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The United States, Japan, and the power to block: the APEC and AMF cases

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Abstract This paper argues that the evolution of APEC and the rejection of Japan's 1997 AMF proposal reflect a failure of Japanese and US leadership. Not only have the two countries failed to exercise either individual or shared regional leadership. Instead, both have used their considerable structural power negatively to block the other's proposals for regional collective action, rather than positively to exercise leadership. After developing the concepts of leadership and blocking power, the paper provides case studies of the APEC and AMF. It concludes that if a post-hegemonic US no longer has the willingness and/or the ability to undertake collective action single-handedly, and if in a post-Cold War world neither the US nor Japan has sufficient incentives to bridge their differences and sacrifice some interests to achieve a unified stance, then continued stalemate and under-supply of regional collective goods can be expected.

Keywords AMF; APEC; blocking power; leadership

Introduction

It has often been observed that the level of 'institutional density,' and thus also the capacity to undertake collective action, is quite low in the Asia-Pacific relative to that prevailing in Europe and North America. The Asia-Pacific Economic Cooperation (APEC) forum, founded in 1989,

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quickly emerged as one possible means to redress these disparities. The 1993 meeting in Seattle elevated APEC from a ministerial level forum to a leaders' summit attended by the member countries' heads of government. Within weeks, the prospect that an emerging APEC in the rapidly growing Asia-Pacific region might seek its own liberalization agenda in lieu of the global multilateral trade regime was alleged to have prodded the European Union into completing the stalled Uruguay Round of GATT negotiations. A year later in Indonesia, APEC leaders agreed to the Bogor Declaration, a broad commitment to achieve 'free and open trade and investment' in the region by 2010 for developed countries and 2020 for developing countries. A mere five years after its inception, APEC appeared to be off to a robust start – both institutionally and substantively – toward becoming an organization of global, as well as regional, consequence.

Only a few years later, however, there were instead widespread concerns that APEC, in Flamm and Lincoln's (1997: 2) words, was 'in grave danger of sinking into irrelevance as a serious forum.' Little progress had been made toward setting in motion the Bogor Declaration, subsequent trade liberalization efforts failed to produce meaningful results and, after the Osaka meeting in 1995, more general doubts had been raised about whether APEC's voluntary and consensual decision rules would ever enable the organization to serve as a vehicle of liberalization. In Gilpin's (1997: 29–30) view:

> Unless it makes fundamental changes, APEC will be a minor player. Lack of purpose, inefficient organization, and inadequate power will condemn APEC to a subordinate position to both the North American and the European regional trade organizations in the evolution and operation of the international economy.

The 1997 Vancouver and 1998 Kuala Lumpur meetings yielded no progress toward implementing APEC's Early Voluntary Sectoral Liberalization initiative, in large part because of Japan's unwillingness to expose its politically sensitive fishery and forestry markets. After APEC gave up on the initiative and instead referred it to the WTO, observers began to question, 'Should every one acknowledge that this whole idea of creating a "Pacific Community" to rival the European Community has been a failure and put APEC out of its misery?' (Sanger 1999).[1]

Confidence in the forum's potential usefulness was diminished further when APEC failed to generate any sort of constructive response to the financial crisis that struck East Asia in 1997–98. Many analysts and policymakers both within and outside of the region complained that the International Monetary Fund (IMF) was slow to respond to the crisis, and that the remedies it imposed were not only inappropriate to the particular circumstances of the afflicted countries but actually exacerbated their problems. These criticisms first arose in connection with the IMF's ad hoc financial assistance package – coordinated by Japan and assembled under IMF auspices, but without a US contribution – for Thailand, the first country struck by the crisis. Moreover, the crisis seemed to be spreading and thus threatened to put more pressure on the IMF's limited resources. In this context of regional dissatisfaction both with global multilateral solutions and with the US reaction, and with APEC appearing ill-suited to cope with currency and financial destabilization, Japan proposed creation of an Asian Monetary Fund (AMF). The proposal was for a regional facility that would be prepared to disburse pre-committed emergency funds more promptly than the resource-strapped IMF. In the face of vigorous opposition from the IMF and the US, which feared that it would undermine the authority of the US-dominated IMF, the AMF proposal was thwarted, though the underlying idea of regional financial cooperation has persisted and seems likely to take some concrete form sooner or later.

What accounts for these failures to build trans-Pacific or regional institutions? Why the sudden declination of APEC's trajectory? Why, in a region with ample international reserves available and no small measure of support, was the AMF proposal dismissed out of hand? There is no shortage of tenable answers to these questions, most of which point to the difficulty reaching consensus regarding APEC's ends and means in view of the high degree of diversity characterizing its members. From this standpoint, APEC's liberalization agenda was premature and overly ambitious for a nascent organization embodying East–West, North–South, and/or big power–small power cleavages. And, there were legitimate doubts about the potential impact of the AMF on the effectiveness of the IMF.

These impediments to institution building in the Asia-Pacific, while quite real, were far from insurmountable. Rather, this paper argues that the APEC and AMF cases reveal a failure of leadership on the part of the United States and Japan. It is not simply that the two countries failed individually to exercise regional leadership. Nor is it just a failure of joint leadership, that is, to coordinate their initiatives for regional collective action and their efforts to build coalitions to support them. A stronger form of leadership failure has also been manifest: both the US and Japan have used their considerable structural power negatively to block the other's proposals for regional collective action, rather than positively to exercise leadership. Because the prospects for meaningful trans-Pacific collective action diminish sharply without the constructive participation of both the US and Japan, each therefore is capable of blocking the other's or third-party initiatives.

The following section reviews the concept of leadership and its application in the last decade to institution building in the Asia-Pacific, and develops the idea of blocking power as a negative exercise of structural power. The following two sections then examine in greater detail the failures of leadership in the APEC and AMF cases, respectively. The paper concludes that if a post-hegemonic US no longer has the willingness and/or the ability to undertake collective action single-handedly, and if in a post-Cold War world neither the US nor Japan has sufficient incentives to bridge their differences and sacrifice some interests to achieve a unified stance, then continued stalemate and under-supply of regional collective goods can be expected.

Leadership: a conceptual overview

One central connotation of the world leadership concept addresses the purposes or objectives leaders seek to accomplish. In the broadest and most diffuse usage, leadership aims to provide world order, which typically includes the properties of peace, stability, prosperity and, in some versions, justice. More specificity is needed, however, to apply the concept in an empirically useful manner. Accordingly, it has been most often employed to account for functionally and/or geographically defined components of a broader world order, i.e., the formation and operation of international regimes, such as those regulating world trade, finance, health, or the environment. Leadership is hypothesized to facilitate the international cooperation necessary to establish and maintain rule-based regimes, a process that involves the building and subsequent deepening of international institutions. Cooperation and institution building depend on solution of collective action (CA) problems among self-interested states in order to produce global (or regional) public goods (GPG or RPG). Although it cannot be demonstrated that leadership is either necessary or sufficient in all situations for the solution of CA problems and the provision of GPG, there is general agreement that constructive leadership increases their likelihood.

A second connotational emphasis is on the kinds of capabilities necessary for the exercise of leadership. The original literature on leadership was concerned exclusively with hegemonic leadership, i.e., a situation in which a single state holds a preponderant share of a diverse array of productive, financial, commercial, military and diplomatic capabilities (though the precise kinds and concentrations needed vary by issue area and by historical context). Capabilities on this scale provide the hegemon with structural power that enables the exercise of leadership in so far as CA problems are solved if the hegemon has enough of a stake or interest in the anticipated orderly outcome to undertake unilateral production of the GPG and sufficient resources to bear a disproportionate share of the costs. Structural power also enables the hegemonic leader both to build coalitions in support of particular CA/GPG solutions and then to obtain continued compliance by using both positive (inducements, side payments) and negative (coercion) sanctions.

A third, ideational connotation of world leadership taps the legitimacy that followers (a necessary corollary of leadership) accord to the leader, and focuses on the means by which their consent and compliance is gained. Legitimacy stems from several sources. One is the appeal of the domestic models (e.g., democracy, human rights) and systemic ordering principles espoused by the would-be leader. A related source of legitimacy is the degree to which domestic political institutions reinforce the credibility of commitments to international institutions (Cowhey 1993). Another entails followers' estimates of the distributional outcomes of the CA promoted by the leader. The wider the distribution of benefits from the GPG, the more legitimate its leadership will be regarded. Conversely, a leader's use of its position to pursue narrow national interests or to capture an inordinate share of the benefits of CA will result in diminished legitimacy; indeed, the purported GPG will lose its 'public' qualities. Finally, legitimacy varies inversely with the extent to which the leader employs bullying, negative sanctions, or other coercive means to achieve its objectives. These last two considerations combine to distinguish between leadership that is benevolent (or benign), on the one hand, or exploitative and coercive, on the other.

Combining these three main connotations associated with world leadership – purposes relating to CA and GPG, capabilities enabling structural power, and the legitimacy granted by followers – yields the formulation that leadership is the application of structural power to legitimate purpose. Early versions of the theory of hegemonic leadership, derived primarily from the experiences of Britain in the late nineteenth century and the United States after the Second World War, were largely limited to the exercise of structural leadership by a single hegemonic leader. Later refinements to the theory pointed to other types of activities involved in the exercise of leadership. In addition to structural leadership, Young (1991) introduced the concepts of entrepreneurial and intellectual leadership. *Entrepreneurial leadership* includes a range of skills, such as coalition building, negotiating, brokering, and deal-making, that help to bring about agreements on CA that otherwise might not be reached. *Intellectual leadership* consists of the ability to generate innovative ideas, institutional options, and ordering principles that lead to enduring CA solutions and provision of GPG.[2]

Shared leadership

One important implication of Young's formulation is that it allows for the pluralization of leadership, that is, for different countries to contribute to the overall exercise of leadership. Even those completely lacking structural power could contribute intellectual or entrepreneurial leadership.[3] Moreover, the eventual pluralization of leadership is desirable normatively, as well as a practical necessity. Notwithstanding the revival of

American power, growth and competitiveness since the end of the Cold War, US hegemony of the sort enjoyed earlier in the post-Second World War period will not be recaptured, either globally or in the Asia-Pacific. Nor is there any prospect that single-nation leadership will be supplied in the foreseeable future by Japan or any other country. If leadership is to be exercised, therefore, it will have to be some form of shared, or joint, leadership. Narrowing our focus to problems of CA in the Asia-Pacific, the set of countries sharing leadership minimally must include the US and Japan. To be sure, pluralization of leadership would require accommodation of additional countries' participation, especially China and particularly in light of Asian countries' preferences for consensual decision rules. But any arrangements for trans-Pacific CA would have to revolve around an axis of US–Japan leadership sharing.

The requirements for the exercise of shared leadership include those necessary for the single-nation case. While the United States no longer holds a concentration of capabilities sufficient for single-nation hegemony, the combined capabilities of the United States and Japan, the world's two largest economies, are surely enough to enable structural leadership. Confidence in this assessment should be strengthened by consideration of the complementarity of the two countries' power resources, and by the regional, rather than global, domain across which shared leadership would operate. We can only speculate about the potential legitimacy of US–Japan leadership sharing in the absence of a concrete track record. On the one hand, there are certainly doubts about the legitimacy accorded to each, taken singly.[4] And these doubts would no doubt be compounded if the CA initiatives emerging from deliberate efforts to share leadership were perceived as autocratic, bullying, unfair in a distributive sense, or aimed at advancing the leaders' interests at expense of others. On the other hand, were the United States and Japan to formulate designs for CA in the Asia-Pacific that were not perceived to be narrowly self-interested, that resulted in widely-enjoyed gains, and that respected the need for consensual decision processes, legitimacy for their shared leadership could be built.

But pluralized leadership, even in the simplest, two-country case, poses additional, somewhat more problematic requirements: shared, or at least compatible, interests and a willingness to share.[5] It is not necessary that their interests completely converge for two or more states to engage in joint leadership activities. So long as most interests relevant to the CA problems at issue are compatible, and assuming some modicum of flexibility and willingness to compromise, shared leadership should be feasible. But divergent interests and how they are manifest in divergent preferences over definition of CA problems, institutional design, and the nature of the GPG to be provided virtually preclude shared leadership.[6] And if there is not sufficient convergence of interests and preferences to permit shared leadership, then the willingness to share does not arise as another requirement. Even if there are enough common interests to allow in principle shared leadership, concerns with national prestige and status may stand in the way. The usual pattern over the last twelve years or so has been for the United States to exhort Japan to share more international responsibilities and burdens, but without corresponding inclusion in agenda-setting, policy formulation, and other activities that would require sharing power and responsibility.

In sum, the conditions necessary for leadership sharing, especially convergent interests, are rather demanding. As will be argued subsequently in reference to CA in the APEC and AMF cases, these conditions have not been met. The next section considers what has been a stronger impediment to CA in the Asia-Pacific – the use by the United States and Japan of their considerable structural power to block each other's CA initiatives.

Blocking power

The expectation of leadership theory, as spelled out in the above discussion, is that states with sufficient structural power will use it positively to exercise leadership by applying it to purposes that others view as legitimate, viz., solution of CA problems and production of GPG. Little attention, however, has been given to the possibility that the same kinds of structural power necessary for positive leadership activities can also be deployed negatively to block CA.

Following Schelling (1978: Ch. 7), a *k-group* is defined as the minimum set of members (of a larger social universe) that can benefit from production of a public good, even if no other members contribute to its provision. In Schelling's original graphic presentation, the larger social universe and the *k*-group subset are comprised of more-or-less symmetric units, that is, they are alike in terms of capabilities and hence also in their ability to contribute to provision of the public good. The identity of members is therefore irrelevant to the question of *k*-group formation since individual members are essentially interchangeable – should one defect from the *k*-group, another member could readily substitute. Snidal's (1985) refinement of Schelling's framework to allow for differently sized units, such as states, enables him to model more accurately the CA problem in light of different international distributions of power, including both hegemonic ($k = 1$) and non-hegemonic ($k > 1$) situations. In the former, one state benefits from producing the public good itself but, in the latter, two or more states have to cooperate to solve the CA problem and produce the good, thus opening the possibility of shared leadership.

But suppose that power resources are distributed in such a way and that the requirements of producing the good are such that at least the two largest states' participation is required. If either defects, the capabilities of the remaining large state combined with those of all other members would not be adequate to produce the good. The two largest members would therefore have the *power to block* CA. This paper is based on the premise that this logic describes accurately many CA problems in the Asia-Pacific. The earlier statement that the set of countries sharing leadership minimally must include the US and Japan flows from this line of reasoning. Neither Japan nor the United States can act as a regional hegemon, capable of single-handedly engineering and implementing CA, say, to liberalize trade or to stabilize financial markets. Refusal of either to participate is highly likely to thwart such CA endeavors.

The actual exercise of blocking power can take several forms, depending on the issue-specific nature and the institutional context of the CA problem at hand. In the most straightforward case, one or more countries exercises formal veto power, such as the US in the IMF and World Bank. Both of these organizations utilize decision rules based on weighted voting and special majorities.[7] For certain categories of important decisions (e.g., to change quotas and voting weights, as well as constitutional changes), an 85 per cent majority is required. The United States, with approximately 17 per cent of the votes in both organizations, is the only member to hold a single-country veto. Even if the veto is rarely used, it conveys enormous power to the US beyond the ability to reject the CA it opposes. As Cameron (2000: 9) argues with reference to the veto power of the US President, '. . . Congress will anticipate vetoes and modify the content of legislation to head them off. The veto power will have shaped the content of legislation without actually being used. Veto threats play an important role in this process.'[8] So too in the Bretton Woods institutions does the US veto shape outcomes without being actively used. And in other weighted voting situations where the US or Japan lack *de jure* veto power, such as the regional development banks (Asian Development Bank, Inter-American Development Bank), they clearly hold a *de facto* veto.

Short of formal vetoes, another form of blocking power consists of active diplomacy to assemble blocking coalitions among states that are also inclined to oppose the proposed CA or are susceptible to the kinds of persuasion (coercion) practiced only by those countries with substantial structural power. Drifte's (1996: 166) description captures well how exercise of this form of blocking power fits well with Japan's diplomatic proclivities:

> Lacking the qualities and will for leadership, on an individual as well as organizational level, but being well endowed with economic power and a cultural propensity to work in groups, Japan's leaders feel more at ease forming coalitions of other states, transnational institutions and private sector groups rather than replacing the weakening American hegemon. This is also politically the least onerous way (the means ranging from quid pro quo proposals to blackmail) to establish linkages between issues in order to achieve economic as well as political objectives.

As will be shown below in the discussion of APEC and the proposed AMF, neither Japan nor the United States are averse to wielding this kind of power to block CA they do not want to see come to pass.

Another method by which structurally powerful states can block CA is by withholding functionally necessary support or participation. Their support can be necessary because of their quantitative or qualitative importance in the particular issue area. For example, without US ratification and participation the Comprehensive Test Ban Treaty is sharply diminished in value. So too would be any climate change agreement that did not include the US, the country with the largest emissions. Or the blocking country's support might be necessary because of specialized capabilities that it alone possesses. Consider in this regard the criticality of US force projection capabilities to certain types of multilateral interventions (e.g., Kosovo) or attempts to reverse aggression (e.g., the 1991 Gulf War). Finally, the blocking country can simply withhold the financial resources necessary for certain kinds of CA. For example, US tardiness in paying its UN dues has severely impaired that organization's ability to conduct peacekeeping operations. As indicated by the examples in the discussion above, the exercise of blocking power is not simply an abstract possibility. In fact, there is no shortage of recent examples, most involving the United States, of the exercise of blocking power in multilateral fora.[9]

Japan also has sufficient structural power to block CA, usually initiatives pertaining to liberalization and market access that would impose adjustment costs on inefficient, but politically sensitive, domestic constituencies. As Drifte's (1996: 164) survey of Japanese foreign policy concludes, 'Nothing can be undertaken in international organizations if Japan does not financially support a given action, helps to garner a majority for a vote, or at least is seen in agreement with it.' It will be argued below that both the US and Japan have come to exercise blocking power to an extent that undermines leadership theory's association of structural power with positive leadership, as well as expectations of shared leadership. We now turn to the manifestation of these tendencies in the Asia-Pacific.

Japan's exercise of blocking power in APEC

Various analysts have anticipated, with Drysdale (1991: 6), that, 'APEC . . . provides a convenient regional framework within which Japan can move toward a position of shared policy leadership with the United States.'[10] The fact that shared leadership has not occurred is attributable to divergent national interests, or at least to a mutual unwillingness to consult and compromise in order to reconcile interests and forge common preferences *vis-à-vis* APEC. In what ways, then, have the two countries' interests diverged?

Divergent interests

Baker (1998: 165) grounds US interests in APEC in three long-standing, fundamental objectives of American policy in the Asia-Pacific: 'to secure economic access to the region; to spread value systems preferred by Americans; and to prevent domination of the region by other powers.' None of these is necessarily shared by Japan. With reference to the access objective, APEC appeared to offer the US the opportunity to participate more fully – beyond its security role and as consumer of Asian-produced goods – in the integration of what has been the world economy's most dynamic region. As a vehicle for trade and investment liberalization, APEC was expected to bring expanded opportunities for US multinational firms and in greater market access in countries, including Japan, that have persistently run large trade surpluses with the US. But some students of the region view these expectations with considerable skepticism:

> [O]ne would have to be a fool to think APEC is America's ticket to the ball. The economies of Asia are indeed becoming increasingly intertwined. But the thread that is tying them together is not APEC, nor any other formal body or treaty. It is, to a large extent, Japanese developmentalism. Japan is regionalizing a dense web of mutually reinforcing ties – between government and business, between independent firms, and between management and labor.
>
> (Hatch and Yamamura 1996: 192)

We can infer from this account that Japan has little interest in formal multilateral negotiations to 'organize the Pacific' along liberal lines because it is already organized informally by Japanese firms. In Bello's (1996: 19) terms, 'the main reason Japan does not want an APEC free trade area to form is that it is well on its way to creating a de facto trade and investment bloc.'

Also contributing to Japan's (and other Asian countries') reluctance to use APEC as a forum for negotiating binding trade and investment rules is the perception that, '[t]he United States has often interpreted a rule-based order to mean the extension of American rules and procedures to the rest of the world' (Tussie 1998: 189).[11] Cowhey's (1995: 193–4) three-part elaboration of how these factors translate into Japan's preferences against using APEC to negotiate multilateral rules is worth quoting at some length:

> First, informal diplomacy favors Japan over the rest of the world. Backed by the largest stock of foreign investment, the largest foreign aid flows, major trade flows, and the proximity of being the closest economic superpower, Japan does better than its rivals in the triad by playing by informal rules. Second there is no set of formal rules that

> could be written to advance Japanese interests that would neither significantly assist U.S. and European interests more (e.g., stronger defenses of intellectual property) nor articulate a standard of conduct that might seem an overt challenge to Atlantic sentiments. Third, Japanese politics and economics make informal bilateral policies feasible and desirable. They have created the traditions of informal government intervention without extensive formal rules at home and industrial groups that are experienced in building their businesses on developing long standing relationships, not contracts and rules.

In short, multilateral liberalization of the sort advocated by the US in APEC would not work to Japan's advantage. It might produce absolute gains all around, but the US and Western Europe would reap relative gains *vis-à-vis* Japan in the region were market access to be rule driven rather than determined by existing informal, and often exclusionary, networks centered around Japanese firms.[12] And, we have not yet considered what is widely regarded as the principal obstacle to market opening in Japan – the unwillingness or inability of Japanese governments to agree to international CA that would result in adjustment costs for the various inefficient but politically well-connected sectors of Japan's economy, e.g., agriculture (Japan's 'Achilles heel'), transportation, construction, distribution.

The second US objective identified by Baker (1998: 165) – 'to spread value systems preferred by Americans' – is shared by Japan at a very general level. Both prefer the development of capitalism and democracy in the region, though they often differ on the instrumentalities that should be used to attain these ends (e.g., diplomatic pressure on China to change its human rights practices). But interests diverge significantly when the question focuses on the more specific values manifest in the two countries' respective forms of capitalism – briefly put, individualistic, market-oriented, *laissez-faire* American capitalism as contrasted with Japan's more mercantilist, developmental state version. If divergence on liberalization and market access are key to understanding the recent course of APEC,[13] divergence of the values represented by the two forms of capitalism are more relevant to the fate of the AMF proposal, so we will develop this more fully below.

Prevention of 'domination of the region by other powers,' the third objective in Baker's formulation, is shared by Japan if it is Chinese domination that is to be prevented (though both the US and Japan refrain from articulating this objective). Obviously, however, there is a sharp divergence if the American objective (again publicly unstated) is to contain Japan's role in the region, whether domination is construed in terms of the informal production networks discussed earlier, the spread of Japan's developmental state model across the region, or Japanese influence in institutions such as APEC or a prospective AMF.[14]

Turning to the objectives Japan seeks in APEC, as summarized in Funabashi (1995: Ch. 10) and Watanabe and Kikuchi (1997: 141–3), it is evident that some diverge, virtually by definition, from US objectives. First, Japan's goal of using APEC to curb the US's unilateralist and bilateralist tendencies is, needless to say, not consistent with the US government's definition of its interests. Second, nor is Japan's expectation that APEC will help to keep in check potential regional protectionism in NAFTA (and the EU). Third, there is more compatibility with regard to Japan's interest in maintaining the US security presence in the Asia-Pacific; to the extent that this requires sustaining American satisfaction with its economic position, however, there are definite limits, as implied by the market access discussion. Fourth, engaging China via APEC in a web of regional interdependencies while promoting its transition to capitalism is certainly a shared objective, albeit a tricky one inasmuch as it intersects with a tangle of security issues, including China's concerns about the US–Japan alliance, the US military role in the region, and policies toward Taiwan and its status in relation to mainland China. Finally, Japan certainly places greater importance than the US on the objective of strengthening ties with ASEAN and developing modes of North–South cooperation, especially with regard to development issues. But this is a difference of emphasis rather than a conflict of interests, though the US has complained that Japan's emphasis on development cooperation is at the expense of the relative weight assigned to APEC's trade and investment liberalization processes.

This discussion has overlooked or underestimated some of the common interests that undergird 'the most important relationship in the world' between two countries that are, after all, partners in a bilateral security alliance and highly interdependent economically.[15] Yet, this brief accounting reveals rather significant divergences in their preferences about the shape and purpose of APEC. These preferences have clashed to a degree sufficient not only to have dashed expectations of shared leadership in APEC, but also to have precipitated the blocking of CA in the area of trade and investment liberalization.

The 1995 Osaka Summit: blocking trade and investment liberalization

The impetus for APEC becoming a vehicle for trade liberalization came from the recommendation of its Eminent Persons' Group prior to the November 1993 APEC meeting, held in Seattle under US auspices (and the first APEC meeting to feature a summit of the leaders of APEC's member countries). This recommendation was endorsed in the communiqué, or 'Vision Statement,' which summarized the ambitious, if vague, agenda which the leaders had agreed to at the summit: 'We welcome the challenge ... to achieve free trade in the Asia Pacific, advance global trade liberalization, and launch concrete proposals to move us toward these long-term goals.'

This broad initial statement of objectives was given more concrete, though still nascent, form at the next APEC summit, held in Bogor, Indonesia, in November 1994. The Bogor Declaration that emerged from this meeting laid out a comprehensive commitment to achieve 'free and open trade and investment' in the region by 2010 for developed countries and 2020 for developing countries. The fact that consensus on the liberalization agenda had been reached under the leadership of Indonesia, a developing country, appeared to lend additional credence to APEC's liberalization role, signaling that it was not just an American project, but one endorsed more widely by the organization's membership. Moreover, the staggered timetable for attaining free trade in the region indicated that at least minimal accommodation had been made for APEC members' diverse levels of development. The declaration also affirmed the principle of 'open regionalism,' meaning that countries outside the grouping would be allowed to benefit (without having to reciprocate) from the liberalization measures of APEC members (thus also ruling out the possibility of APEC becoming a NAFTA-style exclusive free trade area, or FTA).

Malaysia, however, expressed its reservations about the liberalization agenda in a proposed annex to the declaration (which was not approved for inclusion by the other members). Malaysia, among other reservations, made clear that it would only undertake liberalization on a unilateral basis, and that it regarded the 2010 and 2020 dates as merely indicative and non-binding.[16] These issues would prove controversial in the ensuing year as the November 1995 meeting was to be held in Osaka, and Japan therefore would be leading the year-long process of imparting greater operational specificity to the expansive Bogor Declaration. Would Japan use its position as chair to steer this process toward the Malaysian and Chinese preferences for unilateral, non-binding, and hence voluntary arrangements, thereby weakening, or at least slowing, the kinds of CA that APEC would need to reach the liberalization goals spelled out in the Bogor Declaration? Or would Japan follow the Indonesian example and provide another strong Asian push to the APEC liberalization process. The choice, according to Doi (1995), came down to, 'whether to help America spread the western-style free market ideal in the region or be the spokesman for wary Asians who would rather open their markets at their own pace.'

Besides the divergent preferences discussed earlier, there were additional reasons to anticipate that Japan would join the 'go slow club' (with Malaysia and China) and retreat from the Bogor Declaration's free trade objectives. Japan had foregone leadership of trade liberalization in the recently concluded Uruguay Round, while trying to avoid opening its rice market (see Rapkin and George 1993), so there was little basis to expect a U-turn in the APEC context. Also, it was now encumbered by an awkward and politically tenuous coalition government that would be hard-pressed to make concessions on agriculture or other vulnerable sectors, and there remained significant bureaucratic differences, mainly between the Ministry of International Trade and Industry and the Ministry of Foreign Affairs, as well as within the latter, over APEC and its role as a liberalization mechanism (Funabashi 1995: 211–15).

At issue after Bogor was the form and content of the Action Agenda that would be agreed upon at Osaka and that would begin to translate the Bogor Declaration into concrete actions. The first skirmish over the Action Agenda came in February 1995, when Japan reintroduced (it had first surfaced in vague form in Bogor) its proposal for a Partners for Progress (PFP) program aimed at mobilizing foreign aid under APEC auspices to be dispensed to the organization's developing members.[17] The ostensible purpose of PFP, as construed by Japanese officials, was to narrow the developmental disparities among APEC members and thereby prepare the less developed members for, and make them more amenable to, liberalization.

Developed countries, especially the United States, were skeptical of the PFP proposal on several counts: First, there were questions about the need to turn APEC into another, perhaps redundant, aid forum. Second, was Japan trying to draw attention away from APEC's liberalization agenda by emphasizing development cooperation? And third, was Japan attempting to 'purchase' the support of APEC's developing country members for backing away from liberalization – in which Japan too would have to make difficult concessions – by diverting part of its sizeable aid budget to APEC, a much less painful option? Japanese officials defended the PFP as reflecting more accurately the preferences of APEC's developing members, and as restoring balance to the overall APEC agenda, which they claimed had become too heavily skewed toward liberalization. Though the PFP idea remained somewhat vague in the final version of the Osaka Action Agenda, more importantly, Japan succeeded in gaining formal support for the establishment of development cooperation as a third pillar of APEC, along with liberalization and trade and investment facilitation.

More controversial in the lead-up to and at the Osaka meeting were several interrelated disputes over the modalities by which the liberalization process would take place.[18] Japan proposed that the process advance by means of 'concerted unilateral action' (CUA) that would leave the extent, pace, timing and specific method of trade and investment liberalization to the discretion of each member. These details were to be spelled out in the Individual Action Plans (IAPs) which would be submitted at the 1996 APEC summit in Manila. In short, liberalization would proceed on a voluntary basis, without the formal commitments, binding agreements, or fixed timetables characteristic of GATT/WTO-type trade negotiations. The IAPs would be 'concerted' through a 'consultation process' of a 'confidence-building nature' that would itself proceed in a consensual, voluntary manner. The United States strongly preferred a more structured approach, involving reciprocal concessions, that would more closely resemble negotiations, and in which developed and developing members would implement liberalization along the 2010 and 2020 tracks, respectively, more or less simultaneously.[19] The final draft of the Osaka Action Agenda calls for CUA toward trade and investment liberalization and 'collective actions' toward trade and investment facilitation.[20]

A liberalization process that is unilateral, voluntary and consensual raises the question of comparability: how to ensure that the costs, as well as the benefits, of liberalization are shared equally or proportionally? Although the third General Principle in the Osaka Action Agenda called for 'overall comparability,' there was considerable skepticism that this could be attained via the loose process of consultation (but not negotiation) sketched out therein. Members would review each other's unilaterally-formulated IAPs, informally exchange information, and then revise their liberalization blueprints in response. The discipline necessary to sustain movement in the direction of greater openness would be provided by peer pressure and enlightened self-interest.[21] Not surprisingly, the United States pushed for a more detailed and structured approach, fearful that the less disciplined process prescribed by the Osaka Action Agenda would yield minimal, lowest-common-denominator results, and that the lack of clear and demonstrable comparability would make it politically difficult to gain approval from a skeptical Congress.

The most controversial issue between the Bogor and Osaka summits revolved around whether the liberalization process should be governed by a strict reading of the principle of comprehensiveness or whether it should be relaxed according to the principle of flexibility. From the beginning, successive drafts of the Action Agenda stated that the liberalization process should be comprehensive in the sense of 'addressing all impediments' to free and open trade and investment across all economic sectors. After Bogor, however, Japan (with the support of China, South Korea, and Taiwan) pressed for inclusion of additional language permitting 'flexibility . . . in allowing differential treatment' of politically sensitive sectors. The US, Australia and other members saw this as an attempt to exempt Japan's agricultural sector from the liberalization process, and protested that all countries had sectors they would like to exempt as well. Once the principle of flexibility was legitimated in the Action Agenda, it was argued, the whole process would begin to unravel.

Despite the seeming incompatibility of the comprehensiveness and flexibility principles, both were included in the final version (the latter in weaker terms than Japan would have preferred). It was not at all clear, however, how the two taken together were to be interpreted. In the words of Katzuhisa Uchida, a senior Japanese delegate to APEC: 'We all agreed flexibility is necessary, but we can't define it clearly right now' (cited in Inose 1995: 19). Does the flexibility principle permit exclusion altogether of sensitive sectors, or does it merely enable delay of liberalization until the 2010 or 2020 targets are approaching? Rafidah Aziz, Malaysia's trade minister, consistent with Malaysia's reservations at Bogor, declared at the concluding Osaka press conference that the target dates were not binding. Asked to clarify Aziz's interpretation, Japan's prime minister, Tomiichi Murayama, said they were 'movable targets,' and other officials, including trade minister and soon-to-be prime minister, Ryutaro Hashimoto, failed to clear up the ambiguity.

Yet another controversy involved the 'down payments' – packages of specific market opening measures – that members had agreed to bring to Osaka in order to jump-start the liberalization process launched at Bogor. As the two largest and most advanced of the APEC economies, and as the most vocal proponent of liberalization and chair and host of the summit, respectively, the United States and Japan, were expected to offer exemplary down payments for others to emulate. Such leadership was not forthcoming. The US Congress had not renewed the Clinton administration's 'fast-track' negotiating authority,[22] without which the US was unable to put forth much of a down payment. It consisted of trade facilitation measures such as customs streamlining, revision of government procurement procedures, and loosening of restrictions on defense exports. This package not only was a weak model for others to follow, but it also engendered doubts that the US was able and/or willing to make and implement market opening commitments within APEC's unilateral liberalization process (Funabashi 1995: 96–7). 'The US delegation justified these meager offerings by asserting that, because the American economy already is among the most open in APEC, Washington is obligated to make fewer commitments now than other forum members' (Johnstone 1995b: 5). While there is a sizeable kernel of validity in this position, the weak US down payment and the lack of fast-track authority, along with the last-minute decision by President Clinton not to attend the summit, significantly constrained the US role as a credible advocate of the sort of liberalization process it preferred.

Japan's down payment was more substantial, featuring an offer to accelerate implementation of Uruguay Round commitments to reduce tariffs on hundreds of products, albeit products for which Japan's tariffs were already very low. Its failure, however, to reveal its down payment until late in the process of preparing for the Osaka meeting, and thus to provide a model for others to follow, '. . . was seen in certain quarters as a further example of Japan's questionable leadership qualities' (Johnstone 1995a: 9). Without the example of strong US and Japanese packages, it was not surprising that the other members' down payments tended to be modest and to consist largely of repackaged commitments made elsewhere or already under way. A notable exception was China, which offered tariff cuts averaging 30 per cent on thousands of products, though it was widely understood that these were cuts that China was soon going to make anyway in connection with its bid for WTO membership.

It is difficult to disagree with Ortblad's (1996: 3) conclusion that while 'Osaka offered a major opportunity for the two countries to exhibit the true meaning of shared leadership in a region where they are the only economic superpowers . . . the Osaka meeting actually highlighted the key differences in U.S. and Japanese priorities for APEC.' Indeed, the above survey of disputed issues that arose in the course of forging the Osaka Action Agenda suggests a stronger conclusion is warranted: Japan, with support from some Asian countries, succeeded in eviscerating virtually all traces of the type of liberalization program sought by the United States.[23] The liberalization process that emerged from the Osaka summit was instead voluntary, unilateral, consensus-based, non-binding, lacking common timetables, and uncertain as to comprehensiveness and comparability of members' efforts. These methods and concepts, all deriving from what has been termed the 'Asia-Pacific way,' engendered understandable doubts about APEC's capacity to serve as a motor force of trade and investment liberalization in the region and in the larger world economy; after all, CA on this front had been effectively ruled out.

But it would be premature to dismiss outright the possibility that the Action Agenda that emerged from Osaka provides an alternative route to liberalization. As Acharya (1997: 343) puts it, the significance of the concepts associated with the Asia-Pacific way, 'may lie in their value as ways of reconciling conflicting state preferences and finding common ground out of differing economic, political and strategic priorities among members.' Not enough time has elapsed since Osaka to provide a definitive test of these expectations, but suffice it to say that APEC has neither reconciled many conflicting state preferences nor found much common ground. As will be demonstrated, these failures and the resulting loss of liberalization momentum is partly attributable to the lack of positive leadership by either the United States or Japan.

After Osaka

The Osaka Action Agenda instructed members to begin development immediately of Individual Action Plans (IAPs), which were to include details and timetables for their liberalization efforts. Draft plans were submitted at four preparatory meetings, with consultations and revisions after each juncture, in preparation for the next APEC Ministerial (and summit) meeting at Manila in November 1996; implementation was to commence on 1 January 1997. The overall process lagged, however, so that serious consultations and peer review to assess the comparability of IAPs was postponed until the following year.

The IAPs submitted at the Manila meeting, covering of course only voluntarily offered products and sectors, were, 'on balance an unimpressive collection of vague pledges with few details' (Johnstone 1996a: 9). The exceptions were tariff reductions beyond Uruguay Round commitments made by fully half of the members, notably by China, Chile, Indonesia, Australia, and the Philippines. But the most significant category of trade restrictions in Asia, non-tariff barriers, was barely addressed in the IAPs.[24]

The most disappointing IAPs were those submitted by the United States and Japan. With the Clinton administration facing an election just before the Manila meeting, and still lacking fast-track authority, the US IAP offered little beyond the declaration that the US had already achieved a degree of openness sufficient to satisfy APEC requirements. Proposals to eliminate tariffs on information technology (see below) and to negotiate 'open skies' agreements for commercial air travel, both sectors in which American firms hold strong competitive advantages, were clearly self-interested. Japan's IAP recycled the same tariff reductions pledged a year earlier at Osaka, but contained nothing new of substance. On this and other issues, 'Japanese stances within the forum . . . appear largely to represent calculations of national interests narrowly defined' (Johnstone 1996b: 13). Neither the US nor Japan offered any liberalization commitments related to economic sectors or policy measures that might be considered sensitive in terms of domestic politics.

Dissatisfied with the loss of momentum on APEC's broad liberalization agenda, and unable or unwilling to provide the kind of leadership needed to give it a push, the Clinton administration chose to seek instead a dramatic breakthrough on a more limited sectoral basis. The US, with support from Japan, put forth a proposal for an Information Technology Agreement (ITA) that would eliminate tariffs on a range of computer, software, semiconductor, and telecommunications products by the year 2000, hoping then to use the APEC endorsement to gain wider approval for the ITA the following month at the WTO's ministerial meeting in Singapore. US officials emphasized that since a number of APEC members are large-scale producers and consumers of IT products, the ITA would result in widely shared benefits. But those developing countries attempting to establish a manufacturing presence in ITA industries, especially Malaysia and China, contended that the US's ITA proposal would disproportionately benefit APEC's developed members, whose tariffs tended to be much lower.[25] China's foreign minister suggested that APEC needed to develop sectoral initiatives that would more directly benefit developing countries, specifically mentioning textiles, a sector in which the US maintains high levels of protection.

In the face of this opposition, the US was able to muster only a diluted APEC endorsement for the ITA, and this was obtained only with President Clinton's personal intervention at the leaders' summit. The declaration resulting from the Manila meeting supported an ITA 'that would substantially eliminate tariffs by the year 2000' while 'recognizing the need for flexibility.' Acknowledging that the agreement was helpful, Singapore's Prime Minister Goh Chok Tong pointed out what had become the hallmark of APEC agreements: 'Its wording was ambiguous. It can be interpreted by the members as anything they want it to be' (cited in the *Wall Street Journal*, 26 November 1996, p. 9).[26]

Despite APEC's lukewarm support, the ITA was approved at the Singapore WTO meeting, thus encouraging the US and other like-minded members to try to use sectoral agreements to restore some momentum to the flagging APEC liberalization process. There were additional motivations for shifting APEC's emphasis to sectoral liberalization. Such '[n]arrow initiatives have the distinct advantage of allowing APEC to demonstrate tangible results to business – so-called deliverables – throughout a process that will extend for decades' (Johnstone 1997). Moreover, as Aggarwal and Morrison (1999: 23) point out, senior APEC officials hoped that 'agreements in easier sectors might have a demonstration impact and learning effect in the more difficult areas.' And, in the words of US Trade Representative (USTR) Charlene Barshefsky, APEC sectoral agreements could play a 'catalytic' role, providing a 'critical mass' for subsequent passage at the WTO (cited in Bullard 1997).

Accordingly, the Manila Action Plan instructed members to submit proposals for Early Voluntary Sectoral Liberalization (EVSL); selection of EVSL sectors would be finalized at the November 1997 APEC ministerial meeting in Vancouver. Sectors which had been identified by multiple members would then provide a basis for sector-specific liberalization initiatives. APEC's eighteen members initially proposed as many as sixty-one sectors for EVSL consideration, with members naturally nominating those sectors in which their firms are highly competitive and tariffs are already low or non-existent. By the time of the November meeting, the list had been reduced to forty-one. The United States was still constrained by the lack of fast-track authority (Congress had just denied it again in early November), so its proposals were limited to those sectors in which President Clinton could exercise residual tariff authority left over from the Uruguay Round (e.g., wood and paper products, non-ferrous metals, chemicals, oilseed products) and in which American firms expected to gain from market opening. Japan too proposed sectors in which it was competitive and/or already had low tariffs, such as environmental equipment and services, precision tools, and scientific instruments.

In the meantime, in the preparatory meetings leading up to Vancouver, the IAP process – reviews, consultations, feedback, and peer pressure – was not producing much by way of the 'revisions and improvements' that were originally anticipated in the Osaka Action Agenda, not least because neither the US nor the Japanese IAPs had yet offered much beyond their Uruguay Round commitments. Indeed, the IAP approach to APEC trade and investment liberalization had largely faded from view. In this context, the EVSL initiative was viewed by some as a 'face-saving device'[27] designed to cover the failure to make much progress on this agenda via the IAP mechanism since Osaka. Additionally, after the financial crisis that first struck Thailand in summer had spread to Indonesia and other countries in Southeast Asia, and then to South Korea, resistance to APEC's trade and investment liberalization agenda stiffened. US officials feared that APEC's developing members might react to the crisis with protectionist measures, and that such a reaction could contribute to perceptions that APEC's liberalization drive had stalled, which, in turn, could trigger further panic in financial markets.

These developments placed more importance on EVSL progress. Inability to narrow to the target of four to six sectors led to agreement on fifteen EVSL sectors at Vancouver. Work would begin on nine of these during 1998, with implementation to start in 1999: environmental goods and services, energy-related products and services, chemicals, toys, gemstones and jewelry, medical equipment, telecommunications, fish and fish products, and forest products. Another tier of six sectors were identified for subsequent EVSL: aircraft, automotive standards, fertilizer, food, oilseeds, and rubber. Overall, the slate of sectors included some for which liberalization would benefit developed countries, others that were of greater interest to developing members, and some for which both developed and developing countries stood to gain (e.g., forest products for the US, Canada, and Indonesia; fish and fish products for Southeast Asian countries and Canada). The Clinton administration claimed residual fast-track authority for some, but not all, of these sectors, thus leading to doubts that the US would be able to negotiate agreements in all of them.

No sooner had agreement on EVSL been reached at Vancouver than Japan declared its unwillingness to liberalize its markets for fish and forestry products, two industries in which its producers were competitively weak, but politically well-connected.[28] Thereafter, the ensuing meetings preparing a concrete EVSL agreement for the November 1998 ministerial and summit meetings in Kuala Lumpur were dominated by US–Japan disputes over how the agreement would be implemented. US officials maintained that the nine EVSL sectors should be treated as a package, so that members would not be free to pick and choose those in which they would participate or not. The US was willing to tolerate less developed members bailing out of the EVSL program (e.g., Mexico and Chile, both of which claimed to prefer a comprehensive, rather than sectoral, liberalization process), but was unwilling to stand by when Japan, as a developed member, refused to participate fully. As stated by John S. Wolf, US Ambassador to APEC, 'If that package is to be meaningful, Japan, as the second-largest economy in the world, is going to need to be part of that' (cited in Yeoh 1998). US officials feared that the whole EVSL process would fall apart if a prominent member such as Japan was able to avoid participation in sectors where costs would likely be incurred. Developing countries would insist on the same terms, rescind or at least weaken their offers, and the EVSL would soon reduce to the same kind of sketchy, ambiguous, and unmeasurable undertaking as the IAPs.

Japan repeatedly insisted that EVSL proceed on a voluntary basis, as implied by inclusion of the term 'voluntary' in the name of the initiative, as well as 'flexible' in terms of implementation. As if to underscore the point, Japan expressed its reluctance to liberalize other markets besides those for fish and forestry products. Of the nine sectors selected for priority EVSL, and the next group of six candidate sectors, Japan expressed 'total reservations' about liberalizing three and 'partial reservations' about five others. Japan's eight reservations exceeded those of any other APEC member, including developing countries. No other developed member of APEC expressed any reservations whatsoever (Masaki 1998: 21). Moreover, Japan seemed isolated as Southeast Asian countries initially joined US pressure on Japan to liberalize its fish and forestry products markets. Following a June meeting, though, Japan claimed that its position had support among APEC's developing members, who were 'forced to be quiet' because, with their economies stricken by financial crisis, they were unwilling to cross the United States.[29] By September, agreement had not yet been reached, and APEC's developing members' support for EVSL was weakening, as expressed by China's ambassador to APEC, Wang Yusheng: 'We are ready to participate in all nine sectors, but partially and conditionally, on the basis of voluntarism' (cited in Altbach 1998b).

As the Kuala Lumpur meetings approached, the recriminatory rhetoric between the US and Japan intensified. Deputy USTR Richard Fisher told reporters that if Japan did not participate in all nine sectors, the Kuala Lumpur ministerial and leaders' meetings 'would be viewed as a failure and Japan would be responsible for that failure,' adding that '[i]t is inexcusable for the second largest economy in the world and the largest economy in Asia not to fulfill its responsibilities' (cited in Altbach 1998c). US officials also warned of a protectionist backlash in the United States against the flood of low-price Asian imports (including from Japan) and resulting increased trade deficits that had been triggered by the depreciation of Asian currencies and by the attempts by Asian countries to export their way out of financial crisis. To avert such a backlash, Asian countries needed to open their markets further to US exports.

Then Japan announced US$204 million in aid to APEC's developing countries to develop their fishing and forestry industries, a choice evidently intended to rankle the US and to emphasize the importance of development cooperation rather than trade liberalization as an APEC objective. USTR Charlene Barshefsky charged that, 'Japan is going around the region promising overseas development assistance to countries that don't participate,' and asked 'whether Japan will become a constructive force in APEC or . . . will continue on the destructive path that it has thus far set for itself' (cited in *New York Times*, 11 November 1998). Japanese officials angrily denied that the promised aid was linked to support for Japan's EVSL position. The spokeswoman for Japan's Foreign Ministry, Miki Kiyoi, responded that, 'if the biggest economy in the world magnifies forestry and fishing, this is truly counterproductive' (cited in Khanna 1998).

By the time of the ministerial meeting in Kuala Lumpur, Japan had gained the support of China, Malaysia, Indonesia, and Thailand for its refusal to participate in EVSL for forestry and fish products. Unable to muster a consensus agreement on EVSL, APEC instead referred it to the WTO for further negotiation. US officials attempted to put a positive spin on what was an unequivocal setback, expressing confidence that a WTO accord on the nine EVSL sectors could be negotiated in 1999. Japanese officials indicated, however, that the nine sectors would not be negotiated until the next multi-year round of the WTO, scheduled to start in 2000, was underway (see Richardson 1998a). As Bello (1998a) observed, 'Apec is effectively stalemated, and all the players know it.' However one might evaluate the thrust of the CA that the United States had promoted within APEC, there can be little doubt that Japan had succeeded in blocking it.

US exercise of blocking power: the AMF proposal

In summer 1997, much of East Asia was struck by an unanticipated currency and financial crisis of greater scope and depth than any since the 1930s. It was first manifest as a currency crisis in which the Thai baht was besieged by speculative attacks premised on expectations that the baht, which was pegged to the US dollar, would be unable to hold its value. After expending its stock of reserves trying to defend the baht, the Thai government had no choice but to let the currency float, after which the baht lost half of its value in the next six months. As foreign investors fled the country, growth ground to a halt, and the value of Thai assets shrank. The crisis soon spread to Indonesia and South Korea, as well as to Malaysia and the Philippines, and, to lesser degrees, elsewhere in the region. These countries too suffered from large, rapid capital outflows, sharp currency depreciation, and collapsing stock market valuations. Accompanying these disasters was financial instability: with exchange rates suddenly much lower, firms were unable to repay short-term debts to foreign creditors, and many banks and other domestic financial institutions failed. The resulting slowdowns in economic activity forced bankruptcies and layoffs which, in turn, shredded weak social safety nets and, particularly in Indonesia, triggered political unrest.

First Thailand, then Indonesia, followed by South Korea, were forced to turn to the IMF for financial assistance of unprecedented proportions. In such circumstances, the IMF imposes stiff 'conditions' that the recipient must meet to receive the loans. Typically, IMF conditionality requires an assortment of austerity measures that aim to stabilize the currency, reduce current account deficits, curb domestic demand, and restrain inflation. But in the case of the Asian bailout packages, the IMF, under strong influence from the US Treasury Department, went much further in prescribing radical institutional reforms intended to make the financial systems of the borrowing countries more closely resemble Western-types, but which many in Asia and elsewhere regarded as unnecessary for resolution of the crisis at hand.[30] The IMF's new-found reach – well beyond its usual mandate and deep into what heretofore had been considered members' sovereign prerogatives – was justified in terms of a diagnosis of the crisis that placed heavy causal emphasis on features that were internal to the affected countries and characteristic of the developmental state model first pioneered and since promoted by Japan: tendencies toward crony capitalism, corruption, and lax oversight that are thought to accompany close ties among the state, industry, and the financial sector.

Critics acknowledge that this line of explanation of how the crisis occurred is partly true, but that it conveniently overlooks the role of vast increases in short-term capital flows that resulted from the too-rapid capital market liberalization pushed upon East Asian countries (and much of the rest of the world) by what has come to be called the 'Wall Street–Treasury–IMF complex.'[31] From this perspective, the extreme degree of capital mobility that resulted makes for an unstable international financial regime vulnerable to precisely the kind of crisis that occurred in East Asia. Besides the charge that the IMF had exceeded its mandate in insisting on reforms aimed at emasculating the developmental state, another widely voiced criticism of the IMF was that it applied 'one size fits all' conditionality packages that had originally been designed for *insolvency* crises involving sovereign debt in Latin America. The East Asian cases, however, were essentially *liquidity* crises involving private debt. The inappropriate remedies served to exacerbate the liquidity crisis, expanding it into a broader economic crisis. Higher interest rates, for example, were prescribed to restore the confidence of investors. But this step also squeezed domestic firms, especially those with high levels of debt (as is characteristic of the affected countries). The bankruptcies and layoffs that followed from the credit crunch raised the human and social costs of the crisis. Moreover, the combination of depreciated currencies, reduced equity values, and failing firms enabled foreign firms to acquire undervalued assets at bargain basement prices, thus fueling conspiracy theories, charges of neocolonialism, and fear of Western domination. Resentments of the IMF (and of the US) over these developments joined those stemming from the 'sovereignty costs' incurred in bowing to IMF demands.

Other perceived shortcomings in the IMF's solution to the regional crises included its slow response times (due to the IMF's cumbersome procedures), an important factor in light of the rapidity with which capital moves and speculative attacks can be mounted. Another was the insufficiency of IMF resources given the growing scale of the problem, and the quota-based limits on how much each member can borrow. The first bailout package, for Thailand in August 1997, amounted to $17.2 billion. The IMF committed $4 billion, as did Japan, and the World Bank, Asian

Development Bank, and various Asian countries contributed the balance of the package. The United States did not contribute.[32] In November, the IMF put together a $40 billion package for Indonesia, including $10 billion of its own resources and $4.5 and $3.5 billion from the World Bank and Asian Development Bank, respectively; Japan and Singapore pitched in with $5 billion each, and the US this time contributed $3 billion.[33] The December 1997 bailout for South Korea totaled $57 billion, the largest such package in IMF history. The IMF put up $21 billion, Japan's $10 billion was again the largest from contributing countries, and the US pledged $5 billion. By this time, IMF resources were largely depleted, raising concerns about how it would deal with subsequent crises that seemed likely to emerge in Asia or elsewhere. Yet the US Congress, where the IMF faced considerable opposition (for very different reasons than in Asia) did not appropriate until October 1998 the funds to replenish IMF resources ($17.9 billion in new funds, a 45 per cent increase in the US quota at the IMF).

It was in these circumstances that Japan, at a September 1997 meeting of G7 finance ministers in Hong Kong, took an uncharacteristically ambitious and bold leadership initiative. The Japanese finance minister, Hiroshi Mitsuzuka, proposed creation of an Asian Monetary Fund, a standing institution with $100 billion capitalization to provide emergency financial assistance to Asian countries faced with instability like that which had hit Thailand, Indonesia, and South Korea. The idea had been vetted over several months in the region, where it apparently had received an enthusiastic reception. But the actual proposal in Hong Kong apparently caught US, European, and IMF officials off guard. It had not yet been thoroughly worked out, and not much detail was provided. As Hamada (1999: 45) points out:

> There was no official or unofficial systematic document that justifies the proposal, describes the process of implementation, analyzes the economic functions, or explains the philosophy underlying the proposal. There was no systematic account of why the activity of the IMF is insufficient, why Asia requires an additional regional monetary institution, or even why the AMF is necessary for solving the Asian currency crisis.

After the proposal was made, Japanese officials emphasized that the AMF would have sufficient resources in so far as it could be funded by the ample international reserves of Japan and other surplus countries in the region. And, with resources already in hand, the AMF would be able to respond more promptly than the IMF. These features would serve to deter speculative attacks on currencies and, failing that, would be sufficient to repel them.

Reacting to criticisms, Japanese officials also stressed that the AMF was intended to complement the IMF rather than supplant it, that AMF funds would be additional to those provided by the IMF, and that AMF disbursements would be contingent on IMF approval. But therein lay a critical ambiguity: how would AMF funds be disbursed without delay if the IMF had not yet had time to formulate and negotiate the terms of conditionality with the recipient? And other reports seem to indicate that the AMF was either not intended to require conditionality at all or to impose a much softer version.[34]

At Hong Kong and in the several months that followed, US officials, especially from the Treasury Department, along with European and IMF officials, argued against creation of an AMF on several grounds. First, they contended that the 45 per cent increase in quotas would provide the IMF with sufficient resources, so the AMF was unnecessary. Second, steps were taken in November to create a new financing 'window' that would permit a more expeditious IMF response to crises. Third, and most vehemently, it was argued that an AMF would undermine the authority of the IMF, particularly by reducing its leverage to compel reforms by means of conditionality. Access to AMF funds with no or weak conditionality that enabled recipients to bypass IMF conditionality would of course be seen as a plus from the standpoint of recipients, who could now engage in a kind of institutional arbitrage, and by those Japanese officials who thought it important to defend the developmental state model. But Western opponents viewed the AMF as enabling potential recipients to avoid undertaking the reforms necessary to restore financial stability.[35] Furthermore, the IMF itself had been heavily criticized (in the US Congress and in other quarters) for creating 'moral hazard,' that is, encouraging risky, irresponsible financial behavior by leading countries, as well as banks and investors, to believe they would be bailed out. Steps taken to minimize this problem would not be effective if there was a choice of conditionality programs available to recipients. Lax or no conditionality would only worsen the moral hazard problem.

Finally, it was widely surmised that US opposition to the AMF stemmed from its unwillingness to see the IMF, in which its influence borders on dominance, diminished by creation of a new institution that would be dominated by Japan. This strategic concern was accentuated by the fact that the AMF proposal was vetted among Asian countries in fora that had deliberately excluded the United States, and that reportedly aimed at gaining leverage *vis-à-vis* the US on financial policy. In this context, Terry (2000: 291) points out that, 'China and Japan are the largest holders of U.S. Treasury certificates, and the Asian Monetary Fund raised the specter of Asian financial coordination against the United States.' Another motivation that may have intensified US insistence on the continued centrality of the IMF stemmed from domestic sources: the Clinton administration's problematic relations with the Republican-controlled Congress, as in the case of fast-track authority, undercut US leadership and increased reliance on the IMF as an instrument of US policy. In Altbach's (1997b: 9) terms:

'With the White House increasingly constrained by Congress from committing significant financial resources to international initiatives, Washington has been forced to use the IMF as a primary mechanism for exercising U.S. influence on world monetary affairs.'

In the face of stiff opposition from the US and the IMF, as well as from China,[36] other Asian countries and Japan itself began to back away from the AMF proposal and to reaffirm the centrality of the IMF. At a November 1997 meeting in Manila of finance ministers and central bankers from fifteen Asia-Pacific countries, the AMF proposal was dropped and agreement was reached on what was termed the Manila Framework. The framework, which was 'strongly endorsed' shortly thereafter by APEC at its Vancouver meeting, called for establishing a mechanism for regional financial surveillance to be conducted from the IMF's Tokyo office; cooperative measures to strengthen domestic financial systems and regulatory mechanisms; steps to enhance the IMF's ability to respond quickly to crises; and a cooperative financing mechanism to supplement IMF resources. The latter was scaled down considerably from the AMF ($20 billion rather than $100 billion) and would take the form of a stand-by arrangement rather than a standing institution, i.e., members would precommit resources that could then later be drawn on an as-needed basis. These resources could only be disbursed after an IMF program with conditionality had been negotiated, and would be additional to those provided by the IMF package. In short, the new facility sketched at Manila was to be entirely subordinated to the IMF.[37]

Japan's readiness to forsake the AMF proposal was partly attributable to the magnitude of its own financial and banking problems. First, the scale of the resources that would be required to launch and operate a Japan-led AMF likely loomed large, perhaps a serious over-commitment in light of the huge amounts of resources that would likely be needed to right its domestic financial system. Second, the depth and persistence of its domestic financial problems undermined the intellectual credentials and status as model or exemplar that would be needed were Japan to wage a successful diplomatic battle to establish an AMF along the lines originally proposed. And, once Japanese advocacy of its proposal weakened, Asian developing countries that had strongly supported the AMF were not willing to risk offending the US and the IMF at a time when their economies were either in or teetering on the brink of economic crisis.

Altbach (1997b: 12) concludes that an 'important lesson that can be drawn from the outcome of the debate over the Asian Monetary Fund is that the decline of U.S. power and influence in Asia has been greatly exaggerated.' This conclusion, however, is in need of qualification: US power was effective in blocking CA proposed by Japan but, as evidenced in the APEC case, it no longer seems able to deploy its power positively to design and put into effect widely beneficial CA.

Conclusion

If a post-hegemonic US could no longer muster sufficient structural power to push through its liberalization agenda in APEC, it retained enough to block Japan's proposal for a new regional institution, the AMF. Likewise, Japan was unable to overcome US and IMF resistance to its AMF initiative, but it was able to bring to bear sufficient structural power to block US efforts to transform APEC into a forum for negotiating trade and investment liberalization. How can we account for the resort to blocking power by Japan and the United States, and what inferences can be drawn from these prominent cases about the likely future of international leadership in a post-hegemonic, post-Cold War era?

The exercise of blocking power stemmed in both instances from divergent national interests with respect to the shape and purpose of CA in the Asia-Pacific. Or, it is probably more accurate to say that in the post-Cold War era mutual adjustment of interests in order to reach coordinated solutions to CA problems was no longer perceived as an imperative by either country. US and Japanese interests have never been entirely harmonious, but the security exigencies of the Cold War placed a premium on suppressing parochial interests to ensure cooperative solutions. Absent such motivation to subordinate conflicts of interest, the cooperative basis of the relationship – and thus also the political foundations for any sort of shared leadership – has deteriorated.

The United States operates on narrow margins in its efforts to play a leadership role in promoting liberalization in the Asia-Pacific. As US officials repeatedly emphasized in the context of the APEC liberalization process, American markets are, with some significant exceptions, already among the most open in the world. Several implications follow. First, the US, especially without fast-track negotiating authority, has little to offer as inducements for others to expand access to their less open markets, so any sort of multilateral liberalization negotiations will of necessity be asymmetrical, with the US demanding more by way of concessions than it is able to reciprocate. Second, this asymmetry in multilateral settings has resulted in frequent US resort to unilateral means to pry open others' markets, not least in Asia. Herein lies a difficult dilemma, since it is the US's unilateral tendencies that have made others loath to enter binding liberalization commitments for fear that they will face unilateral enforcement if the US – as self-appointed judge, prosecutor, and jury – determines their trade policies are 'unfair.' Indeed, as Kahler (2000: 568) argues: 'For APEC to pursue a more legalized future, the United States would need to credibly commit to ending "aggressive unilateralism".' In sum, its huge, affluent market provides the US with a significant source of structural power. But given the relatively open status of its markets, the main way for the US to exercise that structural power – by unilaterally restricting access – undermines the legitimacy of its leadership.

Also undermining the legitimacy of US leadership has been the transparently self-interested character of the proposals it has pushed, notably the Information Technology Agreement and parts of the EVSL; those sectors (e.g., textiles) and practices (use of anti-dumping laws) that the US has kept off the agenda at APEC (and WTO); and the meager contents of the IAPs submitted by the US. Indeed, the reaction of Asian developing countries to the ITA proposal at Manila, and at other junctures in APEC's ill-fated liberalization process, suggests that they did not expect that the CA the US was proposing would yield a distributive outcome that could properly be termed a regional or global public good.

Japan likewise offered scant little to APEC's liberalization process, mostly recycled tariff cuts that had already been pledged in other fora and for products in which tariffs were already low. It should hardly be surprising then, as Johnstone (1997) observed, that, 'If the United States and Japan are unwilling to take the lead in bringing down their remaining tariff and nontariff impediments, APEC's other member countries – which in many cases are far more protected – will have little incentive to go forward themselves.' This indeed was the outcome, one which, as argued earlier, reflected Japan's preferences. How then should Japan's role in blocking APEC trade and investment liberalization be evaluated from a leadership standpoint?

From one perspective, if some (or perhaps many) other Asian countries preferred a loose, non-binding, consensual APEC focused on development cooperation, and thus were reluctant to commit to formal liberalization under APEC auspices, should not Japan's deployment of structural power to block this result be considered a form of leadership? As Yoshihiro Sakamoto (1995), MITI vice-minister of international affairs, put it prior to the Osaka meeting, 'Japan should keep step with the rest of Asia by agreeing only to those US proposals that are acceptable to the whole of Asia.' But this approach reduces leadership to simply seeking the lowest common denominator, and virtually ensures that meaningful CA will not be forthcoming. Leadership instead involves inducing others to undertake CA that stands to serve their long-term interests but that, usually for shorter-term political reasons, they otherwise would decline.

From another perspective, the expressed preference for loose, non-binding arrangements, while certainly deriving in part from Asian culture and identity, can also be interpreted as a strategic choice. As Acharya (1997: 342, 343) warns:

> [T]he risk that the 'Asia-Pacific way' could legitimize the inability of the regional actors to push collective goals ahead of individual self-interest should be recognized and avoided. . . . It could become counter-productive if it legitimizes the failure of states to rise above their national interests, and encourages them to adopt a minimalist and conservative approach to cooperation. A great deal of what

> passes for the 'ASEAN way' or the 'Asia-Pacific way' is simply a pragmatic and practical response to situations in which multilateralism is being constrained by individual state interests.

And, multilateralism can be more decisively constrained, let us say blocked, by the interests of a state, such as Japan, that wields substantial structural power and is determined to use it to defend narrow national interests.

The AMF proposal represented an attempt by Japan to apply its structural power in a more positive fashion, although it fell short in terms of providing the entrepreneurial leadership needed to gain adequate support. First, the fact that the proposal's announcement in September 1997 surprised the United States, the IMF, and its European supporters contributed to their negative reaction. Second, in its original, poorly articulated form it was certain to provoke opposition on grounds that it would undermine the IMF by providing Asian countries with an alternative requiring weak or no conditionality. Nonetheless, the basic idea of an Asian facility that mobilizes the ample reserves of the region's economic powers for purposes of crisis prevention and financial stabilization continues to be regarded as sound by many within and outside the region. Calls for some form of AMF that is compatible with the IMF continue to resurface and many regard eventual formation of such an institution as highly likely (Dieter and Higgott 2000; Bergsten 2000); some weaker forms of regional CA (currency swap arrangements) that can be considered as elements of a future AMF are already under way (Castellano 2000). In sum, Japan should be credited for putting forth an ambitious leadership initiative which, while not immediately successful, launched a regional dialogue on feasible forms of CA in the financial and monetary areas that will likely bear fruit sooner or later.

For its part, the United States contributed little to resolution of the Asian financial crisis, with the significant exception of providing a market of last resort for the region's distressed exports. The US used the occasion of the crisis to insist on further liberalization, the importance of capital mobility, and the primacy of the IMF, none of which seemed compelling to the region's afflicted countries. As Zakaria (1998: 80) contends: 'Washington has insisted on keeping tight control of the international response to the global economic crisis – while offering very little by way of policy ideas, initiatives, organization or money.'

Neither the APEC nor the AMF debates need have been so dominated by acrimonious efforts by Japan and the US to thwart each other's leadership initiatives. The point is not that any and all CA proposals are worthy of implementation. Indeed, both the United States' and Japan's initiatives were flawed in ways described earlier. But could not these flaws have been ironed out, the proposals improved and made more widely acceptable, and US–Japan differences over them reduced through a process of prior consultation and coordination? Such a process, which would be the stuff of shared leadership, does not seem too much to expect. Instead, as an unnamed US official lamented in the wake of the 1998 Kuala Lumpur APEC meeting, 'We behave like two people busy punching holes in the bottom of a boat we are both in' (cited in Hoagland 1998).

If Gilpin (2000: 3) is correct in his assertion that, '[t]he international capitalist system could not possibly survive without strong and wise leadership,' the recent state of leadership in the Asia-Pacific portends rough times ahead.

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Notes

1 For a sampling of skeptical views, see also Richardson (1998a), Bello (1998), and Castellano (1999).

2 See also Ikenberry's (1996) specification of structural, institutional, and situational leadership. The latter is quite similar to what Young means by entrepreneurial leadership, while institutional leadership, 'refers to the rules and practices that states agree to that set in place principles and procedures that guide their relations' (Ikenberry 1996: 391). Rix (1993) has developed the notion of 'leadership from behind' to describe what he sees as Japan's distinctive style of leadership – low key, behind the scenes, consensus building rather than bold initiatives and overt exercises of structural power – and which he likens to Young's concept of entrepeneurial leadership. Drifte's (1996) description of what he terms 'stealth leadership' is quite similar.

3 Young argues that at least two forms of leadership are necessary (though not necessarily sufficient) and that any two will do, but it seems reasonable to specify further that one of these two be structural leadership. Minimally, we would expect the probability of successful leadership to be higher when structural leadership is in the mix. For a fuller discussion, see Rapkin (1995: 106–9).

4 For a survey of suspicions in Southeast Asia about the legitimacy of US leadership efforts in APEC, see Nesadurai (1996); for discussions of the various obstacles to the legitimacy of Japan's leadership, see Rapkin (1990), Cowhey (1993), and Hellmann (1997).

5 For a fuller conceptual discussion of shared leadership and what would be required for its exercise, see Rapkin and Strand (1997).

6 This common-sense observation of the importance of convergent preferences is often overlooked in accounts of CA failures, which have often focused on the size of the group considering CA, arguing that problems of enforcement

and distribution increase as the number of members increases. Haggard (1997) instead emphasizes the group's preference structure, arguing that size is important in so far as the larger the number of participants, the higher the probability that their preferences will diverge. Cowhey's (1995: 206) similar emphasis in an Asia-Pacific context anticipated the course of APEC trade negotiations in the last half of the 1990s: '. . . Japan and the United States have different preferences about dealing with trade issues in the Pacific. These result from different strategic bargaining positions and different domestic political institutions.' For analysis of convergent and divergent US–Japan preferences in the Bretton Woods institutions, see Rapkin and Strand (1997).

7 For discussions of decision rules in the Bretton Woods institutions, see Rapkin and Strand (1997) and Rapkin *et al.* (1997).

8 Cf. Drifte (1996: 162): 'The mere anticipation of any Japanese action can prevent other players from pursuing their national interests if they are seen as conflicting with Japan . . . Japan now matters so much that it does not actually have to do something in order to effect an outcome which is beneficial to its national interest.'

9 In the area of human rights, the US has opposed the creation of an International Criminal Court, as well as the Convention on the Rights of the Child (the efficacy of the former, but probably not the latter, is significantly reduced by the lack of US participation). A similar pattern is found on various arms control issues: the US Senate has voted to not ratify the Comprehensive Test Ban Treaty, and the US opposed the treaty banning the production and use of land mines. Nor has the US approved the Chemical Weapons Convention, thereby weakening inspection safeguards; and it is lagging in commitments to tighten controls on biological weapons. There is also a wide range of environmental issues on which the United States has either tried to block or weaken proposed CA, including, in addition to the climate change example mentioned earlier, biodiversity, desertification, and regulation of trade in genetically modified food products.

10 See also Watanabe and Kikuchi (1997: 141). For a skeptical view, see Higgott (1995).

11 See also Kahler's (2000: 562) point about how this reluctance is reinforced by US unilateralism: 'Governments may reject binding and precise obligations in a setting that requires bargaining with a government (the United States) that not only has greater economic and legal capabilities but also has demonstrated an attachment to unilateral enforcement.'

12 For a similar line of argument, see Doner (1997: 201–2), who contends that Japan's private and public networks across East Asia have substituted for formalized regional trading arrangements by solving one type of CA dilemma, 'coordination' problems.

13 The value dimension, of course, also arises in the context of trade and investment liberalization. Consider, for example, the US government's 1997 'Trade Policy Agenda' which asserts that 'trade is the tool by which we can project America's core values globally' (cited in Bullard 1997).

14 Concern with potential Japanese dominance of the region has most often arisen in connection with the 'cap-in-the-bottle' function attributed to the US–Japan security alliance, i.e., the role of the alliance in preventing the possible remilitarization of Japan.

15 For instance, in addition to the three fundamental objectives discussed above, Baker (1998: 169–71) presents more APEC-specific objectives, several of which are or have been shared by the US and Japan: building a stable regional order, spurring the completion of the Uruguay Round of GATT negotiations, and developing mechanisms to resolve US–Japan economic disputes.

16 For discussions of Malaysia's, as well as China's, reservations, and an account of other members' reactions, see Funabashi (1995: 92) and McBeth and Kulkarni (1994).
17 The discussion of PFP relies on Lachica (1995), Oishi (1995), Urakami (1995), and Funabashi (1995: 194–5).
18 The discussion below of these disputes draws on the accounts of Johnstone (1995a, 1995b) and Funabashi (1995).
19 In a comment that resonates with the earlier conceptual discussion of leadership and CA, US Ambassador to APEC Sandra Kristoff complained that, '. . . the "C" and the "A" of CUA are not convincing, leaving only the "U". The US doesn't see much value in the "U" alone' (cited in Funabashi 1995: 96).
20 As used in an APEC context, 'collective actions' on trade and investment *facilitation* (for example, harmonization of customs procedures) approximates a specific kind of CA problem – coordination. Collective actions (again as used in the APEC lexicon) on trade and investment *liberalization* (what was rejected in the course of the year leading up to the Osaka summit) represent a different type of CA problem – collaboration. The latter, because it requires mutual policy adjustment, stronger forms of institutionalization, and enforcement mechanisms, is generally thought to be more demanding and harder to solve than the former.
21 For an excellent treatment of these and other aspects of what is termed the 'ASEAN way' or 'Asia-Pacific Way' – including voluntarism, consensual decision-making, and aversion to formal, legalistic processes and institutions – see Acharya (1997). Kahler (2000) argues that the aversion to 'legalization' in APEC represents a strategic choice rather than shared cultural proclivities.
22 Fast-track negotiating authority enables the executive branch to negotiate trade liberalization agreements and then have them voted up or down as a package (rather than item-by-item) by the Congress. Absent fast-track authority, the US government is not able to offer much by way of concessions and foreign governments are understandably reluctant to concede to US demands.
23 Other contentious issues were finessed at Osaka, notably the definition of 'open regionalism' and the associated question of whether APEC trade liberalization should be extended to non-members without requiring reciprocal concessions, as advocated by Japan. The US opposed such an arrangement on grounds that European and other countries would be able to 'free ride' on the (often politically costly) liberalization efforts of APEC members. The Osaka Action Agenda did not attempt to settle this issue, instead leaving it for future resolution.
24 In fact, there were concerns that some countries' (e.g., Indonesia) tariff cuts had been offset by non-tariff barriers instituted since Osaka. The importance, especially from an American standpoint, of tackling the problem of non-tariff barriers is well expressed by Flamm and Lincoln (1997: 3):

> In some Asian countries, protectionist government policies have historically been opaque, informal, and often officially deniable. Such policies were an effective means of abiding by the formality of binding tariff, quota, and subsidy concessions while protecting or promoting domestic industries and firms. APEC has been able to move beyond the traditional focus of the WTO on tariffs, quotas, and subsidies, and put some of the new issues on its agenda. But little serious discussion or negotiation has occurred yet in these areas. As long as Japan, South Korea, China, and others believe that the government should play a broad and active role in favoring the home team at the microeconomic level, these countries will continue to resort to problematic informal or invisible barriers. Political support for a unilateral

dismantling of remaining trade barriers in the United States will not be forthcoming unless these issues are addressed.

25 For example, US tariffs on semiconductors (0 per cent), computers (1.9 per cent), and telecommunications products (5 per cent) were typically a small fraction of the double-digit rates among APEC's Asian developing countries (see Lachica 1996).

26 Concerns about non-tariff barriers also arose in the ITA context, specifically that the tariff cuts agreed to would be offset by newly instituted non-tariff barriers in countries keen on protecting infant IT industries.

27 Soo Gil Young, president of the Korea Institute for International Economic Policy, cited in Miller (1997).

28 By some accounts, Japan's adamant refusal to liberalize was not so much in response to immediate domestic political pressures as it was part of a longer-term, rearguard strategy to avoid rice market liberalization. According to an unnamed Japanese government source: 'The ministry [of Agriculture, Forestry and Fisheries] is firmly resolved to protect the rice market at any cost. Therefore, it wants to delay any concessions on the fish, forest, and some other non-rice agricultural products until the new round of WTO negotiations begins, in hopes of heading off pressure over the rice issue in exchange for those concessions' (cited in Masaki 1998).

29 Shigeo Matsutomi, Director of the APEC Division, Ministry of Foreign Affairs (cited in Yeoh 1998).

30 Wade and Veneroso's (1998: 11–12) summary of the IMF's conditionality for Korea is highly instructive:

> It requires major financial restructuring to make the financial system operate like a western one, though without actually saying so, including closing down or recapitalizing troubled financial institutions; letting foreign financial institutions freely buy up domestic ones; requiring banks to follow western ('Basle') prudential standards; requiring 'international' (read 'western') accounting standards to be followed and international accounting firms to be used for the auditing of financial institutions. It requires the government to undertake not to intervene in the lending decisions of commercial banks, and to eliminate all government-directed lending; and to give up measures to assist individual corporations avoid bankruptcy, including subsidized credit and tax privileges. . . . The Fund also requires wider opening of Korea's capital account, to enable even freer inflow and outflow of capital, both portfolio capital and direct investment. All restrictions on foreign borrowing by corporations are to be eliminated. The trade regime, too, will be further liberalized, to remove trade-related subsidies and restrictive import licensing. Labor market institutions and legislation will be reformed 'to facilitate redeployment of labor'.

31 Bhagwati (1998) introduced the phrase 'Wall Street–Treasury complex' to refer to the interests represented by a kind of 'power elite' network that presses incessantly for capital market mobility so as to open other countries to highly competitive American firms in the financial sector. Wade and Veneroso (1998) extend the phrase to 'Wall Street–Treasury–IMF complex' to encompass also the international institutional component of this network. Note that US efforts to promote capital market liberalization are parallel to its efforts (by means of APEC and the WTO) to promote liberalization of IT, another sector in which American firms have a strong competitive position. Bhagwati, an economist known for his strong support for free trade, argues forcefully that the

salutary effects that follow from trade liberalization do not necessarily accompany capital market liberalization.

32 The US decision not to contribute to the Thai bailout package contrasted with its expeditious and decisive steps to put together a $50 billion bailout of Mexico in 1995, and also created the impression that the US was indifferent to Asia's problems. The Clinton administration was constrained by the fact that the Republican-controlled Congress had passed a law restricting the President's use of the Exchange Stabilization Fund that had been accessed for the Mexican bailout. Nonetheless, US leadership was off to a poor start in coping with the emerging Asian crisis. For an informative survey of how the United States' non-participation in the Thai bailout, as well as its general response in the early stages of the crisis, was perceived in Thailand and elsewhere in Southeast Asia, see Vatikiotis (1997). Vatikiotis quotes an unnamed senior Thai diplomat as saying that, '[t]he American attitude is driving us closer to Japan and China,' an assertion that is certainly consistent with the fate of the EVSL initiative in APEC over the course of the next year.

33 Restrictions on the use of the Exchange Stabilization Fund (see note 32) expired in the time between the Thai and Indonesian bailouts.

34 The idea of an AMF is attributed to Eisuke Sakakibara, who was then vice-minister of finance for international affairs and who had presented the concept in various Asian capitals. Sakakibara is noted for his staunch opposition to the neoliberal economic orthodoxy advocated by the IMF and US Treasury, and for his strident defense of directed credit, capital controls, resistance to deregulation, and other aspects of Japan's developmental state model. It was precisely these aspects of Asian political economies that were targeted by IMF conditionality, and that led to perceptions that the IMF and the US were using the East Asian economic crisis to try to 'roll back' the Japanese model. For this interpretation, see Altbach (1997b: 5–6), Cumings (1999), and Hughes (2000). In Higgott's (2000: 259) terms, 'the Asian crisis is a contest of ideology between Asian and Anglo-American ways of organizing capitalist production.'

35 A cautionary case in point involved Indonesia, which received a pledge of $10 billion in aid from Singapore and another $1 billion from Malaysia, while it was negotiating the terms of conditionality with the IMF. The Indonesian leader Suharto declared that he needed only expertise, but not money, from the IMF (Vatikiotis 1997).

36 China's opposition apparently stemmed from its unwillingness to see Japan assume a leadership role in the region. It has since changed its position to support some form of regional financial cooperation, perhaps because the objective of reducing the US role in the region has been given higher priority than limiting Japan's role.

37 For interesting treatments of the failure of regional organizations, including APEC, to mount an effective response to the crisis, and of the failure to use the crisis as an opportunity to build new institutions, such as an AMF, see Wesley (1999) and Cheng (1998). From a different perspective, as suggested by an anonymous reviewer, US success in blocking the AMF might be viewed as global leadership in defense of the global multilateral institution, the IMF. While this was certainly an ostensible explanation for US actions, it is difficult to differentiate it from the more self-interested motivations discussed above.

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