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Who defines the rules of the game in East Asia? The Trans-Pacific Partnership and the strategic use of international institutions

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Abstract

A growing sense among academics and policymakers alike is that the dominant issues of the twenty-first century will be decided in Asia-Pacific. But, the open question is how will these issues be decided: Who defines the rules of the game in the region and how? To address these questions, this paper studies the regulatory competition that is unfolding in the region. In particular, it examines the Trans-Pacific Partnership (TPP), with its potential to redraw the political-economic geography in Asia. Why is such a significantly path-breaking institution possible? This paper builds on the scholarship of international political economy and especially the literature on international institutions. It argues that this potential of the TPP crucially depends on the institutional environment in East Asia. A state of institutional anarchy enables the TPP to take hold in Asia. Important policy implications follow regarding the strategic use of international institutions.

1 Introduction

With the Doha round of the WTO negotiations stalled, new trade rules are being made increasingly in what I call 'buddy networks.'[1] In November 2011, the Trans-Pacific Partnership (TPP) was launched to achieve a high-quality trade agreement among select countries in the Trans-Pacific region.[2] In February 2013, the United States and the European Union announced talks on a Transatlantic Trade and Investment Partnership (TTIP). In addition to such comprehensive trade talks among select countries, negotiations are ongoing to achieve new trade agreements on targeted sectors. For instance, the United States is working with a select group of countries, the so-called Really Good Friends of Services,[3] to negotiate a new International Services Agreement to strengthen rules about market access. As the Deputy U.S. Trade Representative Michael Punke put it, '[b]y moving to a multiparty agreement that reaches across geographic regions, we would create a stepping stone from the web of bilateral and regional deals back toward the multilateral trading system. By establishing high standards for market access, we can influence the norms of international practice. By developing new provisions, we can provide leadership to the global trading system.'[4]

Regardless of whether the efforts in these selective networks will lead countries back to the WTO negotiations, one thing seems clear: New standards will be negotiated in smaller 'buddy networks' but they will not only bind members within these networks but also impact, directly or indirectly, those countries outside of the networks. Understandably, those who can join will want to join the networks to shape the rewriting of the rules, as Japan is joining the TPP; those who cannot join will inevitably feel apprehensive, as China does. As one of the fastest growing powers in the world, China worries about containment from the West led by the United States. Obama's pivot toward Asia in general has generated a great deal of

1 Members of such networks are not necessarily good friends. But, they may share a greater degree of affinity or familiarity.

2 As of August 2013, the TPP member countries include Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam.

3 As of September 2012, this group includes the United States, Canada, the European Union, Norway, Switzerland, Australia, New Zealand, Hong Kong, South Korea, Japan, Singapore, Taiwan, Mexico, Chile, Colombia, Peru, Costa Rica, Israel, Pakistan, and Turkey.

4 United States Trade Representative, http://www.ustr.gov/about-us/press-office/speeches/transcripts/2012/september/remarks-deputy-us-trade-representative-mic.

concern in China. The US-backed TPP, in particular, has caused quite a bit of unease in China but also in some other East Asian countries. One important concern is that the TPP may undermine East Asian regional integration.

Does the TPP present a challenge to East Asian regionalism? What implications does it have for East Asian regional institutional building? With the growing attention to the TPP, these questions are hotly debated. Opinions diverge and this divergence is, for example, reflected in a recent expert panel featured by the Carnegie Endowment.[5] In general, some scholars highlight the positive impact of the TPP for broad trade liberalization. Others, however, stress the elements of the TPP that seem to aim at restraining, if not containing, China.

I argue that the key challenge of the TPP is not so much that it might derail East Asian regional integration. Economic integration in the region will continue, and it might even accelerate, with some countries along the path of the TPP and others adopting an alternative forum. The real challenge of the TPP and, indeed, what seems threatening about the TPP to some East Asian countries is its potential to put irresistibly in motion an alternative path to regional institutional building that stresses a different construction of a region and a greater level of institutional constraints on its members than what East Asian countries have been contemplating over the past decade.

The TPP as an international institution is significant in a number of ways. First, in terms of form, it is a multilateral package deal, covering a wider range of issues to a greater extent than many bilateral free trade agreements in Asia-Pacific. Second, in terms of content, it goes beyond traditional trade topics and deals with some tough issues including intellectual property rights and state-owned enterprises, which have proved difficult to tackle in bilateral agreements. Third, in terms of institutional constraints, it attempts a binding governance system through, among other things, its dispute settlement provisions. Fourth and most significantly, the TPP does not color within the lines of a preconceived region or simply combine previous disjoint regions. Rather, it refines a new region for international trade cooperation and beyond, with selective membership not necessarily determined by geographical locations.

5 The Carnegie Endowment, http://carnegieendowment.org/2013/06/18/tpp-vs-rcep-southeast-asia-s-trade-dilemma/g9rt.

How does such a significant institution – again, not so much in terms of its eventual economic impact, but rather in terms of its potential to rewrite who gets to play in the game by what rules – come to take hold in the region? What makes the alternative path of regional institutional building represented by the TPP so irresistible? If East Asian countries dislike or feel ambivalent about the TPP, why are more countries getting on the bandwagon of the TPP? In broader theoretical terms, what enables the go-it-alone power of international institutions like the TPP? To the extent that the earlier scholarship addresses this question at all, it tends to focus on the capabilities of the initial founders. The earlier scholarship has not explicitly examined the facilitating or inhibiting effect of the strategic environment, especially the institutional landscape in which the countries find themselves. I argue that the go-it-alone power of a significantly path-breaking trade agreement crucially depends on preexisting institutions. One of the reasons that the TPP is able to redraw the political-economic geography is that a cohesive East Asian region, though attempted, never came to exist. While scholars often stress the impressive progress in East Asian regional institutional building over the past 15 years, a cohesive intraregional institution remains elusive. Instead, the many summits and institutional initiatives resemble more of an institutional anarchy than a cohesive order. Such a vacuum of institutional order, in part, facilitates the go-it-alone power of the TPP and, in fact, enables the TPP to assume a prominent place in East Asian economic order.

This paper builds on and further contributes to the scholarship on international institutions and East Asian regionalism. Theoretically, I join earlier scholars to address why international institutions emerge (e.g. Keohane, 1984; Downs *et al.*, 1998) and particularly why redistributive institutions can sometimes go it alone despite the ambivalence of some participants (e.g. Gruber, 2000; Ikenberry, 2001). I go beyond the earlier scholarship to analyze the structural conditions for the emergence of such institutions. I highlight one such condition as the preexisting institutional landscape that countries find themselves. Empirically, I build on the extensive literature on East Asian Regionalism and especially the literature on its institutional dimension. I show that, despite increasing economic regionalization that has generated pressure for regional institutional building, East Asian regionalism remains fragmented and thus does not provide the institutional glue or constraint that prevents a significant path-breaking alternative like the TPP. Furthermore, in contrast to earlier scholarship that suggests greater regionalism in financial policy than trade policy, I show that regional institutional building is similarly fragmented in financial policy coordination as in trade policy coordination.

The article unfolds as follows. In Section 2, I develop my theoretical argument about the formation of international economic institutions and, most importantly, its conditions. I address how redistributive institutions emerge and how the formation of significantly path-breaking institutions depends on prior institutional arrangements. In Section 3, I examine empirically the preexisting institutional environment in Asia, especially involving major regional powers in North East Asia. I assess to what extent such an environment inhibits or, in fact, possibly facilitates the formation of the TPP. I demonstrate a lack of cohesion in this institutional environment, which in effect enabled the TPP. In Section 4, I conclude by suggesting that the TPP poses a significant challenge to East Asian Regionalism, because it fills the institutional vacuum and thereby has the potential to rewrite the rules of the game for East Asia. I further discuss implications for the strategic use of international institutions.

2 Analytical concepts and theoretical argument

Before I develop my theoretical argument, I should be clear with a few key concepts. First, as a central concept in International Relations, international institutions refer to international agreements and treaty organizations facilitating the implementation of these agreements. They include not only rules and arrangements that countries have agreed upon but also their formal embodiment such as bureaucratic structure and staff at treaty organizations. Second, in the literature on international institutions, regionalism is one type of international institutions. The key element of regionalism is policy coordination among countries in a region, defined based on geographic proximity or on the relations between economic flows and policy choices (Mansfield and Milner, 1999). To the extent that such policy adjustments are codified in and further facilitated by institutional device, regionalism is simply the process of regional institutional building. It involves policy coordination through regional institutions (Mansfield and Solingen, 2000), which include both intergovernmental agreements and intergovernmental organizations. Third, regionalism is different from regionalization (Fishlow and Haggard, 1992). While regionalization is typically viewed as the regional concentration of economic flows, regionalism is a political and, mostly, intergovernmental process of economic cooperation. Fourth and finally, by rules of the game, I refer to the implicit understandings that countries share and the explicit agreements that they make. International institutions, and regionalism as a variant of international institutions, shape general understandings and specific agreements among countries and thus guide their interactions. Indeed, international institutions can be viewed as rules of the game. Countries negotiate and often fight over these rules that determine who gets to play the game by what rules.

The theoretical argument that I develop below concerns the formation of international institutions. Why do significantly path-breaking international institutions emerge? Why do countries join those redistributive institutions that they may dislike or feel ambivalent about? As we know from the scholarship of international political economy, international institutions often have redistributive elements (Ikenberry, 2001). For example, trade agreements may often have negative externalities for non-members. Furthermore, some trade agreements may even have adverse effects on some of the members. Why do such agreements form and spread? The diffusion literature addresses the first type of distributive concerns (e.g. Simmons and Elkins, 2004; Solis *et al.*, 2009; Solingen, 2012). Indeed, one reason bilateral trade agreements diffuse is that the negative externality of one agreement within a pair of countries may lead other countries to fend off such externality by forming their own FTAs. In this paper, I focus on the second type, where an institution has distributive implications for its own members.

Trade rules, like those embedded in the North American Free Trade Agreement (NAFTA), may benefit some countries more than others in relative terms and may, in fact, benefit some countries and hurt others in absolute terms. Such redistributive rules are difficult to write among sovereign states, which will resist rules that may harm themselves in either relative or absolute terms. One way to circumvent the problem created by the combination of sovereignty and unanimity is staggered institutional design, whereby rules are hammered out among a group of countries such as ‘Really Good Friends’ and are later presented to potential new members for them to either take it or leave it. When potential new and possibly unenthusiastic members cannot afford leaving it, the rules of the game made by a small number of countries will succeed in binding more countries including those that did not participate in the initial rule-making. In the case of the TPP, for instance, had China already been involved in the negotiations from the start, China would not easily accept the limits that the TPP puts on state-owned enterprises. This and other areas of trade frictions would then be harder to resolve if China had participated in the early stages of negotiations. Thus, the potential agreement with a large number of participants including very reluctant ones is likely an agreement of shallow, rather than deep, cooperation (Downs *et al.*, 1998). According to George Downs and his colleagues, international institutions that start with a smaller number of more committed members are likely to be more ambitious featuring deeper cooperation. Continuing with the example of China, once the TPP is concluded by the initially committed countries, China may nevertheless find itself better off joining the TPP even if it entails tough terms limiting the advantages of state-owned enterprises. This is, in fact, one way to arm-twist countries in international institutional building.

A key question is why would those initially left out of the rule-making framework later want to join? Why may those countries that did not participate in the rule-making eventually embrace the rules they do not favor? There are two scenarios. One scenario is along the lines of the argument by Downs *et al.* (1998). So long as the international institution, say a free trade agreement, provides net benefit to its members, a country would prefer joining it. This country may gain less from a trade deal that it did not get to influence, compared to other countries that got to shape the trade deal. But, this country still gains in absolute terms, by joining in the deal compared to being completely left out. Another scenario is articulated by Lloyd Gruber (2000). Sometimes, a country may simply prefer no trade deal is made, especially when the potential deal entails so much asymmetrical impact on less competitive countries that the latter stand to lose in absolute terms. Gruber argues that even in such cases where a country stands to lose from a trade deal, this country may nevertheless have no other option but to join the trade deal. The reason is that powerful countries can effectively 'go it alone' to establish an institution that benefits some and hurts others, giving no regards to those who would have preferred the status quo without the new institution. Those who are hurt cannot undo the institution. Instead, they can only choose between two options: join an undesirable deal or be left out of the deal entirely. While the former option may be worse compared to the previous status quo without the new institution, once a trade deal is irresistibly in motion, staying out of it may be even worse than joining it. In other words, the powerful countries can effectively remove the prior status quo of no trade deal for everyone. According to Lloyd Gruber, that is in part why Mexico joined the NAFTA even though Mexico arguably would have preferred a world without the NAFTA to a world with. Although these two scenarios, as articulated by Downs *et al.* (1998) and Gruber (2000), are analytically distinct, their practical implications are similar: Once a trade agreement is made, both types of countries that did not get to shape the terms of the agreement will nevertheless want to join: those who expect to gain but gain less than the initial negotiators of the trade deal as well as those who expect to lose but lose less than staying outside the free trade zone. Both types will have the same incentive to join the agreement.

While earlier scholars have given much attention to the mechanisms by which international institutions, even with negative effects to some countries, may nevertheless spread, one important question remains. What determines the success in establishing such a path-breaking agreement? That is, what are the conditions for this mechanism to work? To the extent that the earlier scholarship addresses this question at all, it tends to focus on the capabilities of the initial founders of the trade agreement. The earlier scholarship has not examined the facilitating or inhibiting effect of the strategic environment, especially the institutional landscape in which the countries find themselves. This paper fills that gap. I argue that the successful formation of a new trade agreement depends on a lot more factors than the powerful countries that put the institution on the agenda. Indeed, whether a path-breaking institution takes hold or not also depends on pre-existing institutions. Where intraregional institution is firmly in place with a high level of legalization, it is more difficult for new institution to emerge that rewrites the political geography of the region. To the contrary, in a region where no intraregional institution binds all regional powers, it is easier to imagine new institutions that attempt to reshape political and economic geography and rewrite regional governance structure.

Thus, to assess the potential of the TPP to redefine the regional economic order, we must not only analyze the negotiations among current members of the TPP as many scholars have done. We must also better understand the existing institutional landscape in the region that may inhibit or facilitate the formation of a significantly different institution. That is what I do below in the following section. I argue that, while regionalism in East Asia has developed somewhat after the Asian Financial Crisis, there is not much institutional cohesion among the major powers in the region. Such a state of institutional anarchy facilitates the go-it-alone power of the TPP in rewriting the rules of the game in East Asia. By detailing empirically the institutional environment in East Asia, I demonstrate a lack of cohesion in institutional building not only in the area of trade but also in the area of financial policy.

3 Empirical analysis of the institutional landscape in East Asia

This section assesses the institutional environment as an important condition for the TPP to take hold in Asia. Over the past few decades, there has been a consistent surge in regionalism throughout the world. In East Asia, especially over the past 15 years, efforts multiplied to promote regionalism. Yet, institutional building remains surprisingly limited against the backdrop of the amazing economic activities in the region.

First, compared to regions with comparable economic productivity, regionalism in East Asia stands out in that no intraregional institution exists that effectively binds regional powers together. In terms of economic productivity, the region has surpassed Europe and North America, as shown in Fig. 1. Yet, in contrast to the European Union and the NAFTA, formal intergovernmental institutions involving East Asian countries and particularly the most powerful three Northeast Asian countries remain

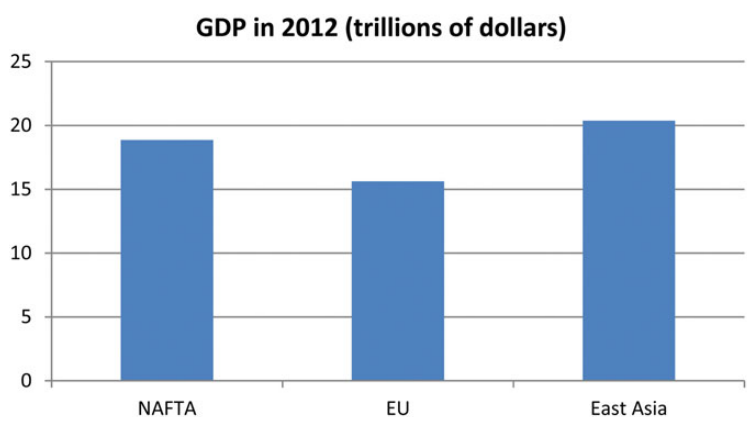

Figure 1 Comparison of East Asia to regions with similar level of economic productivity. *Source*: CIA World Fact Book https://www.cia.gov/library/publications/the-world-factbook/. ASEAN www.asean.org. *Note*: East Asian countries include ASEAN member states plus China, Japan, and South Korea.

limited (Friedberg, 2000; Pempel, 2003; Rozman, 2004; Katzenstein and Shiraishi, 2006).

Second, in contrast to the impressive regionalization of economic activities, East Asian regionalism is perplexingly under-developed. Indeed, regionalization has intensified in several areas such as corporate production networks and foreign investment flows. Perhaps most importantly, along with the economic boom in the major countries, particularly China but also South Korea, intraregional commerce has been growing consistently over the past two decades. As shown in Fig. 2, from 1990 to 2011, the intraregional trade share, the percentage of intraregional trade to total trade of the region, rose significantly: from ~30% to ~40% in East Asia, and from 47% to 59% in all of Asia. Such enormous increase of intraregional economic activities should provide the basis for greater regionalism. In fact, the rising interdependence in East Asia has put much pressure on the governments in this region to shrink or close the institutional gap. Yet, regionalization has not yielded as much progress on regional institutional building as one would expect. Indeed, compared to the regionalization of commercial activities of transnational firms and investors, regionalism in terms of regional institutional building is substantially under-developed.

Below, I examine in detail recent efforts in regional institutional building in East Asia. I assess the nature of such efforts. I show that regional institutional building is fragmented and lacking cohesion, not only in the

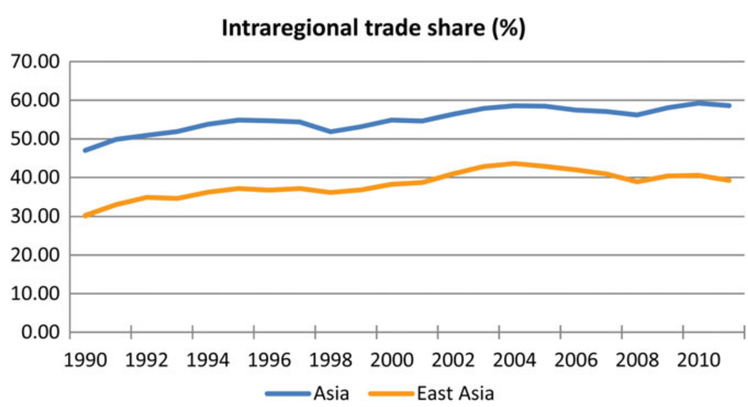

Figure 2 Intraregional trade share in Asia and East Asia in particular. *Source*: Calculated from IMF Directions of Trade Statistics; Asian Development Bank, Asia Regional Integration Center http://aric.adb.org/indicator.php. *Note*: Asia is an aggregate of Central Asia, East Asia, Oceania, South Asia, Southeast Asia, and the Pacific.

area of trade policy but also, in contrast to many other analyses, in the area of financial policy.

3.1 Trade policy institutions

Globally there has been an increasing use of regional trade agreements (RTAs), which are reciprocal trade agreements between two or more partners. The surge in these agreements has continued particularly since the early 1990s. In the period 1948–1994, the GATT received 123 notifications of RTAs. Since the creation of the WTO in 1995, however, over 300 preferential trading arrangements covering trade in goods or services have already been notified.

Against this backdrop of the global rush to RTAs, East Asian countries were initially latecomers and then sped up their formal institutional links to coordinate trade relations. In 2002, for instance, only 5 of the 30 leading economies in the world were not members of any free trade agreements and they were all in East Asia: Japan, China, South Korea, Taiwan and Hong Kong (Pempel and Urata, 2006). Subsequently, however, East Asian countries have been staging a free trade offensive (Aggarwal and Koo, 2005). As Table 1 shows, major East Asian countries have been busy concluding trade agreements, over the past 10 years. Since China entered the WTO in 2001, China entered into a number of trade agreements and it is the process of negotiating more such agreements. Similarly, Japan started embracing free trade agreements beginning in the 2000s. It has so far concluded 13 such agreements.

Yet, what do such bustling activities to sign trade agreements really mean for regional institutional building? First of all, note that most trade policy coordination in East Asia takes the form of bilateral, rather than regional multilateral agreements. As shown in Table 1, while some of these bilateral trade agreements are intraregional, others are inter-regional in nature between a country in East Asia and a country outside of the region. For instance, South Korea not only led the way of forging free trade agreements but also established some of these agreements with large economies outside of Asia, particularly the European Union and the United States.

Second, and more importantly, bilateral trade agreements in East Asia do not seem to contribute to regional institutional building. One may think that the multiple bilateral trade agreements essentially approximate a free zone in the region. But, there is no trade agreement encompassing

Table 1 Free Trade Agreement partners of China, Japan, and South Korea, since 2002, as of August 2014

	China	Japan	South Korea
Concluded	Hong Kong, China Macao, China ASEAN Chile Pakistan New Zealand Singapore Peru Costa Rica Iceland Switzerland	Singapore Mexico Malaysia Chile Thailand ASEAN Brunei Darussalam Indonesia Philippines Switzerland Vietnam India Peru	Chile Singapore European Free Trade Assoc ASEAN India European Union Peru The United States Turkey Colombia
Under negotiation	Gulf Coop. Council Australia Norway Korea Japan and South Korea	South Korea Australia Gulf Coop. Council Canada Mongolia Colombia EU	Canada Mexico Gulf Coop. Council Australia New Zealand China Vietnam Indonesia Japan China and Japan

Source: Official lists from the three countries: http://fta.mofcom.gov.cn/english/index.shtml, http://www.mofa.go.jp/policy/economy/fta/, http://www.mofa.go.kr/ENG/policy/fta/status/overview/index.jsp?menu=m_20_80_10 (Accessed 25 August 2014). *Note*: Although the Chinese official list of FTAs does not include the FTA with Taiwan, the two parties did conclude a free trade agreement in 2010.

ASEAN members and plus three – China, Japan, and South Korea. Even though all these countries are covered in three bilateral treaties – ASEAN–China (2005), ASEAN–Japan (2008), and ASEAN–South Korea (2009) – the effort to build one regional trade institution has been conspicuously stagnant. Variously termed 'lattice regionalism (Dent, 2003),' 'open regionalism (Jayasuriya, 2003),' or 'fragmented regionalism (Katada and Solis, 2008)' among other similar terms, a multitude of bilateral agreements does not seem to contribute to regional institutional order. Furthermore, without the regional order, the economic impact of bilateral agreements is likely limited (Ravenhill, 2008), because countries tend to forum-shop among multiple applicable agreements to minimize the stringency of trade rules (Ravenhill, 2003) and maximize national autonomy (Pekkanen *et al.*, 2007). Although a formalized regional institution can enhance efficiency and help lock in domestic reforms to enable greater integration of national economies into the regional (and global) economic order, a multitude of often-overlapping trade agreements have created a confusing 'noodle bowl'. That leaves, essentially, a vacuum for an overarching trade institution.

Thus, East Asian regionalism is limited despite the apparent bustling rush to the FTAs. This limitation may have something to do with the competition among major Northeast Asian countries (Solis, 2009), or the balance of power pursuit often seen in *ad hoc* and pragmatic institutional building resembling institutional Darwinism (Pempel, 2010). What remains puzzling though is, given that almost all international cooperation problems involve distributional issues and most regional institutional building contains an element of competition, why does competition derail East Asian regionalism in particular? I argue this has to do with the fact that there has never been much political will among China, Japan, and South Korea to credibly bind them to regionalism. To some Chinese scholars, it was not clear whether the Chinese government really desired a tighter East Asian economic bloc (Wang, 2004). With the territorial disputes among China, Japan, and South Korea further cooling their relations, regional cohesion in East Asia was fast evaporating, in fact quite independent of the US push for the TPP.

3.2 Financial policy institutions

If regionalism is limited in the area of trade, is it better developed in other areas? According to many scholars, East Asian regionalism is more advanced in the area of financial policy coordination.[6] I show, however, East Asian intraregional institutional building is similarly limited in financial policy as in trade policy. Even the most significant component of East Asian regionalism, the Chiang Mai Initiative Multilateralization (CMIM) in the framework of ASEAN+3, does not effectively bind regional powers. After a brief overview of the CMIM, I highlight its fundamental limitations that have been neglected in the literature.

As in the area of trade, East Asian countries are latecomers in regional financial coordination. Before 1997, there was virtually no regional financial policy coordination. The only foreign exchange swap network was

6 For notable exceptions, for example, see Cohen (2008).

maintained by ASEAN, and it involved insignificant amounts (Amyx, 2008). Although there were various forums for finance ministers to meet and talk, one could not sense any tangible regional projects. To a varying extent, the Asian financial crisis in 1997–8 and the global financial crisis in 2008–9 provided a catalyst for regional institutional building.

Experiencing the shock of the Asian financial crisis in 1997–8, countries in the region clearly felt their vulnerability (Webber, 2001; Stubbs, 2002; Katada, 2011). The need for regional institution building was clearer than ever. China, Japan, South Korea, and ASEAN members participated in the ASEAN+3. In this framework, a regional emergency funding mechanism – the Chiang Mai Initiative (CMI) – was created in 2000. However, this mechanism did not establish a pool of currency that member states can borrow from in the event of a financial crisis, as the International Monetary Fund does or the aborted Asian Monetary Fund would have done. Instead, this mechanism established a network in which member countries can swap US dollars with their domestic currencies bilaterally, address short-term liquidity difficulties, and supplement existing international financial arrangements in the event of a financial crisis. Since the establishment of the CMI, East Asian countries continued to expand the size of bilateral swap agreements. In 2004–5, the ASEAN+3 launched the second stage of the CMI and doubled the size of the bilateral swaps to about US$83 billion. The CMI also included broader objectives aimed at financial cooperation, involving policy dialog, monitoring of capital flows, and reform of international financial institutions (Henning, 2009).

The global financial crisis in 2008–9 offered renewed, if limited, urgency to regional financial cooperation. Member states of the CMI and particularly Japan and China sped up their effort to move the CMI to the CMIM in 2009. The CMIM embodies a greater degree of commitment from member states at a higher level of institutionalization. While the CMI is a network of bilateral swap arrangements among the 'plus three' (China, Japan, and South Korea) and 'ASEAN-5' (Indonesia, Malaysia, Philippines, Singapore, and Thailand), the CMIM allows for 'one stop shopping' for needed funds, with a single contractual agreement (Pempel, 2010). In May 2012, recognizing the persistent downside risks to the region's economic performance, ASEAN+3 member states doubled the pool of foreign reserves to $240 billion.

The CMIM has been by far the most significant example of regional institutional building in East Asia. While ASEAN has gradually moved toward a more legalized approach (Kahler, 2000), the CMIM is the most legalized instrument that involves the three regional powers in Northeast Asia. In two important ways, the CMIM seems to reflect a higher level of institutionalization or greater degree of legalization (Goldstein *et al.*, 2000). Compared to the bilateral swap arrangements, the CMIM represents a greater level of obligation as countries pledge a greater monetary commitment, under a multilateral rather than bilateral contractual agreement. Furthermore, again compared to the bilateral swap arrangements, the CMIM represents a greater degree of delegation as an independent regional surveillance mechanism was established to monitor macroeconomic policies in the region.

While the multilateralization aspect of the CMIM is significant, the question remains just how much the major powers in East Asia are willing to bind themselves into regional economic order. For the following three reasons, I argue that East Asian regionalism is similarly limited in financial policy coordination as in trade policy coordination.

First, despite the recognition of the need for regional institutional building, major powers in Northeast Asia seem reluctant to compromise national policy autonomy for regional cohesion. Establishing a surveillance component in the CMI and then the CMIM is important. However, making it effective is quite another matter. That requires the commitment, especially from powerful countries in the region, to make their financial policies more transparent.

There have been few tests for the surveillance capacity at the CMI and later the CMIM. In the limited number of cases where the system was tested, one cannot say that the monitoring and enforcement functions of the regional institutions really passed the test. The regional surveillance mechanism of the CMI, the Economic Review and Policy Dialogue, was hoped to provide information to help detect warning signs of financial difficulties. But, it failed to detect the liquidity difficulties in key countries in the region. South Korea and Singapore, when faced with severe liquidity crisis in 2008, did not resort to the CMI. The South Korean government went instead to the US Federal Reserve (Grimes, 2009). This revealed the lack of surveillance in the CMI and thus called into question the credibility of the CMI.

Responding to the need to enhance monitoring and surveillance, an independent regional surveillance unit – ASEAN+3 Macroeconomic Research Office (AMRO) – was established in Singapore in April 2011. The AMRO seeks to monitor and analyze regional economies and contributes

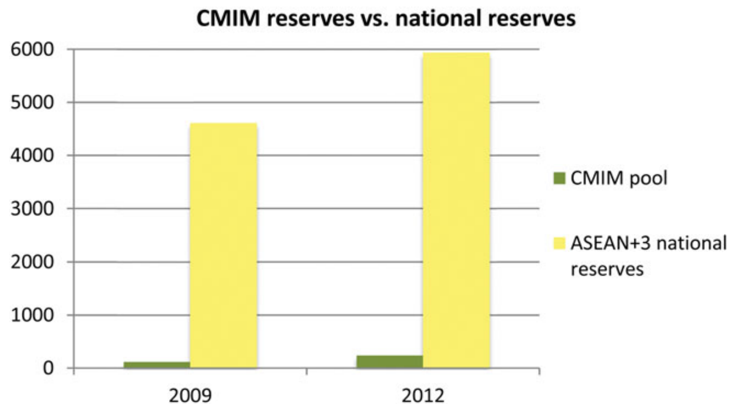

Figure 3 CMIM Pool of foreign reserves as compared to national reserves of ASEAN+3 member states, 2009 and 2012. *Sources*: The World Bank, Total reserves (includes gold, current US$) http://data.worldbank.org/indicator/FI.RES.TOTL.CD; ASEAN+3 Macroeconomic Research Office http://www.amro-asia.org.

to (i) early detection of risks, (ii) policy recommendations for remedial actions, and (iii) effective decision-making of the CMIM.[7] In May 2012, ASEAN+3 reaffirmed the AMRO's role as an independent regional surveillance unit and emphasized effective monitoring and analysis of regional economies. Although the AMRO has started submitting periodical regional and country economic reports and conducting country consultations with some member countries, monitoring and enforcement remain largely informal. So far, there are no clear signs that the AMRO will be as effective in regional surveillance as the IMF is regarding global surveillance. One may wonder, furthermore, now that China has the G-20 as a platform to ensure its representation and voice, whether China will neglect the CMIM.

Second, even though the pool of dollar reserve established by the CMIM looks large, it is meager compared to the national reserves of major economies. That is, while East Asian countries have taken up regional group insurance against potential liquidation crises, their regional solutions may be more symbolic than substantive. Figure 3 shows the total amount of foreign reserves that CMIM pledges to make available to member states of ASEAN+3 as contrasted to the total national reserves of ASEAN+3 member states, in 2009 when the CMIM was established and again in 2012 when the CMIM pool of reserves doubled. The total amount of reserves at the CMIM, seemingly large in isolation, dwarfs

7 ASEAN+3 Macroeconomic Research Office (AMRO), http://www.amro-asia.org.

Table 2 Currency swap agreements between China and other countries, as of March 2013

Date of agreement	Partners		Chinese Yuan (billions)
8 February 2009	Malaysia	Replaced	80
11 March 2009	Belarus		20
23 March 2009	Indonesia		100
2 April 2009	Argentina		70
20 April 2009	South Korea	Replaced	180
9 June 2010	Iceland		3.5
23 July 2010	Singapore	Replaced	150
18 April 2011	New Zealand		25
19 April 2011	Uzbekistan		0.7
6 May 2011	Mongolia	Replaced	5
11 June 2011	Kazakhstan		7
26 October 2011	South Korea	New	360
22 December 2011	Thailand		70
23 December 2011	Pakistan		10
17 January 2012	United Arab Emirates		35
8 February 2012	Malaysia	New	180
22 February 2012	Turkey		10
8 March 2012	Singapore	New	300
21 March 2012	Mongolia	New	10
22 March 2012	Australia		200
23 June 2012	Brazil		190
26 June 2012	Ukraine		15

when it is compared with the self-insurance through national reserves of ASEAN+3 member states.

Naturally, countries take multiple routes to guard against currency crises. The fact that the CMIM reserve is overshadowed by national reserves does not necessarily mean that countries do not have much confidence in regional institutions or that they have limited commitment to regional solutions. But, it does raise the issue of how much priority regional powers give, and should give, to the regional solutions.

Third, and perhaps most importantly, the cohesion of the CMIM is further cast in doubt by the growing number of bilateral currency swap agreements between major countries in East Asia and select countries in or outside of the region. Table 2 contains bilateral swap agreements that

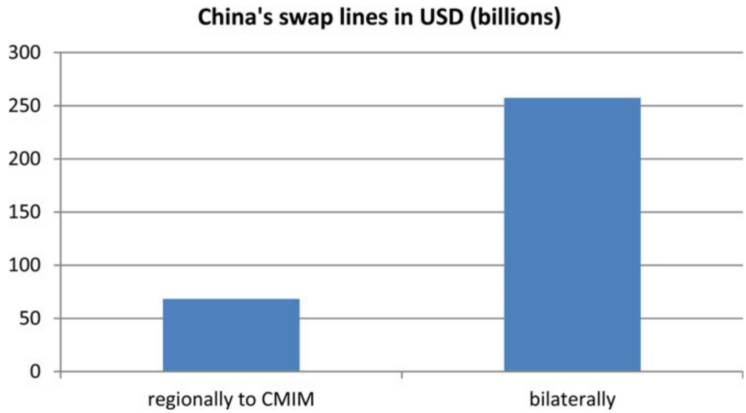

Figure 4 China's currency swap agreements, regionally to CMIM and bilaterally with countries in or outside of East Asia, measured in billions of USD, as of March 2013.

China has, as of March 2013. China has since 2009 signed bilateral currency swap agreements with 18 countries. These agreements allow for the exchange of local currencies between the People's Bank of China and the central banks in the partner countries. In addition to enabling and enhancing bilateral currency swaps, these agreements also reflect the shift to make RMB-denominated investments. These swap lines are typically for a duration of three years. China has renewed its swap agreements with four countries. In each case, the swap amount was doubled.

As of March 2013, China has swap agreements with 18 countries totaling 1.6 trillion Yuan, or about $257.3 billion. When one charts the total of China's bilateral swap commitments and that of China's regional commitment to the CMIM, as in Fig. 4, the contrast stands out: The former exceeds the latter by nearly $200 billion. One should think regional institutional building is vital to China's interests even as it is increasingly engaged on the world stage. On the other hand, one cannot help but wondering whether China may be too big to be East Asian bound. While the CMIM perhaps represents the greatest commitment China displayed toward financial policy coordination in the region, China's effort in this area is certainly not extraordinary compared to its effort of financial policy coordination with countries outside of the region.

Some of China's swap partners are in East Asia, and they include South Korea, Indonesia, Malaysia, and Singapore. While additional bilateral swap arrangements by some members of the CMIM with the largest regional power increase these members' individual security, they cast doubts on the robustness of the collective arrangement in the CMIM. Furthermore, most of China's swap partners are actually outside of East Asia. In fact, China is in negotiations with other major countries outside of the region, for example, Russia, the UK, and France.

All these bilateral endeavors remind us of the fragmented pattern in trade policy coordination in the region. Indeed, China is not the only country in the region to pursue bilateral currency swap arrangements with countries outside of the region. Japan, South Korea, and Singapore had bilateral swap arrangements with the United States from 2007 to 2010. The initial currency swap agreement between Japan and the United States alone was $120 billion. Japan also has bilateral swap agreements with countries within and outside of East Asia that are independent of the framework of the CMIM. Thus, despite of the multilateralization of currency reserves through the CMIM, East Asian cohesion is not greater in financial policy coordination than it is with trade policy coordination as most analysts have claimed.

In this section, I have highlighted the fragmentation and a lack of cohesion in regional institutional building in Asia, especially involving the three Northeast Asian powers. While there seems to be a dense web of often-overlapping institutional arrangements, many of these merely provide a forum for intergovernmental negotiations. These institutions often do not supply binding rules nor delegate authority to regional bodies. These regional institutions do not restrain countries in the region from forging path-breaking new institutions that have significant implications for other countries in the region. Such an institutional environment makes it easier for new institutions like the TPP to redefine the political and economic geography in the region.

4 Conclusion: the lesson from the TPP on the strategic use of international institutions

To understand the important implications of the TPP for East Asian regional institutional building, we need to analyze the ability of the TPP to draw in some countries at the displeasure of other in Asia. This ability of the TPP obviously depends on the ongoing negotiations and whether the current members can resolve a large number of sensitive issues. Without denying the relevance of these and other important factors, this article highlights an equally, if not more, important factor that has been neglected in the earlier scholarship. I argue the ability of the TPP to rewrite the rules of the game for East Asia also crucially depends on the existing institutional environment. The fact that no intraregional institution effectively binds the East Asian countries especially the three Northeast Asian powers together crucially enables the go-it-alone power of the TPP.

This argument has both theoretical and empirical implications that future work can build on and further develop. Theoretically, I have focused more on the structural environment where countries interact. I don't mean that structure is more important than agency. Rather, my focus on the structure serves as a corrective to the earlier scholarship that focused exclusively on agency. Indeed, in a general theory of institutional formation, future work should explicitly model the strategic interaction among countries as conditioned by different configurations of the institutional environment. Empirically, I have focused on one example of a significantly path-breaking institution, the TPP. Future work should examine a broader set of new institutions in different structural environments, where the new institutions vary in how significant they are in altering the status quo and the preexisting institutional environments vary in how constraining they are. For a concrete example, future work can engage in controlled comparisons of the TPP and the TTIP: Whereas the TPP significantly redefines the political and economic geography amidst a fragmented institutional environment, the TTIP merely brings closer the United States and the EU as a whole amidst a much more cohesive and thereby constraining institutional environment in Europe. By subjecting the theoretical argument in this paper to a broader set of empirical realities, we can better refine the theory and its broader implications.

Although much future work remains, the argument developed in this article does have some important policy implications. As we know, the 19th round of TPP negotiations took place in Brunei in late August 2013, aiming to chart a course for the expeditious conclusion of a TPP agreement. Obviously, numerous difficult issues remain and many proposals are contested. But, with Japan became an official party of the TPP, the benefits of a larger free trade zone is getting more tempting for potential new members. More importantly, the effect of the TPP in shaping the regional economic order seems to be potentially more potent.

First of all, the agreement being negotiated in the TPP is far reaching. It not only updates traditional issues covered by previous trade agreements, it also includes new and emerging trade and investment issues, including cross-border services, customs, E-commerce, financial services, the environment, government procurement, intellectual property, investment, labor, telecommunication, technical barriers to trade, as well as legal issues including dispute resolution.[8]

Second, with growing economic activities in East Asia, the need to regulate many of these issues has been growing (Kawai and Wignaraja, 2013). In the vacuum of an intraregional economic regime, East Asian countries will likely be looking toward the TPP for rules of the game to help coordinate economic policies, not necessarily because they like these rules but rather because these rules bind their trading partners if not directly binding them. This will generate greater pressure for those who are currently outside of the TPP to participate in it. Countries like Thailand will want to join the TPP and will expect to benefit from it (Petri, 2012).

Third, although China has reacted to the growing momentum in the TPP with important regional initiatives, these efforts may be too late to counter the effect of the TPP on East Asian regional institutional building. Along with other efforts to improve the relationship with its neighbors, China has given more priority to the trilateral talks among China, Japan, and South Korea on a Free Trade Agreement and supported more actively the Regional Comprehensive Economic Partnership (RCEP) with the ASEAN as the center plus China, Japan, South Korea, Australia, India, and New Zealand. To the extent that the RCEP maintains a low bar and presents only limited institutional constraints on member states, it will matter a lot less than the TPP in shaping member states' economic policies.

Fourth, with half, and potentially still more, of the East Asian countries joining the United States and others in the TPP, the rules agreed upon in the TPP will have agenda-setting properties and will likely serve as focal points when East Asian countries heed to the need for regional regulatory governance in the future. In other words, these rules once implemented will become the new norm of regional economic governance. Member states that practice these rules will be unlikely to undo them in future trade negotiations with members or even nonmembers of the TPP. In part due to the institutional features of the TPP as I identified at the outset of this

8 http://www.ustr.gov/about-us/press-office/fact-sheets/2011/november/outlines-trans-pacific-partnership-agreement.

article, it will be hard to take the TPP rules off the table in subsequent regional institutional building efforts in East Asia.

Thus, one of the most important implications from this study concerns the strategic use of international institutions. With the trade volume ever growing and interdependence among countries ever deepening, the need for regulatory governance can only increase. Yet, who gets to supply the rules of the game and thereby shape the governance structure? For countries that want to influence the norms of international practice – as the Deputy U.S. Trade Representative Michael Punke views as one of the objectives of the TPP – international institutions like the TPP can be a very useful instrument. For countries that might be negatively impacted by path-breaking new institutions, it is even more important to pay attention to when such new institutions are possible and how to use and further build one's own institutional networks to either prevent, or mitigate potentially negative consequences of, some new institutions. Indeed, to all countries, international institutions are important and consequential in regulatory coordination as well as competition among clubs of countries.

Indeed, countries seem to be learning this lesson. To China, for instance, the TPP has presented a dilemma: If China does not enter the TPP, it would miss out on the benefits of one of the largest free trade areas, accounting for nearly 40% of global economic output. It would also miss the opportunities to shape, from within, the rules that impact regional economic governance. On the other hand, it is also problematic for China to seek to join the TPP. China has not always wanted to conform to the rules dominated by the West, especially concerning regional economic issues right in its backyard. Due to different economic systems, it would be difficult for China to embrace the ideologically different principles of the TPP, which present some serious challenges to state capitalism in China. It would, in any case, be rather inconceivable for China to overhaul its systems in short amount of time as to meet the requirements to enter the TPP. China is thus stuck between a rock and a hard place in the sense that it faces two similarly undesirable options: joining the TPP would be painful, but saying out might be worse.

A beneficial alternative to China would have been a stronger East Asian intraregional institution where China gets to be an active member with greater influence. As Miles Kahler (2010) puts it, to increase their global influence, countries need to build coalitions and China's natural allies are in Asia. Stronger regional institutions that could effectively bind major

East Asian countries together would have made the TPP much less likely, if not impossible. Perhaps learning these lessons, China has reacted to the TPP with renewed efforts at regional institutional building, where China gets to have greater influence to protect Chinese interests. Although some of these reactive efforts such as that aimed at speeding up the RCEP may ultimately be too late to undo the defining influence of the TPP, policy-makers will do well to better understand the strategic use of international institutions: States can establish international institutions to promote certain rules and regulations to their advantage; they can also utilize and augment preexisting institutions to prevent potential new path-breaking institutions that may hurt their interests.

The implication from this study about the strategic use of international institutions is broader. In fact, understanding the institutional significance of regionalism is important for understanding the dynamics of global governance. The economics literature on regionalism tends to focus on its economic gains (Petri *et al.*, 2012) and whether it is trade-creating or trade-diverting. There has been relatively less attention to how regionalism, as political institution, shapes the rules and norms, not just within a region but also beyond. This article suggests that regional institutional building is an important process of establishing new standards and rewriting rules of the game. Rules defined in some regions may diffuse to other regions and even globally. Robust regionalism is not just a tool to guard against potential trade diversion of other regional blocs. Creative use of regionalism can be a vehicle in the competition to shape global rules. As rising powers learn these lessons, regulatory competition will likely be more intense in regional as well as global governance.

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