased the degree of unconditional disbursement to 20% and develop into a self-managed reserve pooling arrangement, its core objective has been consistently to supplement the existing international financial arrangements.

5.2.2 A stagial development: from bilateral to multilateral
The basic framework for the BSA under the CMI including the close linkage to the IMF (see Table 1) was determined by deputy finance ministers of the ASEAN+3 in Beijing on 7 November 2000 and was reported to the summit meeting two weeks later. Since then, Japan, China and South Korea had negotiated and concluded BSAs with ASEAN countries and with each other. By May 2004 when the first round of the CMI ended, sixteen BSAs were concluded and the size of the network of BSAs amounted to US$36.5 billion (see Table 2).
While this progress rendered the CMI represent the crucial first-step towards regional financial cooperation or monetary regionalism in East Asia (Dieter and Higgott 2003), the nascent CMI had certain limitations. According to two ASEAN+3 Research Group reports, conducted by each Chinese and Japanese institution (Fan, Bin and Ming 2005; Asami 2005), there were three interlocked limitations of the nascent CMI. The first, as discussed above, was the close linkage of activation of BSAs to the IMF programme. The second limitation, related to the first, was that the amount available under the nascent CMI might not be enough

<table>
<thead>
<tr>
<th>Countries</th>
<th>Currency</th>
<th>Modality</th>
<th>Conclusion Date</th>
<th>Size* (US$ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>Korea</td>
<td>$/Won</td>
<td>one-way</td>
<td>04-Jul-01</td>
</tr>
<tr>
<td>Japan</td>
<td>Thailand</td>
<td>$/Baht</td>
<td>one-way</td>
<td>30-Jul-01</td>
</tr>
<tr>
<td>Japan</td>
<td>Philippines</td>
<td>$/Peso</td>
<td>one-way</td>
<td>27-Aug-01</td>
</tr>
<tr>
<td>Japan</td>
<td>Malaysia</td>
<td>$/Ringgit</td>
<td>one-way</td>
<td>05-Oct-01</td>
</tr>
<tr>
<td>China</td>
<td>Thailand</td>
<td>$/Baht</td>
<td>one-way</td>
<td>06-Dec-01</td>
</tr>
<tr>
<td>Japan</td>
<td>China</td>
<td>Yen/Renminbi</td>
<td>two-way</td>
<td>28-Mar-02</td>
</tr>
<tr>
<td>China</td>
<td>Korea</td>
<td>Won/Renminbi</td>
<td>two-way</td>
<td>24-Jun-02</td>
</tr>
<tr>
<td>Korea</td>
<td>Thailand</td>
<td>$/local</td>
<td>two-way</td>
<td>25-Jun-02</td>
</tr>
<tr>
<td>Korea</td>
<td>Malaysia</td>
<td>$/local</td>
<td>two-way</td>
<td>26-Jul-02</td>
</tr>
<tr>
<td>Korea</td>
<td>Philippines</td>
<td>$/local</td>
<td>two-way</td>
<td>09-Aug-02</td>
</tr>
<tr>
<td>China</td>
<td>Malaysia</td>
<td>$/Ringgit</td>
<td>one-way</td>
<td>09-Oct-02</td>
</tr>
<tr>
<td>Japan</td>
<td>Indonesia</td>
<td>$/rupiah</td>
<td>one-way</td>
<td>17-Feb-03</td>
</tr>
<tr>
<td>China</td>
<td>Philippines</td>
<td>$/Peso</td>
<td>one-way</td>
<td>29-Aug-03</td>
</tr>
<tr>
<td>Japan</td>
<td>Singapre</td>
<td>$/Sing $</td>
<td>one-way</td>
<td>10-Nov-03</td>
</tr>
<tr>
<td>Korea</td>
<td>Indonesia</td>
<td>$/local</td>
<td>two-way</td>
<td>03-Dec-03</td>
</tr>
<tr>
<td>China</td>
<td>Indonesia</td>
<td>Rupiah/Renminbi</td>
<td>one-way</td>
<td>30-Dec-03</td>
</tr>
</tbody>
</table>


* East Asian countries agreed to double the size of BSA in May 2005

** The amounts include the amounts committed under the New Miyazawa Initiative: US$ 5 billion for Korea and US$ 2.5 billion for Malaysia
large to meet necessary funding requirements to prevent any future financial crisis\textsuperscript{26}. Lastly, the BSAs under the nascent CMI were based on bilateral agreements rather than a multilateral agreement. This meant that the swap requesting country must engage in multiple bilateral negotiations for the swap activation, which might be too time-consuming and complicated to secure financial resources in a timely manner. In this regard, Amyx (2004) assessed the nascent CMI as a mixed success. Many observers recommended that to be an independent and effective regional financial arrangement, the CMI should develop into a multilateral arrangement supported by enhanced regional surveillance as well as expand the size of BSAs (i.e. Amyx 2004; Asami 2005; Park and Andersen 2003).

Table 3 Progress on the CMI

<table>
<thead>
<tr>
<th>Meetings</th>
<th>Agreements</th>
</tr>
</thead>
<tbody>
<tr>
<td>3\textsuperscript{rd} ASEAN+3 Summit (Manila, the Philippines / Nov. 1999)</td>
<td>To enhance 'self-help and support mechanisms in East Asia'</td>
</tr>
<tr>
<td>2\textsuperscript{nd} AFMM+3 (Chiang Mai, Thailand / May 2000)</td>
<td>To promote 'the Chiang Mai Initiative'</td>
</tr>
<tr>
<td>7\textsuperscript{th} AFMM+3 (Jeju, Korea / May 2004)</td>
<td>16 BSAs, US$ 36.5 billion. To explore the ways of enhancing its effectiveness of CMI.</td>
</tr>
<tr>
<td>8\textsuperscript{th} AFMM+3 (Istanbul, Turkey / May 2005)</td>
<td>To double the size of BSAs</td>
</tr>
<tr>
<td></td>
<td>- To increase the size of swaps that could be withdrawn without the IMF-supported program from 10% to 20%</td>
</tr>
<tr>
<td></td>
<td>- the adoption of a collective decision-making mechanism</td>
</tr>
<tr>
<td></td>
<td>- Integration and enhancement of ASEAN+3 economic surveillance into the CMI framework</td>
</tr>
<tr>
<td>9\textsuperscript{th} AFMM+3 (Hyderabad, India / May 2006)</td>
<td>To set up a new task force led by the Deputies for CMI multilateralization or Post-CMI</td>
</tr>
<tr>
<td></td>
<td>- launch of the Group of Experts (GOE) and the Technical Working Group on Economic and Financial Monitoring (ETWG) to explore the ways for further strengthening surveillance capacity in East Asia.</td>
</tr>
<tr>
<td>10th AFMM+3 (Kyoto, Japan / May 2007)</td>
<td>16 BSAs, US$ 80 billion</td>
</tr>
<tr>
<td></td>
<td>- An appropriate form of multilateralisation: a self-managed reserve pooling arrangement governed by a single contractual agreement</td>
</tr>
<tr>
<td>11th AFMM+3 (Madrid, Spain / May 2008)</td>
<td>Total size of the multilateralised CMI: US$ 80 billion</td>
</tr>
<tr>
<td></td>
<td>- Proportion of the amount of contribution between the ASEAN and +3: 20:80</td>
</tr>
<tr>
<td>12th AFMM+3 (Bali, Indonesia / May 2009)</td>
<td>Total size of the multilateralised CMI: US$120 billion</td>
</tr>
<tr>
<td></td>
<td>- Agreement on all the main components of the CIM, including the individual country’s contribution, borrowing accessibility (refer to Table 4)</td>
</tr>
<tr>
<td></td>
<td>- To establish an independent regional surveillance unit as soon as possible</td>
</tr>
</tbody>
</table>

The recent development has proved that the CMI is moving ahead toward such a suggested direction. Since 2004 when the ASEAN+3 countries began to explore ways of enhancing the effectiveness of the CMI, substantial progress has been made (see Table 3). At the ASEAN+3

\textsuperscript{26} This is true but need some interpretation. In effect, the size of the nascent CMI (US$ 36.5 billion) was bigger than other swaps such as G10 (US 36.4 billion), European short and mid-term facility (European Currency Unit 7.9 and 12 billion respectively) and North American Agreement (US$ 8.6 billion) (see Henning 2002: 62). Although the amount quickly available under the (nascent) CMI is small, this is mainly due to the close linkage of the activation of BSAs to the IMF programme rather than the total size of the CMI.
finance ministers meeting in May 2005, participating countries approved of the increase in the size of swaps that could be withdrawn without the IMF-supported program from 10% to 20%. They also agreed to double the size of the existing BSAs, which brought the size of the network to US$ 80 billion as of May 2007. Progress on the CMI Multilateralisation (CMIM) has been made gradually and significantly since May 2005 when the finance ministers of the ASEAN+3 agreed in principle to adopt a collective decision-making mechanism for the BSA network. By May 2009, the ASEAN+3 have reached an agreement on all the main component of the CMIM, including the total size (US$ 120 billion), the form of funding (a self-managed reserve pooling arrangement\textsuperscript{27}), the legal modality (legally binding a single contractual agreement), the proportion of contribution and the maximum amount that each country can borrow (see table 4) and its decision-making mechanism\textsuperscript{28}. The CMIM has been supported by the enhancement of regional surveillance system. Following a decision made in May 2005 to integrate and enhance ASEAN+3 economic surveillance into the CMI framework, finance ministers finally agreed in May 2009 to establish an independent regional surveillance unit as soon as possible. In short, the CMI has developed step by step, in which it started as a limited regional financial arrangement comprising of a set of bilateral agreement and is moving toward a self-managed reserve pooling arrangement. Underlying such a stagial development of the CMI has been the political dynamics of Sino-Japanese competitive coexistence.

Japan, the driving force the establishment of the CMI, also played a leading role in the early implementation of the CMI. Leading negotiations to produce a basic framework for the CMI, Japan strived to facilitate the creation of a network of BSA. At the finance ministers meeting held in Honolulu a year after the CMI agreement, Japan announced that it agreed with South Korea, Thailand and Malaysia to create BSA pacts and negotiations with Philippines were in the final stages\textsuperscript{29}. This marked the significant progress for the early implementation of the CMI. More importantly, this pushed China, which had taken a cautious

\textsuperscript{27} A self-managed reserve pooling arrangement means that the reserves would not in fact physically collected in a common pool but would instead be held by national central banks and earmarked for that purpose. This is deviated from an IMF-type fund, which holds, manages and disburses the reserves pooled by each country.

\textsuperscript{28} On it, the fundamental issues (Review (size, contribution, and borrowing multiples), Re-admission, Membership, Terms of Lending, etc) will be decided through consensus of members, while the lending issues (Lending, Renewal and Default) will be decided through majority (AFMM+3 2009).

\textsuperscript{29} At that time, Indonesia was preoccupied with its political turmoil and ongoing talks with the IMF. Singapore and Brunei, as potential creditors rather lenders, seemed to have little interest in sealing BSA pacts. ASEAN’s newer members such Cambodia, Laos and Vietnam seemed to prefer ODA rather than BSA deals.
approach to the CMI but of which participation would be essential to complete the network, to speed up its talks with other members for sealing BSA pacts. Japan finally concluded seven BSAs. China (and South Korea) competitively tailed after Japan, concluding six BSAs. Notably, both Japanese and Chinese BSAs with ASEAN countries all were one-way swaps from which only ASEAN members could draw. This reflected not only the reality that Japan and China are not expected to ask ASEAN countries for liquidity assistance, but also the efforts of both Japan and China to appeal to ASEAN members by giving a favour to them.

While Japan’s initiative and China’s competitive participation helped the early implementation of the CMI, there remained significant differences between them regarding what the CMI would be like and how it would function. From the inception of the CMI, Japan argued for the importance of creating a multilateral operational framework for the CMI. In September 2000, Japan announced that it would provide financial assistance to member countries, through the ASEAN Secretariat, to enhance regional capability for the monitoring of capital flows, which is a prerequisite for creating a multilateral agreement. A set of BSAs based on bilateral agreements was of little advantage to Japan (and China as well), as an anonymous Japanese analyst told Reuters (Kadoya 2000), because it was “just another form of give-away ODA”. Although the CMI was designed a network of BSAs, it could be a functional equivalent to the AMF that Japan had pursued if the BSAs under the CMI would be activated collectively by a multilateral agreement (Park and Wang 2005). To the Japanese government, it was therefore desirable to create a multilateral operation framework for the BSA.

China’s position made it complicated for Japan to drive a multilateral operational framework ahead. China was less vocal and more reserved on creating a multilateral agreement and enhancing regional surveillance in a short period of time than Japan. At the meeting of finance ministers of the ASEAN+3 held in Prague in November 2000 to hammer out a basic framework for BSAs under the CMI, China indicated its reservation about a proposal to create a short-term capital flows monitoring system (Interview with Kim). Although Chinese Premier urged rhetorically the earnest implementation of the CMI (MOFAPRC 2000), China remained basically cautious about the Japanese-led CMI. In effects, it did not enter into even negotiations for BSAs with ASEAN countries until Japan finished hard negotiations with ASEAN to produce the basic framework and concluded several BSAs with them. China preferred that the CMI function would be strengthened step by step, in
which it could bide its time and let its capacity build gradually to act as an equal partner with Japan in the process of regional financial cooperation. Chinese finance minister Xiang Huaicheng (2001) argued that “the East Asian countries must pursue regional cooperation in a gradual and orderly manner, taking into account their unique characteristics”.

Many ASEAN countries appeared to support more China’s position than Japan’s. ASEAN finance ministers agreed in April 2001 that “the terms and modalities of the BSA should take into account the different economic fundamentals, specific circumstances and financing needs of individual countries” (AFMM 2001). This agreement implied that each BSA could diverge from the basic framework on setting its terms and conditions (Bergsten and Park 2002). Although the ASEAN+3 agreed in general to “facilitate the exchange of consistent and timely data and information on capital flows” (AFMM+3 2000), many ASEAN countries were also less willing and able to do so in a short period of time.

In a situation where Japan had been competing with China for regional leadership, trying to winning the hearts of other members, it could not press for its own agenda of creating a multilateral agreement. Keen to the early implementation of the CMI, Japan instead decided to start with what it could manage. The Japanese government focused on finishing promptly the negotiations for the basic framework and facilitating the creation of the BSA network. With China and some other members having reservations about disclosing information on short-term capital flows, Japan agreed “to update capital flows situation in each member country and to exchange data on capital flows bilaterally among member countries on a voluntary basis” (AFMM+3 2001, emphasis by the author; Interview with Kim). To close a gap over the issue of the regional surveillance, Japan also led an agreement among members to set up a study group to explore ways of enhancing the effectiveness of “economic reviews and policy dialogues” (AFMM+3 2001). As a result, the nascent CMI started with a set of BSAs based on bilateral agreements rather than a multilateral agreement.

Japan’s efforts began to pay off. By May 2002, seven countries, namely Brunei, Indonesia, Japan, Korea, the Philippines, Thailand and Vietnam, agreed to bilateral exchange of short-term capital flows data. The study group, co-chaired by Japan and

---

30 Amyx (2004) suggests three reasons behind this: the intrusiveness and political sensitiveness of surveillance, additional administrative burden and ASEAN’s concern about Japan’s dominance in the framework. Asami (2001) suggests that some members felt that the disclosure of information on capital flows might affect their exchange rates.

31 Japan used the term ‘policy dialogues’ instead of the term of ‘surveillance’ that China and some other ASEAN countries disliked (Nishikawa 10 May 2001), which reflected Japan’s efforts to cater to the demands of other members.
Malaysia, institutionalised the ASEAN+3 Economic Review and Policy Dialogue (ERPD), of which the first meeting was held in April 2002. Although such deputies meetings have been criticised for little immediate outcome (Amyx 2004), they became a pivotal stage in which East Asian countries were increasingly recognising the importance of the multilateralisation of the CMI and the creation of an effective regional surveillance system. On top of these, the Japanese government encouraged the ADB under its auspice to develop country-specific prototypes of the Early Warning System and provide East Asian countries technical assistance for its implementation.

These Japanese efforts incited China’s competitive but positive responses. China held a high-level seminar on short-term capital flows in Beijing in October 2002. Chinese Premier Wen Jiabao proposed expanding the BSAs into a fully-fledged multilateral arrangement as a key building block of an AMF (Nation 2003). Following this, China chaired a working group to undertake further review of the CMI to explore ways of enhancing its effectiveness. In May 2005, China was the first to agree to double the scale of its currency swap.

Since then, Japan and China have increasingly engaged in intensive competition to take a greater leadership in determining the details of the CMIM. In particular, since deputy finance ministers’ Report of the Review of the Chiang Mai Initiative-Ways of Enhancing its Effectiveness, submitted to finance ministers in May 2005, stipulated that voting weights for collective decision of the CMIM would in principle reflect each countries commitment (see Park and Yang 2006: Appendix 3), the competition between Japan and China for the largest contributor was quite keen. The result is the golden section (see Table 4). Japan will be the single largest contributor by contributing 32% of the total to the CMIM, or US$38.4 billion of the US$120 billion. Although China’s contribution will be US$34.2 billion, it will be able to be the largest co-equal contributors by including Hong Kong that will contribute US$4.2 billion into the CMIM. As a result, neither Japan nor China will be able to have a veto power, which signals that Sino-Japanese efforts to win the hearts of other members will continue.

In sum, the stagial evolution of the CMI has been deeply influenced by the competitive coexistence between Japan and China. Their continuing rivalry for regional leadership rendered the CMI implement in a limited fashion. However, Japan’s efforts and China’s competitive reactions to assume a greater leadership role in the process of regional financial cooperation enabled the CMI to lift itself out of a limited regional financial arrangement towards a fully-fledged regional financial arrangement.
Table 4 Members Contribution/Borrowing Accessibility under the CMIM

<table>
<thead>
<tr>
<th>Country</th>
<th>Contribution (USD Billion)</th>
<th>Borrowing Multiplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>0.03</td>
<td>5</td>
</tr>
<tr>
<td>Cambodia</td>
<td>0.12</td>
<td>5</td>
</tr>
<tr>
<td>China</td>
<td>38.40</td>
<td></td>
</tr>
<tr>
<td>China (Exclude Hong Kong, China)</td>
<td>34.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>4.2</td>
<td>2.5</td>
</tr>
<tr>
<td>Indonesia</td>
<td>4.77</td>
<td>2.5</td>
</tr>
<tr>
<td>Japan</td>
<td>38.40</td>
<td>0.5</td>
</tr>
<tr>
<td>Korea</td>
<td>19.20</td>
<td>1</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>0.03</td>
<td>5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4.77</td>
<td>2.5</td>
</tr>
<tr>
<td>Myanmar</td>
<td>0.06</td>
<td>5</td>
</tr>
<tr>
<td>Philippines</td>
<td>3.68</td>
<td>2.5</td>
</tr>
<tr>
<td>Singapore</td>
<td>4.77</td>
<td>2.5</td>
</tr>
<tr>
<td>Thailand</td>
<td>4.77</td>
<td>2.5</td>
</tr>
<tr>
<td>Vietnam</td>
<td>1.00</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: AFMM+3 2009

* Hong Kong, China’s borrowing is limited to IMF de-linked portion because Hong Kong, China is not a member of the IMF.

** The contribution proportion between ASEAN and the Plus Three countries at 20:80

6. Conclusion

Since its inception in 1997, the CMI has been gradually developing. The gradual development of the CMI has been facilitated and underpinned by Sino-Japanese competitive coexistence as an emerging regional leadership structure in the post-crisis era. Japan and China, having competed for regional leadership, have coexisted to take the lead of the process of the CMI. Their efforts to make their claims to regional leadership acceptable to other East Asian countries have been binding them to the process of the CMI. The continuing rivalry between two countries with divergent views on regionalism and the global financial order has determined the nature and characteristics of the CMI. Sino-Japanese competitive coexistence has facilitated the evolution of the CMI as a more effective regional financial arrangement to provide prudential regulation and governance at a regional level, but at the same time, it has reinforced the connection between it and international financial governance institutions such as the IMF, designating the former as supplementary to rather than independent of the latter. The development up to date indicates that the CMI is helping maximising the benefit of
globalisation while minimising its disruptive effects. In other words, the CMI is functioning both as a facilitator of integration into the global economy and as a counter-governance layer in the global political economy.
References


AFP (Agence France-Presse) (2000c) *East Asia agrees to expand currency swap accords*, 6 May.


Financial Times (1997) Appreciating Mr Yen. 31 October.


MOFAJ (Ministry of Foreign Affair, Japan) (1998) A New Initiative to Overcome the Asian


Nation (2000) Asian leaders join to protect region’s finances. 7 May.


