

Leadership in Regional Cooperation and Integration: A Functional Approach to East and Southeast Asia 1997-2009

Min SHU

Abstract

To trace leadership in regional cooperation and integration is a difficult task. In Europe, the Franco-German partnership has long been considered an important, but gradually waning, driving force behind the European Union. In East Asia, whether China, Japan or ASEAN led regional cooperation remains a controversial topic. This paper argues that the focus on individual countries fails to appreciate the leadership role in a dynamic regional integration process. From a functional perspective, three factors are essential to multilateral regional cooperation: public goods provision, institutional engineering and participation incentives. These functional factors also offer a useful benchmark to assess leadership in regional cooperative schemes. The paper shows that regionalism in East and Southeast Asia witnessed a form of multi-country functional leadership between 1997 and 2009: the growing willingness of Japan's material contribution, the increasing importance of ASEAN-led institutional infrastructure, and the important participating incentives resulting from China's active engagement.

Introduction

Regional cooperation and integration brings countries from a region together in the joint pursuit of coordinated policy-making and shared jurisdiction. In Europe, five decades of regional integration led to the establishment of an exceptionally sophisticated regional organization — the European Union (Moravcsik, 1998). In Southeast Asia, ASEAN not only developed a set of regional norms known as the 'ASEAN Way', but played a key role in mitigating potential conflicts in the region (Acharya, 2001).

While several theoretical arguments have been developed to explain the development of regional cooperation and integration, regional integration theories have been accused of being too Euro-centric (Breslin et al., 2002). Indeed, regardless of their distinctive explanatory variables, neofunctionalism, intergovernmentalism and, to a less extent, constructivism pay almost no attention to regional cooperative schemes outside Europe (Haas, 1958; Moravcsik, 1998; Howarth and Torfing, 2005). Factors such as the spill-over of supranational cooperation, bargaining at intergovernmental conferences, and the persuasion of integration norms turn out to be less useful in explaining the evolution of non-European regional cooperative schemes.

One of the main concerns about regional cooperation and integration outside Europe is leadership in regionalism. Admittedly, leadership is a loosely defined term which has been employed in several academic fields such as international politics, corporate governance, and the study of organizational behaviour. In regional cooperation and integration, leadership refers to the capacity to build regional institutions, and the capability to motivate individual countries to participate in joint policy-making and shared jurisdiction at the regional level.

In the European context, the Franco-German partnership has long been considered as playing a leadership role in the regional integration process (e.g., Calleo and Staal, 1998). After the Second World War, a series of initiatives of Robert Schuman, then the French Foreign Minister, and Konrad Adenauer, then the German Chancellor, made possible the European Coal and Steel Community (ECSC) in the 1950s. As it turned out, the ECSC not only provided the institutional infrastructure of the later European Community, but also developed a sophisticated decision-making mechanism that evolved into the so-called 'Community Method' which today prevails in the policy-making of the EU (Majone, 2005). Moreover, the Franco-German partnership proved crucial at various stages of the European integration process. The creation of the European Monetary System in 1979, the signing of the Single European Act in 1985, and the eastward enlargement of the EU in 2004 all witnessed the joint efforts of France and Germany. On the whole, there is little doubt that the Franco-

German partnership has been leading European integration forward in the past five decades.

Based on European experiences, some scholars try to examine the interaction between political leadership and the evolution of regional cooperative schemes. Walter Mattli, for example, argues that being able to ‘accommodate the demands for functional integration’ offers the key to understanding the leadership factor in regional cooperation and integration (Mattli, 1999: 50). According to him, the supply condition of successful regional integration should be undisputed leadership provided by a *leading country* in the region.

However, such a country-based view on leadership in regional integration is not easily transferable to East and Southeast Asia. In Southeast Asia, Indonesia is the biggest country in the region. The country covers nearly 2 million square kilometers and has about 235 million people. Yet, it has the lowest per capita income among the founding members of ASEAN. Its influence is further constrained by the fact that the Indonesian army has little capacity to operate beyond its borders (Leifer, 1989). Beyond the sub-region of Southeast Asia, China and Japan seem to stand a good chance of leading regional cooperation and integration in East and Southeast Asia. However, their potential influences have been viewed with skepticism because of China’s long-term dominance in the region and Japanese colonial activity prior to the Second World War.

In order to move beyond the country-based analysis derived from European experiences, this paper suggests an alternative approach to the leadership question. More specifically, it focuses on the *functional properties* of the leadership role in regional cooperation and integration in order to offer a more sophisticated analytical framework to tackle the regional variations outside Europe. The rest of the paper proceeds in the following way. The next section takes a close look at the functional dimensions of regional leadership. Then, the third section applies this functional approach to the regional cooperation and integration of East and Southeast Asia. The discussion highlights the institutional infrastructure built by ASEAN, the

regional public goods provided by Japan, and the participation incentives resulting from China's active engagement. The final section summarizes the discussion and concludes the paper.

A Functional Approach to Leadership in Regional Integration

Understanding leadership is a key question in organizational studies. In plain terms, leadership involves motivating members in the joint pursuit of organizational goals. There have been several influential theoretical explanations for the leadership role. The trait theory of leadership, for example, stresses the typical behavior and personalities associated with effective leadership (see Kirkpatrick and Locke, 1991). Such traits usually involve the desire to lead, the ability to motivate, and certain personal attributes like integrity, honesty and self-confidence. Weberian charisma is often regarded as the essential and desirable trait of effective leadership (Weber, 1968).

By comparison, leadership style theory seeks to answer the question of how the organization context mediates the leadership effects (see Blake and Mouton, 1964). In an organization of interdependence and joint tasks, team style leadership tends to be more effective. In a loosely connected organization, the so-called 'country club style' of leadership probably makes a better contribution to group solidarity. In a strictly task-oriented organization, an authoritarian style of leadership is more likely to generate efficient results. Put differently, the most effective style of leadership is contingent on the type of organization and the specific circumstances under which the organization operates.

Functional leadership offers another theoretical approach to examining how leadership occurs. Rather than focusing on the leader him/herself, the theory explores how leadership fulfills the leadership functions of the organization (see Goodman, 1986). Such functions may involve monitoring the external environment, ensuring the provision of public goods, organizing subordinate activities, motivating group members, and establishing organizational rules. By examining how leadership works rather than who

the actual leader is, the functional theory of leadership offers a distinctive perspective on the operation of leadership in different organizational contexts.

The organizational theories of leadership are quite useful in the discussion of regional leadership. Regional cooperation and integration often lead to a new layer of public governance above the state level. Joint policy-making and shared jurisdiction at the regional level requires an effective regional organization to coordinate the behavior and interests of individual member countries. From this perspective, leadership in regionalism can be understood as the capability of guiding the regional organization towards further economic integration, stable political coordination and deepened cultural exchange at the regional level. The trait theory, the style theory and the functional theory of leadership each provide a unique analytical angle to decode the leadership roles in regional cooperation and integration.

Like the trait theory's emphasis on specific characteristics of the leader, effective leadership in regional integration has been attributed to the leading country's physical properties (e.g., population size and land mass), economic strengths (e.g., economic growth, trade volumes and financial influences), and political will (e.g., desire to lead the region). The literature on the Franco-German partnership in European integration highlights these leadership traits (see Parsons, 2002). The French ambition to lead post-war Europe has been considered as one of the key factors motivating the country to promote regional integration in Western Europe. Meanwhile, the economic strength of Germany, especially the strong Deutsche Mark, is regarded as the key factor behind German-style management of the European Central Bank and the single currency. Nevertheless, though the Franco-German partnership displayed many desirable characteristics of regional leadership, the emphasis on the specific traits of leadership in regional integration limits their applicability in other regional cooperative schemes across the world.

As the leadership style theory points out, effective leadership depends crucially on the organizational context. Regional cooperative schemes

vary substantially across different parts of the world. European integration features a unified regional cooperative scheme — the EU, a highly developed institutional mechanism, a sophisticated transnational legal framework, a dedicated group of supranational bureaucrats, as well as an increasingly multi-leveled governance structure. By contrast, regional cooperation in East and Southeast Asia is characterized by the existence of multiple sub-regional cooperative schemes (such as ASEAN, the APEC, and the SCO), respect for state sovereignty, the principle of non-interference, the lack of a solid institutional and legal framework, and prevalence of informal consultation and consensus (Shu, 2009). Considering such contrasting organizational logic, it is doubtful whether the aforementioned leadership traits could play the same roles in different regional cooperative schemes.

In fact, the European traits of regional leadership have proved counterproductive in East and Southeast Asia. First of all, the physical properties of individual countries do not easily translate into political influence in regional affairs. In maritime Southeast Asia, Indonesia has the largest population and land mass. However, its GDP per capita is less than half that of Malaysia. On mainland Southeast Asia, Vietnam has the biggest population, but its economic development lags far behind that of Thailand. An imbalance of physical properties and economic prosperity to a large extent characterizes Southeast Asia. Under such circumstances, it is almost impossible to identify 'Franco-German' style leadership in this sub-region. Secondly, if China and Japan are taken into consideration in the broader regional framework of East and Southeast Asia, another uneasy situation appears. It is true that China has a huge population and vast territory, and that Japan continues to possess the most significant economy in East Asia. However, due to the bitter memories of external control once imposed by China and Japan, Southeast Asian countries are keenly alert to any signs of regional ambition on the part of these two countries. Because of this, the normally desirable traits of effective regional leadership — physical strength and regional ambitions — appear incompatible with one another in East and Southeast Asia.

If the trait theory of leadership is not easily transferable across different

regions, how can one understand leadership in regional integration from a comparative perspective? To answer this question, functional theory provides a better analytical framework than leadership style theory. Firstly, it is difficult to categorize the 'style' of regional cooperative schemes in different parts of the world. Although some regional cooperative schemes are economically-oriented and others focus more on political trust-building and regional security, whether or not such orientations amount to stylish differences in regional integration remains unclear. Secondly, regional cooperation and integration evolves over time. Even the same regional cooperative scheme may have different foci and display different characteristics at each stage of its development. Therefore, rather than focusing on styles of leadership, it makes more theoretical sense to take a functional approach to examining the leadership effect in regional integration.

In the regional cooperation and integration process, three functional properties are essential to multilateral cooperation at the regional level: public goods provision, institutional engineering and participation incentives. First, the success of multilateral regional integration depends on the potential benefits that regional cooperation could bring about (Fawcett and Hurrell, 1995; Mattli, 1999). Such benefits may take the forms of improved economic prosperity, a stable regional security environment, and better cultural exchanges among countries in the region. How such regional public goods are provided within a regional framework is an essential functional property of regional cooperative schemes. Second, in addition to public goods provision, regional institutional engineering plays a vital role in consolidating regional cooperative schemes. Institutions not only have the effect of stabilizing the existing demarcation of powers, but also help to socialize the expectations of different actors in the joint pursuit of common goods (Peters, 2005). Recent studies show that regional institutions vary substantially across different regional cooperative schemes (see Acharya and Johnston, 2007). Such variations are closely correlated with the effectiveness of regional cooperation and integration. Better institutional engineering tends to produce more adaptive and forward-looking regional cooperative schemes. Third, successful regional cooperation and integration are also more likely to attract outsiders to take part in the regional project. When it was founded in

1967, ASEAN only had five members: Indonesia, Malaysia, the Philippines, Singapore and Thailand. Today, the organization has successfully doubled the number of its member states, and spread across the whole Southeast Asian region, excepting the newly-founded Timor-Leste. Indeed, adequate participation incentives are another indispensable functional property of regional cooperation and integration.

How do these three essential functions of regional cooperative schemes play out in the regional cooperation of East and Southeast Asia? Is it possible to identify the functional leadership of regional integration in this particular regional context? In order to answer these two related questions, the following section will conduct a case study of the regional cooperation and integration process that unfolded in East and Southeast Asia after the financial crisis in 1997.

Functional Leadership in East and Southeast Asian Regionalism 1997-2009

The East Asian financial crisis in 1997-1998 had a long-lasting impact on domestic economic and political dynamics in East and Southeast Asia. Economically, under the reconstruction programs imposed by the International Monetary Fund (IMF), Thailand, South Korea, Indonesia and the Philippines were forced to undertake painful economic reforms in order to obtain the financial support of the IMF (Wade and Veneroso, 1998). Politically, the crisis led to two contrasting trajectories of regime transition and regime preservation. The long-term reign of Suharto in Indonesia was eventually brought to an end by the crisis, whereas Mahathir managed to consolidate his power in Malaysia, partly through his anti-Western rhetoric after the crisis (Pepinsky, 2009).

More importantly, the financial crisis has generated novel incentives for further regional cooperation and integration in East and Southeast Asia (MacIntyre et al., 2008). As became apparent after the crisis, it was no longer viable to rely on extra-regional support to deal with intra-regional vulnerability. Various regional initiatives were launched in the post-

crisis period with the aim of coping with the new reality. Among them, the ASEAN plus Three Process, the Chiang Mai Initiative, and the later convened East Asian Summit have all led to closer ties between the countries in a broadly defined East and Southeast Asia.

No doubt, regional cooperation and integration have made substantial progress in East and Southeast Asia during the past decade. While the East Asian financial crisis in 1997-1998 was an important triggering event, how could one explain the leadership factor in post-crisis East and Southeast Asia? The literature has proposed several explanations, but these arguments are not always in line with each other. On the one hand, Acharya argues in a recent article that ‘ASEAN’s influence and *leadership* over Asian institutions’ should not be neglected when we consider East and Southeast Asian regional cooperation (Acharya, 2009, p. 172, emphasis in original). On the other hand, Beeson contends that the regional balance of power and especially Sino-Japanese competition for influence in Southeast Asia have been the major driving forces behind East Asian regionalism (Beeson, 2007; see also Dent, 2008).

Admittedly, it is difficult to deny the merits of these contrasting arguments. Post-crisis regional cooperation in East and Southeast Asia took place in an extremely complex environment. The Southeast Asian countries became more aware of the importance of institution building in a multilateral regional framework. The rise of China has been shifting the balance of power in both Northeast and Southeast Asia. Japan also became increasingly alert to her waning economic influence in the region. Against this general context, I now turn to a functional analysis of leadership in East and Southeast Asian regionalism.

The Institutional Infrastructure of ASEAN

The East Asian financial crisis revealed two inherent weaknesses in the existing regional cooperative schemes of Southeast Asia. The first was the inadequacy of sub-regional economic integration in Southeast Asia. As early as 1992, ASEAN leaders agreed to create an ASEAN Free Trade Area (AFTA) at their fourth summit in Singapore. The initial step was a

Framework Agreement on Enhancing ASEAN Economic Cooperation. Later, the schedule of trade liberalization for AFTA was accelerated and the scope of AFTA was expanded to market integration, investment and service liberalization. Yet, efforts toward sub-regional economic integration proved insufficient when facing the financial crisis in 1997. At the time of the crisis, most ASEAN member states were too preoccupied by their own domestic economic problems to agree on region-wide measures to deal with the ramifications of the crisis (Ruland, 2000). The dysfunction of the existing regional institutions made Southeast Asian countries realize that regional economic stability should build on a broad economic infrastructure, beyond the narrow focus on Southeast Asia.

The second weakness revealed by the financial crisis lies in the economic cooperative mechanism of the Asia-Pacific Economic Cooperation Forum (APEC). APEC was launched in Canberra, Australia in 1989. By the end of 1998, APEC had evolved into a huge economic forum with 21 members (including Australia, Canada, China, Japan, Russia, South Korea, and the US) across the Pacific Rim. Despite its economic strength on the surface, APEC has been weakened over the years due to disagreement between Japan and the US over its development (Aggarwal and Koo, 2005). When the financial crisis struck East and Southeast Asia, APEC was incapable of making any efforts to reduce the risk-averse behavior of overseas investors in the region. Apparently, if AFTA was too small to be effective, APEC was too big to generate meaningful policy outcomes.

It was against this background that Mahathir's early proposal of the East Asian Economic Caucus (EAEC) gained support in the region. In December 1997, the first summit meeting of ASEAN members with China, Japan and South Korea (APT, or ASEAN plus Three) was held to discuss collective responses to the financial crisis. The second APT meeting set up an East Asia Vision Group (EAVG) in 1998 with the aim of producing an expert report on a future 'East Asian Community'. The summit meeting also developed into a comprehensive forum covering economic, political and security issues in the region. At the third summit in 1999, the leaders of ASEAN countries and China, Japan and South Korea issued a Joint

Statement on East Asian Cooperation, paving the way for comprehensive regional cooperation in both socio-economic and politico-security areas. As the APT process gained momentum, various ministerial level meetings were organized to deal with functional policy areas. For example, the first APT finance ministers meeting was held in April 1999; the first APT economics ministers meeting was held in May 2000; and the first APT foreign ministers meeting was held in July 2000. As it turned out, these summits and ministerial meetings opened a new wave of regional cooperation and integration in East and Southeast Asia after the financial crisis (Stubbs, 2002).

The Chiang Mai Initiative (CMI) was perhaps the most notable achievement of the APT process. At the second meeting of the APT financial ministers in May 2000, it was agreed that a regional network of bilateral currency swap agreements would be set up to manage the potential risks resulting from speculative attacks or short-term liquidity crises. By the end of December 2003, 16 bilateral swap agreements were concluded, the total amount of which stood at US\$ 36.5 billion (Park and Wang, 2005). In 2007 it was further agreed that the 16 bilateral currency swap agreements would be pooled so as to establish a multilateral currency swap scheme covering the whole of the East and Southeast Asian region. This aim eventually realized in March 2010 when a regional pool of foreign exchange reserves worth US\$ 120 billion was established.

Building on the successful experience of the APT process, ASEAN launched another regional cooperative forum — the East Asian Summit (EAS)— in 2005. Dubbed also as ‘ASEAN plus Six’, the EAS involves the 10 ASEAN member states together with China, Japan, South Korea plus Australia, New Zealand and India in a new institutional framework. The summit is held annually together with the ASEAN and APT meetings. Although the policies on the EAS agenda remained soft (issues such as trade and energy), the EAS has successfully brought new and powerful actors into the regional cooperative scheme. Initially, the three new members of the EAS were considered as a good counterbalance to the rising influence of China in the region. At the recent EAS meeting in 2009, however, the Japanese

proposal of an 'East Asian Community' met with a counter-proposal by Australia which advocated an 'Asia-Pacific Community'. Despite such disagreement, ASEAN is standing firmly at the center of the newly formed institutional balance.

Another important multilateral institution in Southeast Asia is the ASEAN Regional Forum (ARF). The ARF was established in 1994 to handle the changing security environment after the end of the Cold War in Southeast Asia. The main aim of the ARF is to foster constructive dialogue and consultation and to conduct confidence-building and preventive diplomacy in the Asia-Pacific region. Importantly, the first ARF meeting endorsed the purposes and principles of the Treaty of Amity and Cooperation in Southeast Asia (TAC) as a code of conduct (ASEAN, 1994). The TAC is one of the founding documents of ASEAN. It not only guarantees mutual respect for independence, sovereignty and territorial integrity, but also enshrines the ASEAN principles of non-interference and peaceful settlement of disputes. After almost one and a half decades, the ARF has become an important regional security forum. The Forum also managed to extend the TAC norms to its 27 members, which include China, Japan, Russia, the EU and the US.

No doubt, ASEAN successfully built and extended a wide range of regional institutional frameworks to tackle the new regional order after the East Asian financial crisis in 1997-1998. This institutional infrastructure has turned into a key site of regional cooperation and integration in East and Southeast Asia. It is fair to say that ASEAN has been sitting in the driver's seat, controlling the pace and direction of institutional development in East and Southeast Asia.

Regional Public Goods provided by Japan

As mentioned earlier, the East Asian financial crisis revealed the inadequacy of economic integration focusing exclusively on Southeast Asia. After all, with the exception of two small countries, Brunei and Singapore, most Southeast Asian states are developing countries struggling for economic growth and social development. Under these circumstances, it is hard to

rely exclusively on Southeast Asian countries to provide the public goods of regional cooperation and integration.

Japan has the second most significant economy in the world and the most significant economy in East Asia. Thanks to its economic strength, Japan has traditionally played an important role in the postwar economic development of Southeast Asia (see Frankel and Kahler, 1993). For instance, between 1976 and 1986 Japan's total Official Development Assistance (ODA) increased five times, with Indonesia, Malaysia, the Philippines and Thailand receiving roughly one third of all Japan's bilateral donations (Stubbs, 1992). Another factor also contributed to Japan's active involvement in Southeast Asia. After Japan signed the Plaza Accord with the US in 1985, the Japanese yen experienced rapid appreciation against the US dollar. In order to cope with rising domestic costs, many Japanese companies chose to invest heavily in Southeast Asian countries. During the period between 1987 and 1996, the foreign direct investment (FDI) of Japanese companies in ASEAN countries amounted to more than US\$41 billion (ASEAN Centre, 1997). One outcome of massive Japanese FDI has been a sophisticated production network centered on Japanese companies in the region (Hatch and Yamamura, 1996). Based on these official and unofficial links, Japan was able to play a key part in providing public goods for East and Southeast Asian regionalism.

Immediately after the financial crisis in East Asia, Japan, together with South Korea, Thailand and some other Southeast Asian countries, proposed the establishment of an Asian Monetary Fund (AMF) in September 1997. The original aims of the AMF were to supplement the IMF resources for crisis prevention and resolution and to deter further currency speculation in the region. Its resources would come from the pool of foreign exchange reserves of member economies. With the then biggest foreign reserves in East Asia, Japan's proposal for an AMF was well received by crisis-ridden Southeast Asian countries like Thailand, Malaysia and the Philippines. However, the proposal met with strong opposition from the US and the IMF. Neither was China very enthusiastic about participating in the scheme. Eventually, the AMF proposal failed to win the necessary support.

In spite of the failed attempt at an AMF, Japan quickly launched the 'New Miyazawa Initiative' in October 1998. Through this package, Japan pledged US\$ 30 billion to help East and Southeast Asian countries to overcome economic difficulties resulting from the financial crisis (Kawai, 2005). Half of the package was dedicated to short-term financial needs during the process of economic restructuring and reform, and the rest was offered for medium- and long-term reforms. The Miyazawa Initiative was widely regarded as key evidence that Japan was taking a leading regional role in East and Southeast Asia (see Hughes, 2000). Indeed, the short-term financial support provided to South Korea and Malaysia later became a model for bilateral currency swap arrangements under the CMI.

In the recent gathering of the leaders of Japan and mainland ASEAN countries — the Mekong-Japan Summit Meeting in November 2009, Japan again promised to offer a substantial amount of financial assistance to development projects in the region. According to the Tokyo Declaration, Japan committed more than 500 billion Japanese Yen of ODA, over the next three years, for the Mekong river area (MOFA, 2009). The ODA offered to Laos, for example, has a repayment period of 40 years and an interest rate of only 0.01% per annum. In his statement after the Mekong-Japan Summit, Japanese Prime Minister Hatoyama claimed that the Mekong region is a key stepping stone towards the construction of an East Asian Community; Japan is committed to reducing poverty and bringing economic prosperity to this important sub-region.

The provision of public goods is an indispensable element of successful regional cooperation. In East and Southeast Asia, most countries are still in the early stages of domestic economic and social development. A lack of economic resources often impedes important cooperative initiatives in the region. It is in this particular respect that Japan has been both willing and able to play a leading role in providing regional public goods. By providing much needed development and economic assistance, Japan not only won the acclaim of neighboring countries, but also contributed substantially to regional cooperation in East and Southeast Asia.

China's Engagement and Participation Incentives

China is the biggest country in East Asia. It not only shares borders with key Southeast Asian countries such as Vietnam, Laos, Myanmar and the Philippines, but also maintains long-term influence over Southeast Asia. During the Cold War, communist China was regarded as a major security threat, which partly motivated the establishment of ASEAN in 1967. The border disputes over the Paracel Islands between China and Vietnam and over the Spratly Islands between China and the Philippines have not made these bilateral relationships easier. However, after the 1997 financial crisis in East Asia, China has followed a strategy of active engagement with Southeast Asia (Shambaugh, 2005; see also Kang, 2007). Though the shift of Chinese foreign policy towards Southeast Asia did not generate immediate results in the late 1990s, its growing economic strength and political influence did make a noticeable difference to the regional cooperation and integration process of East and Southeast Asia in the following decade.

Because its capital account was not liberalized at the time of the East Asian financial crisis, China managed to survive the crisis without much direct damage. However, facing the large-scale depreciation of major East and Southeast Asian currencies, Chinese exports to the European and American markets were considerably disadvantaged after the crisis. Under these circumstances, China decided to uphold its promise not to devalue its own currency, avoiding the potential downward spiral of competitive devaluation in the region (see Haggard, 2000). Furthermore, China chose to participate in the provision of economic assistance packages to Thailand and Indonesia immediately after the crisis. These 'responsible' efforts generated favorable perceptions of China in post-crisis East and Southeast Asia.

Nevertheless, China's intention to join the World Trade Organization (WTO) brought additional fears to Southeast Asian countries over cheap Chinese products. In order to defuse such worries, China put forward the proposal of creating an ASEAN-China Free Trade Area (ACFTA) in 2001, the same year as China became a member of the WTO. The ACFTA came into force in 2010 for six ASEAN members (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand), and is intended to be extended

to the other four ASEAN countries in 2015. An early harvest program dealing with trade in goods took effect as early as 2005. In addition, the two sides signed the China-ASEAN agreement on trade in services in 2007; the China-ASEAN investment agreement was then agreed in 2008. The economic impact of the proposed ACFTA has been significant. Total ASEAN-China trade has grown at a remarkable rate from under US\$ 40 billion in 2000 to over US\$ 200 billion in 2007 (ASEAN Centre, 2007).

More importantly, the proposed ACFTA has motivated other East Asian countries to seek closer trade relationships with ASEAN. Afraid of losing influence to China, Japan and South Korea proposed similar free trade agreements with ASEAN in 2003 and 2004. In the Japanese case, the two sides signed a general framework for a bilateral free trade agreement in 2003. The bilateral trade negotiations started in April 2005, and came to a conclusion in November 2007. Eventually, the Japan-ASEAN Economic Partnership Agreement (EPA) came into force in December 2008. With South Korea, the FTA negotiations with ASEAN commenced in 2005 and were concluded in the same year. The agreement took effect in July 2006. In both cases, Japan and South Korea managed to exclude certain agricultural products from trade agreements with ASEAN. It is obvious that domestic opposition, particularly that from the agricultural sector, has long deterred Japan and South Korea from pursuing free trade deals with ASEAN. If China had not put forward the ACFTA in the first place, it would have been much more difficult for Japan and South Korea to take the 'brave' step of establishing closer trade relations with ASEAN.

The participation incentives resulting from China's active engagement could also be identified in the case of the TAC. As mentioned above, the TAC enshrines the fundamental organization principles of ASEAN, such as respect for sovereignty, non-interference, and peaceful settlement of regional disputes. Signing the TAC is therefore considered to be a precondition for joining the East Asian Summit. Originally, apart from the Pacific state of Papua New Guinea, only ASEAN countries are signatory members of the TAC. China decided to sign the TAC in 2003, and became the first non-Southeast Asian country to do so. The following year soon witnessed the

signatures of Japan, South Korea and Russia. Then, Australia and New Zealand signed the TAC in 2005. Despite a lack of enthusiasm to engage with the military junta in Myanmar, the US put its signature on the TAC in 2009 to signal its 'return to Southeast Asia'. On the whole, it was not until China's active engagement with Southeast Asia that the TAC began to attract the attention of so many other intra- and extra-regional powers.

In short, China's policy towards East and Southeast Asia experienced a major shift during the East Asian financial crisis. From then on, China proposed a free trade area with ASEAN, signed the TAC, and participated in the ARF (Shambaugh, 2005). Perhaps of more importance is the fact that the active engagement of China has generated unprecedented incentives to participate in East and Southeast Asian regional cooperation. Both Japan and South Korea followed in the footsteps of China to establish a closer trade relationship with ASEAN, and put their signatures on the TAC. Moreover, some extra-regional countries like Australia, India, Russia and the US also started to pay more serious attention to regional cooperation and integration in East and Southeast Asia.

Conclusion

In the past decade East and Southeast Asia witnessed closer regional cooperation and deeper regional integration. The East Asian financial crisis in 1997-1998 not only woke Southeast Asian countries up to the inadequacy of sub-regional economic integration, but also alerted them to the insufficiency of the grand Asia-Pacific economic forum. Learning from these lessons, regional cooperation in East and Southeast Asia has been increasingly taking the form of an 'ASEAN Plus' structure in the post-crisis era. On the one hand, these regional initiatives relied on the existing institutional frameworks of ASEAN. On the other hand, ASEAN actively sought the participation and support of non-Southeast Asian countries in the newly formed regional institutions. Ten years later, the 'ASEAN Plus' strategy has proved to be fairly successful in mitigating intra-ASEAN disagreements and mobilizing extra-ASEAN countries within a broad regional framework.

Notwithstanding the successes of the past decade, leadership in East and Southeast Asian regionalism remains an open question in both academic and policy circles. In most cases, commentators and practitioners point to the Franco-German partnership in Europe for possible guidance on how to answer the leadership question in East and Southeast Asia. Some maintain that ASEAN is playing the key role in moving forward the regional integration process of East and Southeast Asia (Acharya, 2009). Others contend that China and Japan have been competing for leadership in pushing regional cooperation and integration (Beeson, 2007; Dent, 2008). Still others look into the hierarchical power structure in East Asia for possible clues to regional leadership (Kang, 2003).

This paper argues that country-based views fail to shed light on the leadership question in the dynamic development of East and Southeast Asian regionalism. In East and Southeast Asia, big countries are often constrained by a lack of economic strength (e.g. Indonesia), a lack of mutual trust (e.g., China), or historical animosity (e.g., Japan). In other words, the desirable traits of effective leadership do not come together in a single country in East and Southeast Asian regionalism. Instead of focusing on specific countries, it makes more theoretical and empirical sense to adopt a functional approach to examining regional leadership in East and Southeast Asia.

If successful regional cooperative schemes depend on three key functional properties: public goods provision, institutional engineering and participation incentives, it is then possible to identify a multi-country functional leadership in post-crisis East and Southeast Asia. More specifically, ASEAN has built an essential institutional infrastructure for East and Southeast Asian regionalism: the APT Process, the EAS and the ARF; Japan has been willing to provide crucial regional public goods to reduce regional economic inequality and stimulate regional economic growth; China's active engagement not only placed it at the forefront of East and Southeast Asian regionalism, but also generated crucial participating incentives to bring other countries from the region on board. Put together, ASEAN, Japan and China have been playing a *joint* leadership role in the regional cooperation and integration process of East and Southeast Asia.

Nevertheless, it should be pointed out that the current constellation of functional leadership in East and Southeast Asia is not necessarily a stable equilibrium in the long run. As the ‘ASEAN Plus’ strategy brings more countries into the regional cooperation and integration process, East and Southeast Asian regionalism is bound to take a new shape. During the 2009 EAS meeting in Thailand, for example, Japan and Australia clashed with each other over the proper shape of a future East Asian Community. Russia and the US are invited to join the EAS in 2010. It is probable that disagreement over the proper shape of East and Southeast Asian regionalism may appear in the near future. Nonetheless, the functional approach to regional leadership will continue to offer a useful analytical perspective to decode the leadership role in East and Southeast Asian regional cooperation and integration.

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