

Regional Leadership Dynamics and East Asian Financial Cooperation: Sino-Japanese Competitive Coexistence and the Development of the Chiang Mai Initiative*

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본 연구는 동아시아 지역 리더십 특성을 서술, 설명하고, 궁극적으로 지역 리더십 특성이 동아시아 금융협력의 가장 대표적인 결과물인 치앙마이 이니셔티브(CMI)의 발전에 어떠한 영향을 미쳤는지를 조사한다. 본 연구는 동아시아 금융협력에서 나타난 리더십 특성을 중·일간의 경쟁적 공존관계로 규정하고, 이러한 중·일간의 경쟁적 공존관계는 변화하는 지역 팔로우워십(Followership)과 중·일의 비관적 전략 행동 간의 상호과정 결과임을 주장한다. 본 연구는 중·일 경쟁적 공존관계가 치앙마이 이니셔티브의 점진적 발전의 중요요인으로 작용하였지만, 동시에 치앙마이 이니셔티브가 미국이 주도하는 지구적 금융 거버넌스 체계를 대체하기 보다는 보조하는 수준에 머무르게 하는 원인이 되었음을 주장한다.

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▪ 주제어: 동아시아 금융협력, 중·일 경쟁적 공존, 지역 리더십, 팔로우워십, 아시아 통화 기금, 치앙마이 이니셔티브, 치앙마이 이니셔티브 다자화

I. Introduction

There have been dramatic changes in East Asian financial cooperation since the 1997 Asian financial crisis. A proposal for an Asian Monetary Fund(AMF) was made in the wake of the crisis but failed to be realised. However, the idea of creating regional financial governance mechanisms re-emerged when the ten members of ASEAN, China, Japan and South Korea(ASEAN+3) agreed to the Chiang Mai Initiative(CMI) in May 2000, designed to provide short-term liquidity support through a network of bilateral swap arrangements(BSAs). Through the late 2000s, the CMI has been upgraded into the CMI Multilateralisation(CMIM) that moves toward a regional monetary fund. This development represents the most tangible achievement of East Asian economic cooperation.

Such dramatic changes are highly relevant to regional leadership dynamics in East Asia. The AMF proposal was Japan's unprecedented ambitious leadership initiative, but it was frustrated not only because of US and IMF's strong opposition, but also China's muted opposition which made it more difficult for Japan to overcome external opposition. However, Japan and China have coexisted to play leading roles in developing the CMI, which has forced the US to give its reluctant consent.

Many observers interpret this to mean the emergence of Sino-Japanese cooperation and try to explain it. In particular, most of them focus on China's changing policies from muted opposition to the

AMF to support for the CMI because Japan has relatively constantly pursued to create regional financial mechanisms. However, they fail to give a compelling account for regional leadership dynamics.

Some analysts argues that Chinese policy elites learned the importance of regional financial security not only to China's sustainable economic development but also to its political security or even regime survival and this learning led China to cooperate for the Japanese-initiated CMI(Sohn 2008). However, Chinese decision-makers like Dai Xianglong, Chinese Central Bank governor, already recognised in the wake of the crisis that "financial instability harms all Asian countries"(Flint and Leggett 1997). If this is the case, the puzzle of the timing of China's support for a regional financial mechanism remains unsolved.

It has been also argued that China supported the CMI because it gave its higher priority to reducing US influence in the region than containing Japan(Bowles 2002; Narine 2001; Rapkin 2001). This explanation runs counter to the fact that Chinese officials and academics reaffirmed in the late 1990s that maintaining a close relationship with the US would prove crucial to their country's sustainable economic development(Foot 2006; Shambaugh 2004; Wang 2005). Similarly, this also refutes the argument that Japan and China share a common policy goal to establish a regional institution that can represent Asian identity and voices and exclude the US and this has made it possible for them to cooperate in developing the CMI(Chey 2009).

Another plausible explanation is that growing social interactions through the ASEAN+3 framework helped Asian states learn the benign nature of regional cooperation and develop an East Asian identity, this in turn encouraged Japan and China to cooperate for regional financial cooperation(Nabers 2003; Sohn 2008; Terada 2003).

This may be true, but it should be noted that regional financial dialogues among ASEAN+3 countries were first initiated by China's proposals in 1998 and 1999 for the ASEAN+3 Finance and Central Bank Deputies' and Finance Ministers' meetings. This reduces us to the question why China changed its positions to support regional financial cooperation in the first place.

More significantly, interpreting emerging regional leadership dynamics of East Asia as simple Sino-Japanese cooperation cannot explain some important peculiarities manifested in the development of the CMI. The CMI and the CMIM have closely linked to the IMF. 90 per cent (later reduced to 80 per cent) of the amounts available under the CMI and the CMIM would be disbursed only if the borrower agreed to an IMF programme. This is so unique and much tight in comparison to bilateral and regional swap arrangements in other regions (Henning 2002). In addition, the CMI did not start as a full-fledged regional financial governance mechanism like the proposed AMF, but rather has gradually developed from a network of BSAs to its multilateralisation. If Japan and China shared a common policy goal to create an East Asian regional financial governance mechanism and to reduce US influence over the region, why did they link the CMI and the CMIM closely to the US-dominated IMF? If Japan and China cooperated for the CMI development in a harmonious way, why were they unable to launch the CMI as a full-fledged regional institution or at least to adopt a collective decision-making procedure for the CMI from the beginning?

This paper suggests that regional leadership dynamics emerging in East Asia has not represented simple Sino-Japanese cooperation, but rather their competitive coexistence. Japan and China have coexisted to cooperate for the CMI development to compete for taking a greater leadership position. The paper argues that Sino-Japanese competitive

coexistence reflects reciprocal interactions between regional shifting followership and Japan's and China's critical strategic actions to secure followership. It proves: that regional low acceptance of Japan's leadership claim discouraged Japan's initiative for the AMF proposal and gave China a rationale for its objection to the AMF; and that Japan's critical strategic actions taken after its failure of the AMF proposal generated growing regional acceptance of its claim to leadership and the idea of creating a regional financial mechanism, and this in turn led to China's participation in the CMI as a reflection of its critical strategic actions. The paper also proves that the emerging Sino-Japanese competitive coexistence has constituted the gradual development of the CMI into the CMIM, but at the same time, it has shaped them as supplementing rather than supplanting the US-led IMF.

In the following sections, this paper scrutinises and explains the emergence of Sino-Japanese competitive coexistence. It then explores the impacts of Sino-Japanese competitive coexistence on the development of the CMI into the CMIM. It concludes by considering briefly the prospects of East Asian financial cooperation and its relationship with the US-led global governance.

II. Emergence of Sino-Japanese Competitive Coexistence

1. Sino-Japanese Competition and the Failure of the AMF Proposal

The 1997 Asian financial crisis revealed the inefficacy of the US-led

global financial governance system in crisis prevention and management. The IMF was unable to not only prevent the outburst and spread of the financial crisis in the region, but also alone provide funds necessary to bail out crisis-hit countries. Washington's ability to provide bridging fund for the IMF rescue packages for East Asian countries had been severely limited by a congressional resolution which had passed after the US\$ 50 billion Mexican bail-out in 1995 and was preventing the US administration from committing more than US\$1 billion in any one year without congressional approval. This provided good opportunities for Japan and China to enhance their leadership roles in regional financial governance.

Japan took an unprecedented ambitious leadership initiative. At the IMF/World Bank meeting in September 1997, Japan formally proposed establishing an AMF. The proposed AMF embodied a Japanese-led regional alternative to the US-dominated global financial governance system. In material terms, the AMF plan reflected the growing financial capabilities of Japan and East Asia. Japan committed US\$50 billion and expected other surplus countries in the region to contribute together US\$50 billion. In institutional terms, the AMF pursued a regional institution independent of the US and the IMF. The US was not entitled to a membership of the AMF Japan envisioned. Japanese Vice Finance Minister of International Affairs Eisuke Sakakibara(2001, 1) said that "it was the desire to create a policy alternative to the IMF prescription that motivated the proposal to create the AMF". In ideational terms, the AMF would help defend the Asian developmental state model against the US-promoted neo-liberalisation.

The AMF proposal accordingly encountered US and IMF's strong opposition. While the ostensible reasons for their opposition were the AMF's duplication of IMF functions and moral hazard, the fundamental reason was their concern that the AMF would undermine

their authority and influence in regional financial governance in East Asia. US Treasury officials perceived the AMF proposal as undercutting US interest and influence in East Asia (Kristof and Wudunn 1999). IMF Deputy Director Stanley Fischer also viewed the AMF as “a threat to the authority and effectiveness of the IMF itself” (cited in Lee 2006, 358).

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

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

China's response related mainly to its rivalry with Japan for regional leadership. China appeared to fear that the AMF would consolidate Japan's economic leadership in the region. Sakakibara (*Business Times Singapore* 2003) suggested later that

China opposed to the AMF because of its fear of yen hegemony. Japan's no prior consultation with China reinforced the latter's suspicion of Japan's underlying motivation behind the AMF proposal(Interviews with Toyoo Gyohten, 19 June 2009 and Kyung-Tae Lee, 18 August 2009). For its leadership in East Asia, China wished the current regional financial system ordered by the US and the IMF to be maintained and to restrain Japanese leadership aspirations at least until the day when it would surpass Japan in terms of economic capabilities for regional leadership. At the same time, it tried to build up its ideational leadership credentials by demonstrating its image as a responsible member of the regional community and enhancing its leadership roles in the regional stages. "In line with the guiding principle of being a "responsible country", and within the framework of the IMF", China provided financial assistance worth more than US\$4 billion to the crisis-hit countries in the region and maintained no-devaluation policy of its currency(Pang 2009).

In the face of US and IMF's strong opposition and no support from China, Japan officially aborted the AMF plan at the meeting of the finance and central bank deputies from fifteen Asia-Pacific countries in Manila in November 1997. The deputies instead agreed to the Manila Framework that endorsed the central role of the IMF in regional financial governance. It is uncertain whether China's support for Japan's AMF proposal might have made it move ahead despite US and IMF's opposition. But it is clear that China's muted opposition was a vital part of the failure of the AMF idea. In short, the emerging competition between Japan and China for regional leadership in the wake of the Asian financial crisis served as a stumbling block to regional financial cooperation.

2. Sino-Japanese Competitive Coexistence and the Establishment of the CMI

Despite the failure of the AMF proposal and the establishment of the IMF-centred Manila Framework, as Shinohara(Mansor 1999) said, “Japan had not disavowed the scheme(the AMF), nor had it accepted the Manila framework as the last word, considering it just a step in the direction of the AMF’s establishment.” In October 1998, Japan launched the New Miyazawa Initiative(NMI), to which US\$30 billion was committed. Not only could the NMI disburse financial assistance to the region in a timely manner without US and IMF’s unnecessary intervention, but it also revisited the idea of creating a regional financial mechanism. The official statement of the NMI said, “it is hoped that in the long run the establishment of an international guarantee institution with a prime focus on Asian countries will be seriously considered”(MOFJ 1998). More significantly, under the NMI, Japan concluded two BSAs with South Korea(US\$5 billion) and Malaysia(US\$2.5 billion) in 1999, which served as a precursor to the CMI.

An idea for the CMI was first proposed by South Korea at the 2nd meeting of Director-Generals from China, Japan and South Korea in February 2000. Japan welcomed this idea and played leading roles in its materialization. In the following two months, Japan prepared a draft of the CMI, consulting with South Korea and China. Japan also took the responsibility of consulting with ASEAN countries as the representative of the three countries. Japanese finance minister Miyazawa apparently viewed the expanded swap arrangement as a stepping stone to an AMF(*Reuters* 2000).

While China, unlike the AMF idea, had been involved in formulating the CMI idea, it took cautious approaches to the CMI. China promised

its support for the CMI, but its support came with no definite commitment. Chinese finance minister Xiang Huaicheng made the degree of China's involvement in the CMI contingent upon "future developments" (*AFP* 2000b). China's support for the CMI signalled that it would actively participate in and even play leadership roles in developing a regional financial governance mechanism. But at the same time, China's cautious attitude reflected its persistent concern about a Japan-dominated regional financial order. After all, rather than blocking the Japanese-initiated CMI, China decided to join in it and exercise influence over its implementation process in a way to enhance China's presence in the regional financial order.

With China's participation, the CMI could be the first concrete achievement of East Asian financial cooperation. However, its prospects were unclear because there was no coordinated understanding between Japan and China on the future East Asian regional financial order. Given that China was refusing to countenance Japan's greater leadership in shaping the regional financial order, the CMI development remained dependent upon Sino-Japanese continuing competition for regional leadership. This indicated the emergence of Sino-Japanese competitive coexistence. In other words, Japan and China came to coexist to cooperate for the advancement of the CMI to compete for regional leadership in East Asia.

Sino-Japanese competitive coexistence would prove crucial to the CMI development. Before examining in detail this, however, we need to explain first the emergence of Sino-Japanese competitive coexistence.

III. Explaining Sino-Japanese Competitive Coexistence

The puzzle of Sino-Japanese competitive coexistence can be solved when we analyse reciprocal interactions between regional shifting followership and the critical strategic actions taken by Japan and China to secure followership. It is increasingly accepted that leadership depends upon followership, that is, how willing are followers to defer to leaders' exercise of leadership and therefore, exercising leadership can be encouraged or discouraged by the degree and nature of followership (Cooper et al. 1991; Dent 2008; Stubbs 1991). It is also important to note that leaders are reflective actors who can take what Wendt (1992, 419) call critical strategic actions, through which "actors can engage in self-reflection and practice specially designed to transform their identities and interests and thus to "change the games" in which they are embedded". In other words, leaders can reflect on their exercise of leadership and the configuration of followership and take some measures to secure followership. This section illustrates how reciprocal interactions between shifting followership in East Asia and Japan's and China's critical strategic actions had constituted the changing leadership roles of Japan and China and the emergence of their competitive coexistence.

1. Regional Low Acceptance of Japan's Leadership Claim and China's Opposition to the AMF

Japan's AMF proposal was encouraged by the success of the Japanese-led rescue package for Thailand in August 1997 (Interview with Hajime Shinohara, 25 June 2009). With the inattention of the US,

Japan took the lead in organizing bilateral aid packages for Thailand. This increased Japanese confidence in their country's role as a regional leader. Japanese officials also perceived that the Japanese-led rescue package for Thailand generated an 'Asian consensus' on the need for a stand-alone Asian fund(Lipsy 2003).

Japan's perceptions turned out wrong. Asian countries initially welcomed Japan's AMF proposal but finally turned away from the idea in the face of US and IMF's strong opposition. According to Singaporean Finance Minister Richard Hu, ASEAN countries shared the view that the promotion of an AMF idea would be subject to IMF's blessing and the consultation with the US(Whai 1997). East Asian countries "were unwilling to gamble on Japan in a conflict with the United States and the IMF" at the time when they were in urgent need of financial assistance from them(Altbach 1997). This indicated that the US continued to influence over the region through the IMF, whereas Japan's claim to regional leadership was called into question by its East Asian neighbours.

There were several reasons for regional doubts about Japan's leadership. First, Japan was being accused of causing and exacerbating the crisis. There was a pervaded perception in the region that the yen's big depreciation in 1995 and 1997 undercut the competitive edge of regional economies' exports and deteriorated their current account balances and this eventually led to the Asian financial crisis. Even Japanese officials like Sakakibara acknowledged this as one of the major causes of the financial crisis(AFP 1999a). The second concerned Japan's ambivalent attitudes. Japan refused Thai request for emergency funding to avoid the stiff IMF programme and urged it to go first to the IMF(Katada 2002; Lee 2006). This was contrary to Japan's promotion for the AMF independent of the IMF. Lastly, as evinced in Japan's reluctance to join in the East Asian

Economic Group initiative in the early-1990s, historical records made East Asian countries less convinced whether Japan intended truly to move forward the AMF that would probably require Japan to pit itself against the US on behalf of the region. In this sense, some observers even suggest that Japan used the AMF idea to gain greater leverage in its relationship with the US and the IMF (Altbach 1997; Rowley 1998). These suspicions undermined regional confidence in Japan's leadership claims. In other words, Japan's ideational credentials for regional leadership were not yet strong enough to pull its neighbours together for a Japanese-led regional financial institution.

Lipsky's (2003) finding suggests that Sakakibara discerned that the US would oppose strongly to the AMF idea, but promoted it without prior consultations with the US because he believed that an emerging Asian consensus would force the US to give an unwilling consent. However, the Asian consensus he had perceived was a mirage. Without whole-hearted support from Asian countries, the Japanese government was unable to overcome US resistance and finally retreat from the idea.

Regional insecure followership to Japan's leadership claims favoured China that was unprepared to countenance Japan's greater leadership position in the region. Taking advantage of it, China could counterbalance Japan's leadership aspirations underlying the AMF proposal. In November 1997, Beijing opined that it was premature to launch the proposed AMF. Foreign Ministry spokesman Shen Guafang said (AFP 1997):

I think that the parties concerned have yet to conduct studies on this issue...which has produced different views. This has not been put on the agenda... (Asian) countries are in the stage of maintaining an atmosphere for consultation. They have not yet

reached agreement on taking measures or trying to find a solution to the financial crisis.

On the other hand, China kept efforts to build up its image of a responsible leader by maintaining a policy of supporting the centrality of the IMF and no-devaluation policy for its currency.

As such, regional low acceptance of Japan's leadership claims constrained Japan to give up the AMF idea and allowed China to hold on to the reservation about the AMF idea and the IMF-centred approach to the financial order in the region.

2. Regional Growing Appreciation for Japan's Leadership and China's Participation in the CMI

As 1998 progressed, the perception that the US and the IMF not only were unable to arrest the crisis, but also prescribed the wrong medicine for the region without consideration for the peculiarities of local cultures and economic condition spread widely throughout the region(Higgott 1998). This perception, on the one hand, raised considerable doubts within the region about the competence of the US and the IMF and on the other, encouraged East Asians to consider more seriously a regional financial mechanism promoted by Japan.

In this context, Japan had been quietly pursuing the idea of creating a regional financial institution, taking critical strategic actions to enhance its leadership credentials. Japan's actions were threefold. First, while denouncing the role of the IMF and the US in the region, Japan strived to build an intellectual constituency for a regional financial governance mechanism. From late 1998, Japanese officials became increasingly outspoken in the criticism of the IMF's and US approaches to the Asian crisis. Japanese Financial Minister

Miyazawa(1998a; 1998b) and State Secretary for Finance Sadakazu Tanigaki(1998) argued that the diagnosis and prescription by the IMF and the US regarding the Asian financial crisis were not appropriate. Prime Minister's senior economic advisor Ichizo Ohara(AFP 1998) and Sakakibara(AFP 1999a) criticised US veto on the AMF as completely wrong. At the same time, Japanese officials and research institutions tried to sell the idea of creating regional financial mechanisms to the region. Miyazawa(1998b) stressed that it was appropriate to consider establishing regional currency support mechanisms, as the current IMF-centred global financial system had not effectively addressed the market turmoil. By the informal request of the Japanese Ministry of Finance, Japanese research institutions like the Institute for International Monetary Affairs(IIMA) actively engaged in promoting the idea of establishing a regional financial mechanism in the region through publications and international seminars(Interview with Shinohara, 25 June 2009).

Secondly, Japan attempted to draw closer its East Asian neighbours, enhancing the social networks with them. In early 1998, Japanese Prime Minister and Foreign Minister visited the ASEAN countries in succession. Japan agreed to regularise ASEAN+3 summits. Through Obuchi's four new initiatives in December 1998(MOFAJ 1998), the Japanese government also committed to train elites and students of ASEAN countries by inviting them to Japan or dispatching policy advisors to those countries. Not only did these diplomatic strategies reveal Japan's efforts for its social integration into East Asia, but the enhanced social networks would serve as a useful channel to teach Japan's idea to policy elites of its neighbouring countries.

The third approach was to increase its material contribution to the region. As noted above, Japan committed US\$30 billion through the NMI. In December 1998, Prime Minister Obuchi additionally committed

600 billion yen(US\$5 billion) to set up a special facility to help crisis-stricken countries in the region. Since Japan did not limit the disbursement of these new funds to the countries with IMF program in place, some of them served as an IMF alternative in some countries, particularly Malaysia that had rejected IMF programme. Kishimoto(1999), cited in Amyx(2004a), argued that the Japanese government hoped that these policies would cultivate greater regional trust in Japan and such trust in turn help to realise a Japanese-led regional financial institution in the future.

Japan's critical strategic actions cultivated regional followership to Japan's leadership roles in East Asian financial cooperation. At the 2nd ASEAN+3 summit in 1998, ASEAN expressed high expectation that Japan would act as the prime saviour to help ASEAN members get out of the throes of crisis(NIDS 2005). In particular, Japanese financial support through the NMI was highly praised by various countries in the region. As Hughes(2000, 246) notes:

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

The declining legitimacy of US leadership roles and the growing regional appreciation for Japanese leadership roles were concomitant with an ideational shift in the region. Ideas such as global liberalisation, the importance of capital mobility and the primacy of the IMF, which the US took advantage of the crisis to promote in the region, seemed less compelling to East Asian countries(Rapkin 2001).

On the other hand, the idea of a Japanese-led regional financial institution began to re-emerge as a major agenda in many countries in the region. Thailand and Malaysia resurrected the AMF plan in July and August 1999 respectively. In November 1999, ASEAN called on Japan to make the Miyazawa Fund a permanent facility. This was the case even in South Korea that had tied closely to the US and had an unfavourable impression to Japanese leadership in the region due to the historical legacy. Prime Minister Kim Jong Phil offered repeatedly his support for a Japanese-led AMF during his visit to Japan in November 1998. As Amyx notes(2004a, 208):

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

Asian countries' growing acceptance of Japanese leadership and their growing subscription to the idea of creating a regional financial mechanism enabled Japan to regain its voice in shaping the regional financial order. On the other hand, the US and China were forced to reconsider their regional strategies. Especially China, which had increasingly vied with Japan in winning the hearts of East Asian countries, could not insist on its IMF-centred approach to the regional financial order. It amended its strategy to engage itself more deeply in regional multilateral institution and financial cooperation. In December 1998, China not only supported the regularisation of ASEAN+3 summits, but also proposed holding an ASEAN+3 Finance and Central Bank Deputies' meeting. In spring of 1999, China seemed even open to

the idea of an AMF. Shinohara(2004, 3) notes:

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

In response to Asian countries' revisiting an AMF idea and Malaysia's repeated requests for China's support in the second half of 1999, Chinese Premier Zhu officially offered his support for the idea(AFP 1999b). This did not mean that China was willing to countenance a Japanese-led regional financial institution, but rather reflected its intention to prevent Japan from gaining an uncontested leadership position in the region and to demonstrate an image of China as a responsible regional leader caring for region's desires. This is evinced by China's emphasis on consensus among parties concerned. Zhu attached to his support for an AMF the condition that "the final outcome still depends on the detailed consultations and exchange of views among the parties concerned". This strategy continued in China's cautious welcome for the CMI. Finance Minister Xiang stressed that "our government is in support of such initiative because it contributes to financial and economic stability to the region"(Nation 2000). Although China was still reluctant to get involved in a Japanese-led regional financial arrangement, the increasing search by countries in the region for Japanese leadership and a regional financial mechanism essentially forced Beijing's hand.

The dynamic interactions between Asian countries' shifting followership and Japan's and China's critical strategic actions to secure followership made two contending potential leaders coexist in the process of the CMI. This emerging competitive coexistence would

prove crucial to the development of the CMI, which will be discussed in the following section.

IV. Effect of Sino-Japanese Competitive Coexistence on the CMI

1. A Supplement to the IMF

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

The close linkage to the IMF made the CMI a limited regional financial arrangement. It might undermine the independence of the CMI because it requires creditors to curtail their discretion over the activation of BSAs (Dieter and Higgott 2003). It might also weaken the most important function of the CMI - crisis prevention - because the decision to activate IMF programme generally takes time and is not made until crisis have already occurred (Wang and Andersen 2003). Above all, by linking itself closely to the IMF, the CMI would serve as a supplement rather than an alternative to the IMF.

It was Japan and China that insisted on linking the CMI closely to the IMF and persuaded ASEAN countries to accept it. Some observers interpret this as risk-averse approaches taken by Japan and China as

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

From the inception of the CMI, China had insisted that the BSAs should be completely linked to the IMF(Amyx 2004a; Narine 2003). Behind this were China's two considerations. First, China pushed for the 100 per cent linkage to restrain Japanese regional leadership ambitions. Although the Chinese government participated in the CMI to address the growing regional demand for a regional financial mechanism, it did not want to see again Japan take a better leadership position by funnelling huge amounts of financial resources to the region through the BSAs as did through the NMI. China also needed to discourage Japan's growing ambition to use the BSAs to promote the yen's internationalisation. For China, binding completely the BSAs to the IMF appeared to provide auseful means to check Japanese sole discretion in the use of swap funds and thus to Japanese leadership potentials.

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

into the global economy. In June 2000, Chinese Bank Governor Dai said, "Economic globalization does not exclude regional integration. On the contrary, regional integration is the foundation for economic globalization"(Wheatley 2000). Chinese Finance Minister Xiang(2001) also said that "I don't think the emerging regionalization runs counter to globalization. Rather, it means more equal participation and closer cooperation among the economies in a region, which ought to lead to a more reasonable globalized economy". Premier Zhu stressed that "any financial arrangement that East Asia makes will be a supplement to the functions of IMF and other international financial institutions"(MOFAPRC 2000).

Japan's initial position was that the BSAs needed to be linked with IMF programme by some degree, but not necessary to be fully linked(Amyx 2004a). This reflected not only Japan's desire to develop the CMI eventually into an independent regional financial institution, but also its realistic approach to implement the CMI as soon as possible by making it acceptable to the US and the IMF. Japanese Vice Finance Minister for International Affairs Haruhiko Kuroda stated in September 2000, "we should not give up the idea to establish a new standing facility in the region...But at the same time, we have to be realistic and careful about not raising suspicion about our intention"(Nishikawa 2000).

In response to China's strong position, Japan proposed 90 per cent linkage. There were several reasons behind this. Japan could not expect to use 'an Asian consensus card' to force the US and China to give an unwilling consent to the loose linkage of the CMI to the IMF programme. ASEAN split up along the lines of borrowers and lenders within the CMI(Narine 2001). The potential lenders such as Singapore and Brunei argued that the CMI would need to be supported by the IMF surveillance and condition. At the other end of the spectrum,

Malaysia advocated complete independence of the CMI from the IMF. In this situation, the close linkage was Japan's inevitable decision to assuage the US and the IMF and obtain China's support and in turn implement the CMI as soon as possible. The Japanese government was focusing on the early implementation of the CMI because this would help Japan demonstrate and enhance its regional leadership. Japan had learned from the failure of the AMF proposal and did not want to miss again a golden opportunity for its regional leadership by insisting on an independent regional mechanism.

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

While the CMI, as discussed in the following section, increased the degree of unconditional disbursement to 20 per cent and developed into a self-managed reserve pooling arrangement, its core objective has been consistently to supplement the existing international financial arrangements. This has been attributed mainly to Sino-Japanese continuing competition to take a better leadership position in shaping the regional financial order.

2. CMI's Gradual Development

The basic framework for the BSAs under the CMI including the

close linkage to the IMF was determined by deputy finance ministers of the ASEAN+3 in Beijing on 7 November 2000 and was reported to the summit meeting two weeks later. Since then, Japan, China and South Korea had negotiated and concluded BSAs with ASEAN countries and with each other. By May 2004 when the first round of the CMI ended, sixteen BSAs were concluded and the size of the network of BSAs amounted to US\$36.5 billion.

However, the CMI had certain limitations. Two ASEAN+3 Research Group reports, conducted by each Japanese and Chinese institution(Asami 2005; Fan et al. 2005), highlighted three interlocked limitations. The first, as discussed above, was the close linkage of activation of BSAs to the IMF programme. The second limitation, related to the first, was that the amount available under the CMI might not be large enough to meet necessary funding requirements to prevent any future financial crisis. Lastly, the CMI was based on bilateral agreements rather than a multilateral agreement. This meant that the swap requesting country must engage in multiple bilateral negotiations for the swap activation, which might be too time-consuming and complicated to secure financial resources in a timely manner. Many observers recommended that to be an independent and effective regional financial arrangement, the CMI should develop into a multilateral arrangement supported by enhanced regional surveillance as well as expand the size of BSAs(Amyx 2004b; Asami 2005; Wang and Andersen 2003).

Indeed, the CMI has moved toward such a suggested direction. Since 2004 when the ASEAN+3 countries began to explore ways of enhancing the effectiveness of the CMI, substantial progress has been made. In May 2005, participating countries approved of the increase in the size of swaps that could be withdrawn without the IMF-supported programme from 10 to 20 per cent. They also agreed to double the

size of the existing BSAs. Furthermore, progress on the CMIM has been made gradually and significantly since May 2005 when ASEAN+3 countries agreed in principle to adopt a collective decision-making mechanism for the BSA network. In May 2007, they agreed to establish the CMIM as a self-managed reserve pooling arrangement, governed by a single contractual agreement. In May 2009, they reached an agreement on the total size(US\$120billion), the proportion of contribution and the maximum amount that each country can borrow(see AFMM+32009) and its decision-making mechanism. The CMIM has been supported by efforts to enhance regional surveillance system. In May 2009, ASEAN+3 countries agreed to establish an independent regional surveillance unit as soon as possible. As such, the CMI has developed gradually, in which it started at the bilateral level first and then has developed into a multilateral regional arrangement. Underlying this has been Sino-Japanese competitive coexistence.

Japan, the driving force for the CMI agreement, also played leading roles in its early implementation. Leading negotiations to produce the basic framework for the CMI, Japan facilitated the creation of a network of BSAs. At the finance ministers meeting held in Honolulu a year after the CMI agreement, Japan announced that it agreed with South Korea, Thailand and Malaysia to create BSAs and negotiations with Philippines were in the final stages. This pushed China, which had taken a cautious approach to the CMI, to speed up its talks with other members for sealing BSA pacts. Japan finally concluded seven BSAs. China(and South Korea) competitively tailed after Japan, concluding six BSAs.

While Japan's initiative and China's competitive participation helped the early implementation of the CMI, there remained significant difference between them regarding its nature and function. From the

inception of the CMI, Japan argued for the importance of creating a multilateral operational framework. In September 2000, Japan announced that it would provide financial assistance to member countries, through the ASEAN Secretariat, to enhance regional capability for the monitoring of capital flows, which is a prerequisite for creating a multilateral agreement. Although the CMI was designed as a BSA network, it could be a functional equivalent to the AMF that Japan had pursued if the BSAs would be activated collectively by a multilateral agreement (Park and Wang 2005). To Japan, it was therefore desirable to create a multilateral operation framework for the BSAs.

China's position made it complicated for Japan to drive a multilateral operational framework ahead. China was less vocal and more reserved on creating a multilateral agreement and enhancing regional surveillance in a short period of time than Japan. At the ASEAN+3 finance ministers' meeting in November 2000, China indicated its reservation about a proposal to create a short-term capital flows monitoring system. China preferred that the CMI function would be strengthened gradually because this would allow it to bide its time, build up its capacity and eventually act as an equal partner with Japan in the process of regional financial cooperation. Chinese finance minister Xiang (2001) argued that "the East Asian countries must pursue regional cooperation in a gradual and orderly manner, taking into account their unique characteristics."

Many ASEAN countries appeared to support more China's position than Japan's. ASEAN finance ministers agreed in April 2001 that "the terms and modalities of the BSA should take into account the different economic fundamentals, specific circumstances and financing needs of individual countries" (AFMM 2001). This agreement implied that each BSA could diverge from the basic framework on setting its

terms and conditions(Bergsten and Park 2002). Although ASEAN+3 countries agreed in general to “facilitate the exchange of consistent and timely data and information on capital flows”(AFMM+3 2000), many ASEAN countries were less willing and able to do so in a short period of time. Amyx(2004b) suggests three reasons behind this: the intrusiveness and political sensitiveness of surveillance, additional administrative burden and ASEAN’s concern about Japan’s dominance in the framework. Asami(2001) suggests that some members felt that the disclosure of information on capital flows might affect their exchange rates.

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

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

institutionalized the ASEAN+3 Economic Review and Policy Dialogue(ERPD). Following its first meeting in April 2002, the ERPD had begun to act as a pivotal stage in which East Asian countries learned the importance of multilateralizing the CMI and creating an effective regional surveillance system.

These Japanese efforts incited China's competitive but positive responses. China held a high-level seminar on short-term capital flows in Beijing in October 2002. One year later, Chinese Premier Wen Jiabao even proposed expanding the BSAs into a fully-fledged multilateral arrangement as a key building block of an AMF(Nation 2003). Following this, China chaired a working group to undertake further review of the CMI to explore ways of enhancing its effectiveness. In May 2005, China agreed to double the scale of its currency swaps. China's progressive approach to the CMI development has been further encouraged by its growing international reserves that have surpassed those of Japan from 2005(see ADB 2010, 222).

Since then, Japan and China have increasingly engaged in intensive competition to take greater leadership in the CMIM. Especially their competition for being the largest contributor for the CMIM was quite keen because deputy finance ministers' Report of the Review of the Chiang Mai Initiative—Ways of Enhancing its Effectiveness, submitted to finance ministers in May 2005, stipulated that voting weights for collective decision of the CMIM would in principle reflect each countries commitment(Park and Yang 2006, Appendix 3). The result is the golden section. Japan will be the single largest contributor by contributing 32 per cent of the total to the CMIM, or US\$38.4 billion of the US\$120 billion. Although China's contribution will be US\$34.2 billion, it will be able to be the largest co-equal contributors by including Hong Kong that will contribute US\$4.2 billion into the CMIM. As a result, neither Japan nor China can dominate the

decision-making of the CMI, which signals that Sino-Japanese efforts to win the hearts of other members will continue.

In sum, the evolution of the CMI has been deeply influenced by Sino-Japanese competitive coexistence. Their continuing rivalry for regional leadership rendered the CMI implement in a limited fashion. However, Japan's efforts and China's competitive reactions to assume a greater leadership role in the process of regional financial cooperation enabled the CMI gradually to lift itself out of a limited regional financial arrangement towards a fully-fledged regional financial arrangement.

V. Conclusion

It is increasingly common place that political, especially regional leadership dynamics has been a crucial factor influencing the development of East Asian financial cooperation. As noted in the introduction, some observers interpret the nature of emerging regional leadership dynamics of East Asia as Sino-Japanese cooperation. This seems to lead to a conclusion that the prospects of establishing an East Asian monetary fund is highly bright and this is in turn likely to create tension in the existing US-led global financial governance(Chey 2009). However, as has been advanced in this paper, if the development of the CMI has been underpinned by Sino-Japanese competitive coexistence, this has more complicated implications for East Asian financial cooperation and its relationship with the US-led global governance.

Sino-Japanese competitive coexistence is likely to contribute to facilitating the development of East Asian financial cooperation, possibly leading to the establishment of an East Asian monetary fund,

but such development will not necessarily follow the European model leading eventually to some form of sovereignty pooling. Japan's and China's efforts to make their leadership claims more acceptable to other East Asian members will function as a facilitating factor developing the CMIM gradually into a more effective regional financial arrangement, or an East Asian monetary fund. However, such an arrangement is less likely to be a rigid form pooling sovereignty of members, given that East Asian countries, especially ASEAN countries, are keen to preserve their autonomy and sovereignty to govern their national economies and Japan and China, which compete each other to get the hearts of other members, are less likely to force them to hand over part of their sovereignty to a regional institution. This is well evinced in the establishment of the CMIM as a self-managed reserve pooling arrangement.

It appears that the CMIM and its possible development will continue to serve as a supplement to the US-led global governance system. Certainly, the development of East Asian financial arrangement will help East Asian states strengthen their voice and interests in the global financial governance. However, given their continuing competition for leadership in East Asian financial cooperation, Japan and China have an incentive to connect regional financial arrangements to the US-led global governance mechanisms to neutralise the other's growing leadership roles. Given China's growing financial capabilities, maintaining the close linkage of the CMIM to the IMF might be now increasingly important to Japan that argued for an independent regional financial institution.

We may think about alternative prospects for East Asian financial cooperation. If Japan and China, through frequent meetings and exchanges within the CMIM, can build up mutual trust, reconcile their difference, develop shared policy goals, eventually exercise collective

leadership, they may develop more rigid and independent regional financial arrangements in East Asia. However, it seems that this has not happened so far. For the time being, Sino-Japanese competitive coexistence will be the major determining factor in shaping East Asian financial cooperation.

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ABSTRACT

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**Regional Leadership Dynamics and East Asian
Financial Cooperation:
Sino-Japanese Competitive Coexistence and the
Development of the Chiang Mai Initiative**

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This paper seeks to illustrate and explain the nature of regional leadership dynamics emerging in East Asia and eventually explore how it has shaped the development of the CMI, one of the most tangible outcomes of recent East Asian financial cooperation. It interprets the emerging regional leadership dynamics in East Asia as Sino-Japanese competitive coexistence, in which Japan and China have coexisted to cooperation for the CMI development to take a better leadership position. It proves that Sino-Japanese competitive coexistence emerged through reciprocal interactions between regional shifting followership and Japan's and China's critical strategic actions to secure followership. It argues that Sino-Japanese competitive coexistence has constituted the gradual development of the CMI into the CMIM, but at the same time, it has shaped them as supplementing rather than supplanting the US-led global financial governance system.

Key words: East Asian Financial Cooperation, Sino-Japanese Competitive Coexistence, Regional Leadership, Followership, AMF, CMI, CMIM