

8

US-Asia Relations beyond the Global Financial Crisis: Opportunities and Challenges for East Asia Community Building

HAN INTAEK

AS THE TITLE SUGGESTS, this chapter addresses three issues: US-Asia relations, the global financial crisis, and community building in East Asia. These are certainly broad issues—in fact, too broad to be adequately dealt with in a chapter like this. We address them together here, however, because we are interested in their relationship; we are particularly curious about how the global financial crisis has affected US-Asia relations. Understanding their relationship is not an easy task, for each of the issues is complex and requires in-depth analysis.

Among the three, the global financial crisis may appear to be the easiest to analyze, as a full array of economic indicators are available to help us date the crisis and measure its depth and scope. It is, however, difficult to pinpoint the exact causes of the crisis or to find remedies on which everyone can agree. In fact, disagreements over the exact causes of and optimal remedies for the crisis have been the source of tensions between the United States and Asian countries—China, in particular—as well as among Asian countries, while at the same time the urgency of the crisis also compelled them to work together. Countries have different ideas about who or what is responsible for the crisis and consequently about the necessary reforms for the global financial structure.

US-Asia relations are equally hard to discuss and even just to define. The difficulty stems from the fact that Asia is a region with many different actors. Two of the major state actors are China and Japan. Some are

groups, of which ASEAN stands out most. Different groupings can also be considered, such as ASEAN+3 or the proposed “KIA” grouping of three of Asia’s middle powers (Korea, Indonesia, and Australia).¹ However one conceptualizes Asia, what is clear is this: the United States maintains distinctly different relations with the various Asian actors. For instance, the United States’ relations with China are very different from its relations with Japan, even though US-China relations and US-Japan relations are interrelated in a complex manner. Similarly, US-ASEAN relations and US-China relations are related—possibly in a negative way, according to some analysis.² US-Asia relations are therefore a set of distinctive bilateral relations rather than a single “generic” relationship. It is therefore difficult and even dangerous to make a general statement or prediction about overall US-Asia relations.

While the global financial crisis and US-Asia relations are important in and of themselves, we discuss them here because we believe that they have implications for each other as well as for East Asia community building and regional cooperation. While this belief is reasonable, we also need to recognize that the mutual influences of the crisis, US-Asia relations, and East Asia community building and regional cooperation can be indirect and not very immediate. Further complicating matters is the fact that there is not just a single community-building project or a single framework of regional cooperation. Rather, there are multiple, competing visions. This implies that while prospects for one type of community or cooperation framework may be dim, prospects for another may be bright.

CHANGING PARAMETERS OF US-ASIA RELATIONS

US-Asia relations have never been static, but their relations have been going through particularly rapid and significant changes over the past several decades. While the recent financial crisis has accelerated some of these shifts, parametric changes in and of US-Asia relations had started well before the crisis. This section will examine what are arguably four of the most critical changes: the rise of Asia, the reevaluation of Cold War frameworks and assumptions, the ongoing integration of the region, and the increasing impact of domestic factors on regional relations.

The Rise of Asia

One of the key factors affecting US-Asia relations both today and in the future is the rise of Asia—and in particular, of China. Asia has some of the most dynamic economies in the world and perhaps in human history. First it was Japan that rose rapidly, catching up with the West in the decades following World War II. That was soon followed by the rise of South Korea, Taiwan, and though less uniformly, a number of Southeast Asian countries. Placed in perspective, China's rise is only the latest episode of Asia's rise. However, China is not just another country, it covers a substantial part of Asia, and its cultural and economic influence is spreading throughout the region and beyond. Thus this rising China, coinciding with a stagnating Japan and an increasingly tired-looking United States, has huge and significant implications for Asia and for Asia's relations with the rest of the world.

Depending on whom one listens to, China's rise has very different implications for future US-China relations. Optimists think that China will eventually grow to become a responsible and reliable partner for the United States. For them, the relationship between the United States and China is essentially one of a cooperative nature. The two countries have more common interests than they have conflicting interests, and a prosperous, internationalized China will eventually abide by the norms of the international community. Pessimists, on the other hand, foresee increasing rivalry and even animosity between the two countries, in particular due to the irreconcilable national objectives and values of the two countries. Such pessimistic views are found in both countries and are mutually reinforcing.³

While we need more time to see which view will bear out, what is clear is that the United States needs China—and for that matter, China needs the United States—if it wants to solve major international problems, from the North Korean nuclear crisis to the reform of the global financial structure. Whether they love or hate each other, they need to work together if they want to get what they want.⁴

Obsolescence of Cold War Arrangements

The economic and security architecture that the United States created in East Asia is becoming outdated if not entirely irrelevant, and this

has been affecting US-Asia relations. US-centered bilateral security and trade relations are a Cold War-era legacy, which some still try to reinvent by finding new enemies, potential or actual, or try to strengthen by deepening bilateral economic ties through, for instance, free trade agreements (FTAs). This bilateral system, however, is becoming increasingly awkward. South Korea's pursuit of an "equal partnership" under President Roh Moo-hyun and Japan's recent move toward building a "close and equal" relationship with the United States may be some of the signs that bilateral relations will soon outlive their usefulness if they have not done so already.⁵ Even if the United States and its allies still want it, the hub-and-spoke system cannot be as robust and functional as it once was. The hub, the United States, is a declining power in comparison with China and Asia; multilateral institutions are becoming more important in Asia, while Asian countries' bilateral relations with the United States are becoming less important.⁶

Whether or not the weakening of the traditional bilateral system will contribute to multilateralism and community building in East Asia is an open question. Some believe that the US-centered hub-and-spoke system has been detrimental to the development of multilateralism and community building in the region. Others disagree, however. They believe that strong bilateral relations reinforce rather than undermine multilateralism and community building in the region because the bilateral system provides the region with stability and prosperity. If this latter view is right, the aging of the bilateral system will have negative implications for community building in East Asia, while the former view would predict the opposite.

What is clear is that community building in East Asia does not start in a vacuum. Rather it develops in a historical context where bilateral relations with the United States have been dominant for major countries. Community building in East Asia will eventually require an adaptation and even transformation of the existing bilateral arrangements in one form or another. In this regard, community building in East Asia is likely to be very different from community building in Europe, involving different efforts and processes.

The De Facto Integration of Asia

While many Asians look to Europe as a model for economic integration, Asian economies themselves are de facto integrated. Asian countries increasingly trade with and invest in each other's economies, which is remarkable given the fact that Asian countries have not ceded their sovereignty to regional institutions to the extent that European countries have to facilitate economic integration. This trend, integration without institutionalization, is not likely to change soon. Having viewed the recent turmoil in Greece, why would an Asian country want to join a tightly institutionalized regional community, economic or otherwise? From an economic point of view, the EU as a regional integration model has limited appeal for Asia for the time being.⁷

Although political integration in East Asia is an entirely different story, economically speaking the United States is now facing an Asia that is more integrated than ever, and this will inevitably change US-Asia relations in one way or another. For one thing, Asian countries are now less dependent on the United States for investment financing and export markets than in the past. The other side of the "de facto integration" coin is the growing importance and consequent influence of China in the regional economy. China is a prime mover and shaker in the de facto economic integration of East Asia. Additionally, an integrated Asia is more likely to affect the prospects for regional community building in East Asia because an integrated Asia is likely to be more receptive to the idea of regional community than a nonintegrated Asia.

Domestic Politics

Unlike the past, when major power rivalries and ideological conflicts were the main obstacles to regional and US-Asia cooperation, today it is domestic politics that are becoming an increasingly significant constraint on cooperation. For instance, President Lee Myung-bak almost lost his presidency over the controversial import of US beef. A Japanese prime minister is unlikely to be free from domestic resistance if he or she chooses to sign an FTA with China or with South Korea. China is not free from domestic pressure either. In fact, lacking Western-style democratic legitimacy, its leaders may have to bow to nationalistic sentiment more readily than would leaders in

neighboring countries. Rising domestic pressure is a combined result of democratization and nationalism in East Asia. It will surely affect the future of US-Asia relations and regional community building in the foreseeable future.

In short, what we find in Asia is a region where the balance of power is changing (China rising, the United States and Japan declining in relative terms), where historic US-centered bilateral relations are becoming outdated amid attempts to create Asia-led multilateral institutions, where national economies (and to some extent, national cultures) are being de facto integrated, and last but not least, where international cooperation is increasingly influenced by domestic dynamics. Thus, the United States is now facing an Asia that is vastly different from what it was even a decade ago. Building a working relationship with this new Asia is a challenge that the United States will have to meet in the years to come.

The outbreak of the global financial crisis has only made this challenge more onerous and urgent. It has accentuated and accelerated changes that were already occurring. The urgency of the crisis renewed the push for regional cooperation, changed the outlook of Asian leaders, and highlighted cleavages between the United States and Asia. Thus, the following sections examine the impact of the global financial crisis on US-Asia relations and on community building in East Asia.

THE GLOBAL FINANCIAL CRISIS AND US-ASIA RELATIONS

Asia Rises to the Occasion

In November 2008 in Washington DC, the finance ministers of China, Japan, and South Korea sat together to discuss the grave challenge of the financial crisis that East Asia and the world were facing at the moment, and issued a joint message.⁸ The joint message stated that the three ministers exchanged their views on the causes of the crisis. While their views on the causes were not made public, what was made very clear in the joint message was the importance of regional cooperation in responding to the crisis. Among the key points of the statement was that the ministers agreed to expedite the multilateralization of the Chiang

Mai Initiative, a currency swap arrangement among Asian countries, in partnership with ASEAN member countries, and also to increase the size of bilateral currency swaps among the three Northeast Asian countries. The ministers also called for a stronger regional surveillance mechanism and underscored the need to reform the international financial institutions. They also expressed their hope that the Workshop on Macroeconomic and Financial Stability, which was scheduled to be held in Tokyo later that month, would be a “perfect opportunity” to share the views of the three countries’ financial authorities on macroeconomic and financial stability. Unfortunately, but not unexpectedly, the views exchanged at the Tokyo workshop were not made public. But what is clear not only from their public statements but also from their actions is that the crisis provided an opportunity for the three countries to recognize the importance of regional cooperation; the crisis also contributed to the institutionalization of regional cooperation within Northeast Asia as well as between Northeast Asia and Southeast Asia, as subsequently evidenced by the convention of trilateral summits and the multilateralization of the Chiang Mai Initiative.⁹ In other words, as an unintended outcome, the outbreak of the crisis contributed to regional cooperation in Asia.

In December 2008, the month after the Group of Twenty (G20) Summit was held, the leaders of China, Japan, and South Korea put aside their differences over historical issues and met in Fukuoka, Japan, to hold their first trilateral summit. They reaffirmed their finance ministers’ agreements. In addition, the three leaders envisioned their countries playing “a role as ‘the center of world economic growth’ in order to reverse the downward trend of the world economy and return it to the path of sustainable growth,” and agreed to play a larger role, as is expected of them. They also promised to fight protectionism. In particular, they agreed to refrain over the following year from raising new barriers to investment or trade, setting an example for the rest of the world to follow. The gravity of the crisis and the urgent need to minimize the negative impacts that the financial turmoil could have on the world economy led the three countries, which had often been “reactive” in their international outlook, to view themselves as “the engine of growth” for the global economic recovery and act accordingly.¹⁰

While it is debatable if the three countries truly lived up to their word and became the “engine” or the “center” of world economic growth, especially after the urgency of the crisis had diminished, what is certainly

remarkable is that they looked beyond their own economy and began to think in terms of the global economy and their roles within it.

With the crisis continuing to worsen, 2009 saw the role of China, Japan, and Korea increase and evolve accordingly. Despite China's resistance to the idea, the Group of Two (G2) became a buzzword.¹¹ The relationship between the United States and China was now widely accepted as the most important bilateral relationship in terms of coping with the crisis. In other words, the idea that the United States and China would jointly "manage" the world economy circulated broadly.

China does not officially embrace the idea of a G2. One must be careful, however, not to misread China's reservations. On the one hand, China does not appreciate being a junior partner to or follower of the United States. On the other hand, it feels that it is not yet ready to be a G2 nation, given the responsibilities that come with the status and the possible apprehension that it would cause among other countries. China's recent rhetoric and behavior, however, suggest that China may have changed and become more receptive to the idea of a G2.¹²

Japan and South Korea also played important roles in dealing with the crisis. Japan, for instance, agreed to loan US\$100 billion to the International Monetary Fund (IMF) to help the fund support countries undergoing financial hardship. Even South Korea, the most vulnerable of the three, contributed its share by actively participating in the G20 meetings; it was eventually chosen as the host of the November 2010 G20 meeting.

In short, Asia responded to the financial crisis by promoting cooperation within—and more importantly, beyond—the region. In particular, the three major Northeast Asian countries responded to the crisis proactively by recognizing their role as the engine of economic growth for the world economy, advocating reforms in global financial governance, and actively engaging in global economic discourse such as the G20 summits.

A Growing US-China Schism

During the initial phase of the global financial crisis, countries in Asia reinforced their efforts to promote regional as well as global cooperation. However, the crisis did not have entirely positive consequences

for international relations; there were less than desirable, if unintended, consequences. In particular, the crisis may have made US-Asia relations unstable and contentious. The most visible fracture line is found in the most important bilateral relationship—that between the United States and China.

It was not hard to predict that US-China relations would change after the crisis. While the two countries have shared interests—for instance, neither country wants the world trade and financial systems to collapse—each feels that it is a victim of the other's excesses.¹³ For the Chinese, the United States was at fault, as it allowed the financial bubble to grow and eventually burst. Specifically, by running twin deficits, the United States created a liquidity glut that contributed to the bubble. For the Americans, China was responsible, as it was China that ran a huge trade surplus with the United States in the first place by exporting more to the United States than it imported. By continuing to purchase US Treasury bills, China also allowed the United States to run a huge budget deficit.¹⁴

When the bubble burst and the crisis began, the US economy ran aground, and much to the disappointment of China, the US dollars that it had accumulated became riskier than anticipated. Moreover, China's export markets in the rest of the world contracted in the aftermath of the crisis, and at the same time, the United States renewed pressure on China to raise the value of its currency. It was in this context that China began circulating such ideas as making the yuan the key international currency, or expanding the role of special drawing rights, or even a new economic paradigm that is different from the Washington Consensus.¹⁵ In other words, as far as the governance of international finance and money was concerned, the United States and China began to have conflicting interests and outlooks even though they had one major common interest: recovering from the crisis as soon as possible. When the initial phase of fear-driven cooperation came to a close, it was the conflicting interests and outlooks that came to the fore. Recent disputes over US arms sales to Taiwan or President Obama's meeting with the Dalai Lama, and certainly the sinking of the *Cheonan* put additional strains on US-China relations. Admittedly, these disputes were not the direct result of the financial crisis, but in the aftermath of the crisis both countries appear to have become less inclined to resolve their differences, financial or otherwise, in an amicable way.

THE GLOBAL FINANCIAL CRISIS AND COMMUNITY BUILDING

The global financial crisis has also affected community building in East Asia. As discussed in the previous section, it has affected regional community building indirectly through its impact on US-Asia relations, and it would be hard to argue that the growing schism between the United States and China is conducive to community building in East Asia. If the United States and China are increasingly at odds with each other, countries in East Asia may feel forced to choose sides. If a country sides with the United States, say for security reasons, it runs the risk of exclusion from China-led regional cooperation. If, on the other hand, a country sides with China, its relations with the United States will be strained.

Crisis and Regional Cooperation

Has the crisis also affected regional community building in a more direct manner? The answer is yes. A financial crisis encourages regional community building if the crisis has posed a “regional” threat as opposed to “individual” threats, and if overcoming the crisis requires collective efforts rather than individual self-help. Thus, to measure the impact of the crisis on community building, we would need to first find out how the crisis has affected the calculus of threat and interests among East Asian countries and the United States. If the crisis has created a common threat, it is likely to contribute to regional community building. On the other hand, if it has aggravated conflicts of interest, its impact on regional community building is likely to be negative as, all things being equal, countries whose interests conflict are less likely to work together.

We also need to examine how the responsibility for causing the crisis is assigned in order to identify the lines of potential schism. To the extent that the United States is perceived as responsible for the crisis through its excesses or misguided policies, and also that Asian countries feel that they are innocent victims of American wrongdoings, the United States is unlikely to be welcome in the region as a “cooperation partner” let alone as a member of the regional community.

The critical questions are therefore: Has the crisis affected the calculus of threat and interest? If so, in what way? And who is held responsible for

the crisis, and why? To answer these questions in an informed manner, we need to understand the nature of the current crisis and how it distributed economic costs and created challenges. We will begin, however, with the Asian financial crisis, as the implications of the recent global financial crisis for regional cooperation and community building will become clearer through comparison with a past crisis.

The Asian Financial Crisis: Opportunity More or Less Taken

The Asian financial crisis of 1997–1998 was a catalytic event for Asian community building and US-Asia relations. While the financial crisis spread from one Asian country to another, help from the IMF was slow in coming, and the United States was reluctant to help crisis countries either directly or through the fund.¹⁶ Eventually, Asian countries came to the realization that the crisis they were facing was a *regional* threat that required a *collective* response. More importantly, they came to the conclusion that they could not depend on international financial institutions or the United States for support. They had to help themselves in a time of crisis. Fortunately, the region was more ready and willing to help itself financially than ever before. While crisis-struck countries were suffering from foreign reserve shortages, China and Japan, having amassed a large amount of hard currencies through trade, were struggling with a foreign reserve glut. Thus, theoretically at least, the region could help itself if “glut” countries could lend to “shortage” countries. It was in this context that Japan made an ambitious attempt to create an Asian Monetary Fund (AMF). The thinking was that a fund created and governed by Asians would be more willing and perhaps more able to prevent the crisis from spreading in the region by providing speedier and more generous liquidity support to crisis countries than the IMF or the United States would. As is well documented, however, Japan’s attempt failed. Various reasons were mentioned for its failure.¹⁷ Some economists argued that an AMF would undermine the IMF and exacerbate moral hazards. Political analysts argued that Japan’s plan failed because the United States and China were not ready to accept an assertive Japan. China was particularly reluctant to accept Japan’s leadership in Asia. The United States felt that it had not been adequately consulted; it was also afraid that the IMF it had helped create and had dominated would be made less relevant by a better-funded AMF. If these

analyses are true, they reinforce the idea that close bilateral relations, especially between the United States and Japan and between Japan and China, are an important condition for regional institution building and community building.

Though an AMF did not materialize, Asian countries managed to create and expand the regionwide network of bilateral swap arrangements known as the Chiang Mai Initiative. In this network, the United States does not have a formal role. Its omission is understandable given Asian countries' disappointment with the United States during the Asian financial crisis and also the United States' ambivalence toward financial cooperation in the region. This does not mean, however, that the United States was entirely excluded from regional cooperation after that crisis. Countries, if they want, can sign a currency swap deal with the United States, as South Korea did in 2008. Also, Singapore and South Korea have concluded FTA negotiations with the United States; the former was ratified in 2003 and the latter now awaits US Congressional approval. As these cases illustrate, the United States has maintained a presence to some degree, but that presence has not been very significant since the Asian financial crisis.

Interestingly, while FTA deals have been signed between Southeast Asian countries and Northeast Asian countries since the crisis, none have been signed to date between Northeast Asian countries. This suggests that even though the crisis created an unprecedented momentum for regional financial cooperation, Asia is still far from replicating the European experience, especially in terms of trade liberalization.

To what extent this expansion of FTAs and currency swaps in and beyond the region was caused by the Asian financial crisis remains an open question. The crisis was no doubt catalytic, but it is also true that the Bush administration was pursuing competitive liberalization through FTA negotiations with select countries. So it could also be said that the United States provided the push for regional FTAs. Also, rivalry between China, Japan, and to a lesser extent, South Korea was another driving force behind the expansion of FTAs and bilateral swap arrangements in the region. Despite these various contributing factors, however, we know that this much is true: the crisis underscored the importance of economic stability and economic efficiency. It primed Asian countries for increased regional cooperation. And perhaps most importantly, Southeast Asian countries and Northeast Asian countries developed a common, if still nascent, identity following the crisis; they felt that they

were not two separate regions but one connected region. In the end, the impact of the crisis extended to both Southeast and Northeast Asia, and help came most readily from within the region rather than from outside. This realization led to the start of ASEAN+3. Since the crisis, the leaders of ASEAN countries and three Northeast Asian countries—China, Japan, and South Korea—have been meeting regularly, deepening and broadening cooperation among them. Originally, the leaders of the three Northeast Asian countries held meetings of their own on the sideline of the ASEAN summits. Beginning in 2008, China, Japan, and South Korea also are holding stand-alone trilateral summit meetings outside of the ASEAN summits. In fact, their first trilateral summit was held in December 2008, prompted by the outbreak of the subprime crisis in the United States, to which we now turn.

The Global Financial Crisis: An Opportunity That Really Was Not

Was the global financial crisis also an opportunity for regional cooperation and community building? If it was, to what extent did the region take advantage of that opportunity? In the aftermath of the Asian financial crisis, the initial momentum generated for regional cooperation and community building began to weaken substantially. But just when that momentum was fading away, a new financial crisis struck the region.

While the Asian financial crisis and the global financial crisis appear similar on the surface—for instance, they both involved bank failures, exchange rate fluctuations, and economic contraction—they are fundamentally different types of financial crises and consequently have different implications for Asian regionalism and US-Asia relations. In economic terms, the global crisis was a solvency crisis rather than a liquidity crisis. A liquidity crisis is one in which banks or countries are temporarily short of liquidity—cash or hard currencies—but the banks or countries are otherwise sound. This happens to banks, for instance, if their depositors withdraw their money at the same time out of fear that the banks might collapse even though the banks are financially healthy. It can happen to countries as well if, for instance, investors pull their money out of a country, fearing that the country might run into economic problems even though the country's economy is actually quite sound. In these situations, affected banks and countries will be short of

liquidity but they can return to normalcy when confidence is restored. They will need, however, temporary liquidity support while they regain the confidence of depositors and investors. Since liquidity crises are caused by a loss of confidence irrespective of economic fundamentals, they are likely to spread among countries with similar characteristics. The important point is that this very risk of contagion creates a strong incentive for countries with similar characteristics to work together to fight against the loss of confidence. In other words, liquidity crises are conducive to collective action.

A solvency crisis, on the contrary, is one in which problems are not temporary or imagined. Banks, for instance, might have made too many bad loans, or countries might have lost competitiveness for good, thus becoming unable to meet their financial obligations. In this case, banks and countries have financial problems that are unlikely to disappear through short-term liquidity support. Solvency crises do not spread from one country to another just because countries look similar. As long as economic fundamentals are sound, countries or banks are not likely to suffer a solvency crisis just because their neighbors suffer one. All things being equal, solvency crises are less conducive to collective action than liquidity crises.

Generally speaking, the type of financial crisis determines the likelihood of collective response. While every crisis contains both elements to some degree, the Asian crisis was more a liquidity crisis than a solvency crisis (especially in retrospect), whereas the global crisis was more a solvency crisis.¹⁸ In the former case, the crisis-stricken Asian countries all recovered; in fact, they recovered very quickly after receiving temporary liquidity support. In contrast, countries hit by the more recent crisis are still struggling; affected banks in the United States and Europe are still far from normalcy, if they have not been already liquidated. Though it was not clear at the onset of the global crisis, Asian countries were relatively insulated from the financial problems that plagued the United States and parts of Europe. Asian financial institutions were largely sound and not extensively exposed. Also, because the global crisis was a solvency crisis, there was a lesser risk of contagion. Of course, no Asian country could escape the negative impacts of the crisis entirely, as they felt the effects in the form of a contraction of their export markets or a credit crunch. This differs, however, from a contagion. The effects did not result in a solvency or liquidity crisis in Asian countries this time.

One of the implications of the global financial crisis's nature as a US-European solvency crisis was that there was less pressure on Asian countries to react promptly and collectively than was the case during the Asian financial crisis. Again, the nature of the global crisis was not clear when it first broke out. But when the initial shock was over, Asian countries became concerned more with worldwide demand shortages (economic contraction) than with their own bank failures or liquidity shortages. Weakened demand in the United States and Europe was a particularly serious problem for Asia, as it depends on foreign markets for economic growth.

A classic response to a demand shortage would be a Keynesian demand stimulus.¹⁹ Ideally, for a Keynesian demand stimulus to work to its fullest effect, countries need to boost their fiscal spending concurrently and refrain from free-riding on any other country's demand stimulus. After the global crisis began, Asian countries implemented demand stimulus policies to varying degrees, and most stayed away from protectionism. What is important from the point of regional cooperation and community building is that demand stimulus does not require a high degree of regional cooperation, let alone regional institutions. Demand stimulus is essentially a unilateral measure—a country just needs to increase its own fiscal spending—and thus probably only a low level of policy coordination is required to be effective. In short, the global financial crisis did not create the pressure or necessity for regionwide collective action in the way the Asian financial crisis had.

Another important difference was the locale of the crisis. The Asian crisis was a localized crisis; it originated in and was limited to Asia. The global crisis, on the other hand, originated in the United States and went on to damage financial sectors in parts of Europe through the complex linkages of financial transactions; it also led to economic recession in and beyond the United States and Europe through the contraction of trade.

Given these differences, the cures for the two crises are bound to be different. The global financial crisis, being a solvency crisis and a global crisis, requires more than short-term, localized liquidity support. More importantly, in contrast to the earlier crisis, those countries that have been affected could not easily pull themselves out of the recession through exports, because those countries hardest stricken by the global crisis were traditionally the world's largest markets for exports. With the United States and Europe in a dire situation, it was then only

natural and inevitable that Asian countries—especially China, Japan and South Korea—would begin to play a major role in the global economic recovery and in reforming global financial governance. This is an important difference between the two crises. This time, China and Japan were called upon to act as “lenders of last resort.” To a certain extent, China has become a “spender of last resort” as well, thanks to the sheer size of its reserve holdings and fast economic recovery. South Korea is economically a lesser power than China and Japan, but it also has been recovering very quickly from the crisis. More importantly, it has become an active participant in the G20 process to reform financial global governance. All this signifies a dramatic role reversal for Asian countries as compared with the Asian financial crisis.²⁰

It must also be added that, despite the economic differences between the two crises, Asian countries’ initial reactions to the global crisis were not vastly different from their responses to the Asian crisis. We have already noted one reason for this. When the recent crisis first started, its nature was not immediately clear. Thus, following its outbreak, Asian countries expanded and multilateralized the bilateral swap arrangements that they had created in response to the Asian financial crisis, either reaffirming or renewing their commitment to post-Asian crisis regional financial and monetary cooperation initiatives. The global financial crisis, however, did not create any stronger momentum for regional cooperation and community building than the regional crisis had produced. As was the case during that earlier crisis, Asian countries still lacked both the leadership and the institutional structure to coordinate a coherent collective response. Rather, in the absence of any pressure to pull together a collective response, they have continued to work on largely ad hoc initiatives dating from the Asian financial crisis.

So far, Asian countries have failed to move beyond their traditional export-led economic growth model, where a significant portion of Asian goods are sold in the markets of developed nations outside of Asia. The global financial crisis did not result in progress toward a common Asian market either. Such continuity has important implications for bilateral relations between Asia and the United States, and consequently for the prospects for regional cooperation and community building. As long as Asian countries continue or improve old ways of doing business, chronic problems—in particular, global imbalances and economic instabilities rising from dependence on foreign markets—are not likely to disappear. In fact, with the United States and Europe still struggling to recover

from the crisis, Asia's continued reliance on exports as the engine of growth may become a pronounced source of tension between Asia and the rest of the world. This is not to suggest that the United States is not responsible for global imbalances. It would be fair to say that the United States and Asia are mutually responsible.

Interestingly, however, while Asia has not changed itself yet, it is trying to change the structure of global finance and governance, or at least is increasingly voicing its dissatisfaction with the existing arrangements. Most vocal among the Asian countries is China. According to policy analyst Li Cheng, "China now wants a seat at the head of the table," and he notes, "Its leaders expect to be among the key architects of global institutions."²¹ China has openly called for an IMF that is better funded and, more importantly, in which China has a bigger voice. China also criticizes the United States for abusing the key currency status of the US dollar, and has pushed to make the yuan an international currency. To increase the yuan's usage, China has signed currency-swap deals involving the yuan; it also encourages its trading partners to use the yuan for settlement. As China grows richer and more powerful, its currency will assume a greater role, especially in Asia. South Korea has echoed the call to reform global financial governance, especially the IMF, although it has not gone so far as to call for the replacement of the US dollar with a different currency. Compared with China and South Korea, Japan appears less interested in IMF reform. This is understandable because Japan is already relatively well represented in the IMF thanks to quota increases in earlier years, and also because its domestic political situation at the moment is not conducive to international activism.

Global Reform vs. Regional Cooperation

What does Asia's increased voice after the global financial crisis imply for regional cooperation and community building as well as for US-Asia relations? One of the first things to note is that the reform of the IMF advocated by China and South Korea actually has little to do with strengthening the financial regulations required to prevent future solvency crises. For one thing, the proposed reforms will not turn the IMF into an international financial regulator. Rather the reforms, if carried out, will only make the IMF better funded and more representative. That in itself is no small achievement, but it does not represent an

improvement in financial regulation. If reformed, the IMF would actually be optimized for managing liquidity crises rather than dealing with solvency crises. This is a rather ironic development.

The push by China to make the yuan an international currency and the calls for the reform of global financial governance are clearly among Asia's responses to the global financial crisis. It is not clear, however, whether such responses contribute to regional cooperation and community building. There are two reasons for this skepticism. First, by engaging in debates about global monetary and financial governance, Asia is concentrating less on regional monetary and financial issues. Consequently, it is doing less about regional cooperation and community building. Asian countries' interest in reforming global governance may be partly a consequence of growing domestic constraints Asian countries face when they try to deepen and broaden regional cooperation. If this is true, the debates on global issues are diversions from regional cooperation and community building.

Second, and more importantly, while debates on global issues are important and useful, they do not contribute to the kinds of bilateral relationships that are crucial for regional cooperation and community building. While the debates at the G20 may bring China and South Korea closer, as both are worried about the flaws of the current global governance system, the debates do not help forge a strategic relationship for joint leadership in Asia between China and Japan, two key regional powers, or promote close relations between China and the United States, which is essential if regional cooperation and community building are to proceed. Rather, the debates are potentially divisive. A bigger voice for China inevitably means a smaller say for Japan and the United States. A larger role for the yuan means a diminished role for the US dollar and the Japanese yen. In short, issues like influence at the IMF or influence in the currency markets are likely to be zero-sum games.²² This is not to suggest that China or South Korea is unjustified in pointing out the flaws of the current monetary and financial systems. Rather the point is simply that despite the clear necessity of global governance reform, it may not be a free lunch; its price may include delays in and diversions from regional cooperation and community building.

An interesting question at this point would be, "Why did Asian countries get involved in the debates over global governance in the first place?" It is partly because of the nature of the global financial crisis; it

is also partly because the G20 process intentionally includes countries that have previously been un- or under-represented in smaller gatherings like the G7 or G8. The G20 meetings are perhaps not the right venues to discuss regional cooperation, community building, or US-Asia relations. The G20 is also not the only forum where China, Japan, and South Korea meet. The leaders of the three countries gather at trilateral summits as well as at the ASEAN summits. But so far these regional forums have been only moderately successful as vehicles for the leaders of the three countries to work out their differences and form consensus over important regional issues. Or more accurately, the leaders do not appear ready enough to discuss regional cooperation and community building in earnest at regional forums, let alone global forums. This is understandable if one considers the fact that the three countries still have unresolved historical and territorial issues and, as previously mentioned, domestic constraints on deeper regional cooperation.

To summarize, the global financial crisis has not created strong incentives for regional cooperation and community building for Asian countries as the Asian financial crisis did in the previous decade. One of the important consequences of the current crisis for Asia is the enhanced role and stature of Asian countries, especially of China, in managing the recovery from crisis and in reforming the global monetary and financial systems. While this is a welcome development in and of itself, its implications for Asian regionalism and US-Asia relations are not necessarily positive. Asian countries are increasingly involved in global financial governance issues while regional issues have not been addressed. Perhaps more importantly, the debates over the reform of the global architecture are, while justifiable, by no means conducive to fostering close relations between China and the United States.

NEW FRAMEWORK FOR REGIONAL COOPERATION

As we have seen, then, the global financial crisis did not foster regional cooperation or community building. Instead, it contributed to “group gathering”: since the crisis began, attempts have been made to create a number of new international forums. Among such attempts, the most successful has been the creation of the G20 Summit. The summit is a high-level international forum that works like a steering committee, guiding international efforts to recover from the crisis and reform the

existing financial and monetary arrangements. The creation of the G20 Summit was relatively easy because it had been preceded by the G20 Finance Ministers and Central Bank Governors conferences, which in turn came into being as a response to none other than the Asian financial crisis.²³

The G20 Summit is not a regional forum nor is it a community. The summit is best viewed as an international committee or governing body. Its participants represent various regions and include countries of various sizes. The G20 Summit is the most successful of the newly created forums, but groupings of different size and nature have been proposed and some have been implemented. The smallest of all would be the G2, although it does not formally exist. Some South Koreans have proposed a somewhat larger forum, an East Asian caucus of the G20 Summit, which would include Australia, China, India, Indonesia, Japan, and South Korea.²⁴ This caucus is loosely region based, but it is a subcommittee rather than a community. Then there is the proposal for a G10 of the Asia Pacific, which includes Australia, Canada, China, India, Indonesia, Japan, Mexico, Russia, South Korea, and the United States.²⁵ This group is even more loosely region based and, if convened, would also be a subcommittee rather than a community.

The two most successful forums, the original G20 ministerial forum and the current G20 summit forum, are responses to the past and current crises respectively. Why did these forums appear after crises? One reason is that they offer a useful framework for leading global or regional cooperation.

However, as discussed earlier, while these forums are useful in managing economic recovery or reforming the global financial system, it is not clear whether or how they contribute to community building in Asia. They are not communities and are not intended for community building. They are meant for international governance and leadership. This nicely explains why the United States is a member of most forums, proposed or in existence. Countries want the United States to be in their forum as a partner or leader. As far as the United States is concerned, forums are inclusive.

The story is very different when a community is concerned, however. China wants to define a community where China is at the center—i.e., a community without the United States or India if possible.²⁶ Japan wants to create a community where Japan is pivotal. When the United States (or for that matter Australia or New Zealand) is invited to a community

proposed by Japan, one important motivation is probably to balance against China so that Japan can play that central role, although since the global financial crisis, Japan appears to be changing its stance somewhat. For example, former Prime Minister Yukio Hatoyama's East Asian Community may not include the United States. It is also not entirely clear whether Australia, New Zealand, and India would be included. If these English-speaking countries are not included, Hatoyama's East Asian Community may not be very different from the Chinese version of an Asian community, which is based on ASEAN+3. If Japan and China truly share the same vision of Asian community, this would be an unusual development. Japan's new vision, however, is unlikely to be an outcome of the global financial crisis. The Democratic Party of Japan has long held this vision. The new administration's desire to engage with Asia and maintain independence from the United States, rather than the crisis, explain Hatoyama's East Asian Community.

Whether or not China's vision of Asian community coincides with Japan's definition of Asian community is a moot point, however. China and Japan have yet to form a strategic relationship so that they can exercise joint leadership in the region, just as Germany and France did in Europe.²⁷ Some even argue that China and Japan are not very enthusiastic about Asian community building. While the trilateral summits should be the ideal venue for China and Japan to discuss their conception of Asian community, to date community building has not been included as a serious item on the agenda.

While everybody talks about community building, their visions of community are diverse and they quarrel over membership and/or compete for leadership in the community. A community may be a noble goal, but if it cannot be built due to disagreements, perhaps that goal needs reexamination. The experience of the G20 suggests that short-term or mid-term coordinated responses do not necessarily require a regional community and that many countries find participation in such groups to be much easier than in communities. In fact, many countries outside the G20 wanted to be included in the G20 for various reasons—national prestige being one of them. Regional communities do not create this kind of enthusiasm for participation, while they cause disputes about membership and leadership among countries. Perhaps groups, not communities, are a more practical, if not better, goal until conditions are ripe for regional community building.

THE UNITED STATES: DOWN, BUT
DEFINITELY NOT OUT OF ASIA

With the rise of Asia and the relative (if not absolute) decline of the United States—a decline that was accelerated by the global financial crisis—America needs to find new ways to work with Asia. Otherwise, it will run the risk of being left out of the most dynamic region. President Obama appears to have the intention to engage in Asia. In 2009, he pledged that he would be a “Pacific president”; he also announced that the United States would start negotiations to join the Trans-Pacific Partnership (TPP), raising the hope—or for some, the fear—that the TPP would become America’s alternative to other countries’ regional community visions. He also was planning to host a US-ASEAN Summit in late 2010.

Despite all this, his scheduled visit to Indonesia in 2010 was repeatedly postponed due to urgent domestic issues in the United States. This incident seems to epitomize America’s difficulties in engaging in Asia after the global financial crisis: its intentions are not matched by actions. The choice of the TPP as a vehicle for engaging Asia is also troublesome. The TPP is an awkward tool for the intended purpose. It is small, and more importantly it is not a typical Asian institution as its members include Chile and New Zealand. Thus, it will be tough to integrate the TPP with many of the proposed Asian communities, let alone with existing FTAs. Also, Obama lacks the necessary trade promotion authority to advance trade negotiations. With much of his political capital spent to pass the health reform bill, it is not clear if Obama will commit the rest of his presidency to the TPP.

If the TPP is not very realistic, another choice for the United States is to strengthen an existing framework, Asia-Pacific Economic Cooperation (APEC), which it will host in 2011. By most measures, APEC is underperforming, and growing disappointment with it is one of the reasons why Japan and Australia have proposed their own new visions for Asia. However, with both Japanese Prime Minister Hatoyama and Australian Prime Minister Kevin Rudd out of power, neither the former’s East Asian Community nor the latter’s Asia-Pacific Community would appear to be a viable alternative, leaving APEC as a focal point for Asian cooperation almost by default.

CONCLUSION

The Great Depression is widely believed to have been the “defining moment” in the development of the US economy.²⁸ It fundamentally changed the ideas and institutions governing the American economy, altering perceptions, for instance, of the necessity for government intervention in the market. Will history also record the recent global financial crisis as a defining moment—a watershed in the development of community building in East Asia and US-Asia relations?

One thing is clear. The global financial crisis has not created strong incentives for regional cooperation and community building for Asian countries as the Asian financial crisis did in the previous decade. True to its name, the global financial crisis was not a regional crisis. Nor was it contagious. As a result, dealing with the global financial crisis required far less regional cooperation and coordination among Asian countries than in the previous crisis. And the vehicles of choice for cooperation and coordination this time, such as the G20, were not communities and were not intended to build a community. Thus, in terms of regional cooperation and community building in East Asia, the global financial crisis was hardly a defining moment. Asian countries were alarmed at first, but they soon returned to business as usual.

This is not to say that the global financial crisis entirely lacked defining moment-like qualities. It was a defining—more accurately, redefining—moment in other ways. One of the important consequences of the crisis is the enhanced role and stature of Asian countries, especially of China, in managing the recovery from crisis and in reforming the global monetary and financial systems. Asia has risen; the crisis has put Asia on the global stage. While this is a welcome development in and of itself, its implications for US-Asia relations and also community building are not necessarily positive. Asian countries are increasingly involved in global financial governance issues, while regional issues have not been addressed. More importantly, the debates over the reform of the global architecture and global imbalance, while justifiable and necessary, are by no means conducive to fostering close relations between China and the United States. The future of the global economy, not to mention the peace and prosperity of Asia, will be defined by how the United States and Asia overcome the differences that have been laid bare by the crisis and how they forge a new working relationship.

NOTES

1. Jonas Parello-Plesner, "KIA—A Brand New Name for Asia's Middle Powers," Worldfocus website, <http://worldfocus.org/blog/2009/08/10/kia-a-brand-new-name-for-asia%E2%80%99s-middle-powers/6720/>.
2. This refers to the idea that the United States is strengthening ties with ASEAN in order to check the growing influence of China in Southeast Asia.
3. For an early optimistic view, see David Shambaugh, "Sino-American Relations Since September 11: Can the New Stability Last?" *Current History* 101, no. 656 (2002): 243. For a contrasting view, see Aaron Friedberg, "11 September and the Future of Sino-American Relations," *Survival* 44, no. 1 (January 2002): 33–50. For a more recent analysis of China, see David Shambaugh, "The Year China Showed Its Claws," *Financial Times*, April 16, 2010.
4. This is the idea behind such terms as "Chimerica," coined by Niall Ferguson, and "G2" (Group of Two), coined by C. Fred Bergsten.
5. For an interesting comparison of Roh and Hatoyama through poll results, see Janet Cho, "Back to the Future?: Comparing the US-Japan Alliance Under Hatoyama with the US-Korea Alliance Under Roh," Mansfield Foundation website, http://www.mansfieldfdn.org/polls/pdf/cho_commentary.pdf.
6. One corollary of this is that for the United States, the bilateral system becomes more valuable strategically in the face of a rising China. Some analysts view the US support for South Korea after the sinking of the *Cheonan* to be consistent with this corollary.
7. For a discussion of the implications of the euro zone crisis on Asian economic cooperation, see Chai H. Y., "The Economic Crisis in the Euro Zone and Its Implications for the Future of Monetary Cooperation in East Asia (in Korean)," *JPI Peace Net*, September 3, 2010, http://www.jpi.or.kr/board/board.html?mode=read&board_id=papermorgue&row_per_page=15&page_per_block=10&vnum=64&page=1&uid=3485.
8. Joint Message of the 9th Trilateral Finance Ministers' Meeting, November 14, 2008, Ministry of Finance of Japan website, http://www.mof.go.jp/english/if/081115joint_message.htm.
9. Despite the prominence of the Trilateral Summit, some argue that it has hardly played a leading role in East Asian regionalism. For instance, see Joel Rathus, "East Asia Community: Little Chance of a Breakthrough at the Trilateral Summit," East Asia Forum website, <http://www.eastasiaforum.org/2009/10/11/east-asia-community-little-chance-of-a-breakthrough-at-the-trilateral-summit/>. There are also those who feel that CMI multilateralization represents more symbolic than substantive progress.
10. Joint Statement on the International Finance and Economy, December 15, 2008, Ministry of Foreign Affairs of the People's Republic of China website, <http://www.fmprc.gov.cn/eng/wjdt/2649/t526324.htm>.
11. "Wen: China Disagrees to So-Called G2," *China Daily*, http://www.chinadaily.com.cn/china/2009-11/18/content_8998039.htm.
12. Roy discusses this change in "China: Demonstrating that Intentions Follow Capabilities?" *JPI PeaceNet*, February 16, 2010.
13. Dan Steinbock discusses the causes of the global imbalances in detail from a Chinese perspective in his essay, "How Not to Correct Global Imbalances," *China Daily*, January 12, 2010, http://www.chinadaily.com.cn/thinktank/2010-01/12/content_9305322.htm.

14. This is what may be called the “China responsibility theory.” A recent issue of *Overseas Economy Focus* (in Korean), a Bank of Korea publication, contains a useful survey of Western views that hold China directly or indirectly responsible for the global financial crisis. (*Overseas Economy Focus* no. 2010-33).
15. “Booming, China Faults US Policy on the Economy,” *New York Times*, June 17, 2008, http://www.nytimes.com/2008/06/17/world/asia/17china.html?_r=3&th&emc=th&oref=slogin.
16. For a detailed, insider’s account of how the IMF handled the crisis, see Paul Blustein, *The Chastening: Inside the Crisis that Rocked the Global Financial System and Humbled the IMF* (New York: Public Affairs, 2001).
17. Phillip Lipsky, “Japan’s Asian Monetary Fund Proposal,” *Stanford Journal of East Asian Affairs* no. 3 (Spring 2003): 93–104.
18. For a classic view that the Asian financial crisis was a liquidity crisis, see Robert Chang and Andres Velasco, “The Asian Liquidity Crisis,” National Bureau of Economic Research Working Paper no. 6796 (1998).
19. Not surprisingly, the revival of Keynesian economics was hard to miss even by laypeople. See Quinn Bowman, “Keynes’ Economic Theories Re-emerge in Government Intervention Policies,” PBS Newshour, http://www.pbs.org/newshour/updates/business/jan-june09/keynes_02-23.html.
20. In this regard, Federal Reserve Bank Chairman Bernanke’s speech on Asia and the global financial crisis is very useful. Ben Bernanke, “Asia and the Global Financial Crisis” (speech at the Federal Reserve Bank of San Francisco’s Conference on Asia and the Global Financial Crisis, Santa Barbara, California, October 19, 2009).
21. As quoted in Rana Foroohar, “It’s China’s World We’re Just Living in It,” *Newsweek*, March 12, 2010, <http://www.newsweek.com/2010/03/11/it-s-china-s-world-we-re-just-living-in-it.html>.
22. This is the opinion of many Chinese, at least. See for instance, Zhang Monan, “Whither Financial Reform,” *China Daily*, June 19, 2010.
23. Some argue that the origin of the G20 dates back even farther. See “The History of the G-20,” Wall Street Journal website, <http://online.wsj.com/article/SB123868695694882779.html>.
24. Young Soogil, “The Case for an East Asian Caucus on Global Governance: A Korean Perspective,” April 2010, East Asia Forum website, <http://www.eastasiaforum.org/2009/04/12/the-case-for-an-east-asian-caucus-on-global-economic-governance-a-korean-perspective/>.
25. On this and other proposed groupings, see Hadi Soesastro, “Architectural Momentum in Asia and the Pacific,” June 14, 2009, http://www.iseas.edu.sg/aseanstudiescentre/ascdf3_soesastro_140609.pdf.
26. According to Martin Jacques, author of *When China Rules the World* (New York: Penguin Press, 2009), “China has been instrumental in this shift in focus from ‘Asia-Pacific,’ which was largely about the US and Japan, to ‘East Asia,’ which has China at the center.”
27. Officially, China and Japan are promoting a “strategic relationship” according to the joint statement issued after President Hu Jintao’s visit to Japan in 2008. Whether such a relationship has now developed remains a question.
28. See, for instance, Michael Bordo and Claudia Goldin, eds., *The Defining Moment: The Great Depression and the American Economy in the Twentieth Century* (Chicago: University of Chicago Press, 1997).