

American University in Cairo

## AUC Knowledge Fountain

---

Theses and Dissertations

Student Research

---

2-1-2015

### Japan as a middle power -Japanese diplomacy during the Asian Financial Crisis-

Takeshi Kobayashi

Follow this and additional works at: <https://fount.aucegypt.edu/etds>

---

#### Recommended Citation

##### APA Citation

Kobayashi, T. (2015). *Japan as a middle power -Japanese diplomacy during the Asian Financial Crisis-* [Master's Thesis, the American University in Cairo]. AUC Knowledge Fountain.

<https://fount.aucegypt.edu/etds/236>

##### MLA Citation

Kobayashi, Takeshi. *Japan as a middle power -Japanese diplomacy during the Asian Financial Crisis-*. 2015. American University in Cairo, Master's Thesis. *AUC Knowledge Fountain*.

<https://fount.aucegypt.edu/etds/236>

This Master's Thesis is brought to you for free and open access by the Student Research at AUC Knowledge Fountain. It has been accepted for inclusion in Theses and Dissertations by an authorized administrator of AUC Knowledge Fountain. For more information, please contact [thesisadmin@aucegypt.edu](mailto:thesisadmin@aucegypt.edu).

Japan as a Middle Power

- Japanese diplomacy during the Asian Financial  
Crisis-

Political Science MA thesis

By Takeshi Kobayashi

Political Science Department

Adviser: Dr. Javed Maswood

Readers: Dr. Gamal Soltan and Dr. Riham Bahi

December 9th, 2015

## **Abstract**

The main question of the proposed thesis is: what was the guiding principle of Japanese diplomacy during the Asian Financial Crisis (AFC) in the late 1990s and how did this principle help the countries in the region restore the Asian economy?

My argument is that Japan responded to the Asian Financial Crisis as a middle power country and mediated opposing interests between Asia and the United States in order to stabilize the highly damaged Asian economy and prevent a recurrence of another crisis.

Since the end of the Second World War, the United States led many countries in the free world by helping devastated nations, intentionally taking on more financial burden and using international institutions such as the IMF. On the other hand, demolished states such as West Germany and Japan enjoyed privilege to focus on economic reconstruction. Overall, a large number of countries became increasingly wealthier under Pax Americana. However, the US economic supremacy gradually declined inversely proportional to the rapid growth of recovering nations, benefiting from the US hegemony. In addition, more and more developing economies participated in international regimes. In order to reflect those new comers, a new concept was created as well as some actors in the Hegemonic Stability Theory, which is the middle power.

A middle power is an actor, which leads others as a facilitator and relatively stronger; but, cannot compete with great powers. As the middle power initiates and represents a coalition of willing in negotiation, it is required to arrange interests fairly among the members and with the hegemon, in other words, the United States. It is possible for the middle power to restrain and modify behaviors of the hegemonic power by taking advantage of collective bargaining power. However, it does not mean

that the middle power rejects cooperation with the hegemon because it needs the strongest country to achieve the goal of the group and its success depends on the stability of the economic status quo.

In order to argue that Japan was a middle power during the crisis, I demonstrate that Australia developed middle power diplomacy during the GATT Uruguay Round; but was not successful enough because it was not persistently fair between the United States and the European Community. I affirm that Japan played a role of middle power even though Japan failed to get its original plan supported to establish Asian Monetary Fund in the early stage of the Asian Financial Crisis. Japan was forced to withdraw the plan after it was rejected but the retreat was just a tactical error. As a result of a series of initiatives as a whole package, Japan turned the misfortune into a blessing. The country worked together with the United States and utilized a new framework, ASEAN plus Three.

## **Acknowledgements**

I would like to express my sincere gratitude to Dr Javed Maswood for his supervision, vital encouragement and introduction to one of his old colleague in Australia. I would also like to thank Dr Gamal Soltan, my first reader, whose understanding and support are greatly appreciated, as well as Dr Riham Bahi, my second reader, who gave me valuable advice on my research. I also wish to thank Professor Purnendra Jain, of the University of Adelaide in Australia, who suggested some key readings on the topic to consult and also generously allowed me to borrow several books from his personal library as well as for his useful feedback on my thesis. Without persistent supports from the Writing Center for non-native speaker of English, I would not have been able to complete my thesis in English, which is my second language.

I would also like to express my gratitude to the American University in Cairo for providing me with the Vanessa B. Korany Thesis Support Award during Fall 2015. I feel extraordinarily fortunate to receive the award, in particular because I studied under Dr. Korany in my first semester and have a great deal of respect for him and his work.

My family also deserves special mention of their support throughout the years of my study in Cairo. I would like to wholeheartedly thank my wife Erin, my parents in Japan and parents-law in Australia. Their thoughtful support greatly helped me to get through this challenging time. Finally, I would like to thank everyone else who contributed to my Master's thesis.

## **Table of Contents**

<b>Chapter1- Introduction</b>	<b>P7</b>
<b>Chapter2- Positioning of middle power in IPE</b>	<b>P19</b>
<b>Chapter3- Australian role for Cairns Group during the GATT Uruguay Round</b>	<b>P26</b>
<b>Chapter4- International Political Economy and Testing Japan's Response to the Asian Financial Crisis</b>	<b>P38</b>
<b>Chapter5- Conclusion</b>	<b>P68</b>
<b>Bibliography</b>	<b>P74</b>

## **List of tables & figures**

◇Table.1 Financial panics and real GDP change (in percent)  
P9

◇Table.2 Original members of Cairns Group  
P31

◇Figure.1 World agricultural exports by country or group  
P33

◇Table.3 Sources of External Commercial Bank Debt to End of June,  
1997 P40

◇Table.4 Investment/GDP (%) P41

◇Figure.2 GDP in China (current US\$)  
P57

◇Table.5 Members of Asian Group  
P62

◇Table.6 Composition of the Thai rescue package  
P64

## Chapter 1: Introduction

My main concern in the thesis is to understand the guiding principle of Japanese diplomacy during the Asian Financial Crisis (AFC) in the late 1990s and the role played by Japan to help the countries in the crisis.

My argument is that Japan responded to the Asian Financial Crisis as a middle power country and mediated opposing interests between Asia and the United States after its original plan was turned down by the both of America and a few Asian nations. The cooperation contributed in order to stabilize the countries in the financial crisis and prevent a recurrence.

Japan's initial response to the crisis was to propose the establishment of a new financial institution, called an Asian Monetary Fund (AMF). However, this was not backed by the United States in the early stage. In the subsequent period, Japan revised the original plan, abandoned the idea of a formal institution, but slowly put together a set of mechanisms to help countries in future crises. This willingness to contribute positively to the crisis management is part of Japan's middle power diplomacy.

My thesis will explore the principles behind the Japanese foreign economic policies in the late 1990s when an unprecedented wave of economic crisis struck Asia in July 1997 after years of epoch-making development. By the 1970s Japan was already being heralded as one of the leading and most dynamic economies in the world. Regionally, some Asian nations emulated its developmental path and followed the Japanese economic model closely. Drifte notes that "learning from Japan has in many countries become a motto to overcome industrial decline."<sup>1</sup> In a few short years, countries such as South Korea, Hong Kong, Singapore and Taiwan and subsequently

---

<sup>1</sup> Drifte, Reinhard. *Japan's Foreign Policy in the 1990s*. ST. Martin's Press, INC. 1996.



Malaysia, Indonesia and Thailand (Asia's MIT) had emerged, as Newly Industrializing Economies (NIEs). Internationally, however, Japan attracted considerable criticism as a global free rider, not playing a role commensurate to its level of economic development. Things changed though with the Asian Financial Crisis in 1997. It shook Thailand in July and spread like a contagion swiftly and unpredictably to South Korea and Indonesia. As Gilpin explains that irrationality, in other words, euphoria and financial crisis are inherently two sides of the same coin, "the East Asian financial crisis and its subsequent global financial turmoil did indeed closely follow Minsky's" model of financial crisis presuming that they are induced by uncertainty, speculation, and instability."<sup>2</sup> The AFC was, as Jomo indicates, a result of "the massive inflows of capital induced by the rapid economic growth of the region and the liberalized financial institutions."<sup>3</sup> During the bubble economy, everyone expected good growth to continue. Garnaut describes the euphoria that

By the mid-1990s, the usual visitation of years of slower growth, let alone recession, was a distant memory. Financial institutions and the corporate sector more generally had been lulled into an unrealistic view of fluctuations in economic activity. Enterprises that gambled on continued expansion were consistently rewarded, increasing their command over assets and attracting reputations as competent investors. Large increases in stock market and real estate values inevitably came to contain elements of speculative excess.<sup>4</sup>

Many experts attributed the AFC to inherently Asian business practices such as crony capitalism, and according to Sachs and Woo "official Washington, led by the IMF, proclaimed the crisis to be one of Asian capitalism, but the more generic character of

---

<sup>2</sup> Gilpin, Robert. *Global Political Economy: Understanding the International Economic Order*. Princeton University Press. 2001.

<sup>3</sup> Jomo Kwame Sundaram. *Obstacle to Implementing Lessons from the 1997-1998 East Asian Crises*. DESA Working Paper No.66. August 2008.

<sup>4</sup> Garnaut, Ross. *East Asia in Crisis –From being a miracle to needing one?*. Routledge. 1998.

the crisis became all too clear during 1998, as the crisis spread to Russia, South Africa and Latin America.”<sup>5</sup> The impact of the crisis was deep, and drove Asian nations into a panic accentuated by the unprecedented economic development they had enjoyed. Few people foresaw the crisis,<sup>6</sup> and neither the International Monetary Fund (IMF) nor the Asian countries were ready to respond properly. In order for Japan to stabilize the Asian economy as a whole and protect Japanese business in Asia where “Japanese banks accounted for more than one-third of the total outstanding commercial bank debt,”<sup>7</sup> Japan developed a series of economic policies to establish a framework to rescue damaged economies. As a consequence of Japan’s initiative and cooperation with other countries and international financial institutions, Japan made a contribution to speedy economic recovery.

**Table 1**

Financial panics and real GDP change (in percent)							
	1995	1996	1997	1998	1999	2000	IMF's prediction of 1999
Indonesia	8.2	8.0	4.6	-13.6	0.2	4.0	-3.4
Malaysia	9.5	8.6	7.7	-7.5	5.4	5.5	-2.0
South Korea	8.7	7.3	5.5	-5.8	9.4	6.3	-1.0
Thailand	8.8	5.5	-0.4	-10.0	3.9	5.3	1.0

Source: Edited by Jeffrey Sachs and Wing Thye Woo

We can detect a shift in Japanese foreign economic policy and the response toward the financial crisis in Asia. It is evident that Japan tried to rise above its much-criticized international status as a free-rider to play a more constructive role as

<sup>5</sup> Sachs, Jeffrey. Woo, Wing Thye. “*The Asian Financial Crisis- Lessons for a Resilient Asia*”. The MIT Press. 2000.

<sup>6</sup> Bhagwati, Jagdish. “*Lessons from the East Asian Experience: Opening Address*”. Conference Series; (proceedings), 2000, vol. 44, issue Jun.

<sup>7</sup> T. J. Pempel. “*The politics of the Asian Economic Crisis*”. Cornell University Press. 1999.

a middle power during the Asian Financial Crisis. The concept of middle power is not as well established in international relations literature as are, for instance from Lake's classification,<sup>8</sup> categories like the hegemon, supporters, or free riders, but I will argue in my thesis that a middle power is a useful concept and can be applied to better understand Japan's international role.

The Japanese response during the Asian financial crisis, described by Kindleberger and Aliber,<sup>9</sup> as the third financial crisis since the early 1980s following the first wave (Mexico, Brazil, Argentina and ten other developing countries) and the second wave (Japan and three of the Nordic countries such as Finland, Norway and Sweden in the early 1990s), was a good example of Japan's middle power diplomacy. The timing of the crisis was important because American hegemony and its capacity to address the financial crisis were considerably impeded. Asian countries looked to the United States for exhibiting leadership, but the United States failed to show a firm will to assist Asian nations, as I will discuss below by showing the lack of US leadership (Table 6). This prompted Japan to take positive action, although Japan too had been in deep recession since the early 1990s. A series of proposals, under the general theme of the Asian Monetary Fund (AMF) was an example of Japanese middle power initiatives. At first, Japan took the lead in those discussions among Asian countries as soon as the economic crisis hit Thailand, and later worked with the United States after the original AMF plan was turned down in order to stabilize the seriously damaged regional economy. In sum, the Japanese response toward the critical moment was divided into two phases. The key player was the United States and it was essential for Japan to handle relations with America to achieve what Japan

---

<sup>8</sup> Lake, David. *"Beneath the Commerce of Nations: A Theory of International Economic Structures"*. International Studies Quarterly, 1984

<sup>9</sup> Kindleberger, Charles. Aliber, Robert. *"Manias, Panics and Crashes – A History of Financial Crises- Sixth Edition"*. Palgrave Macmillan. 2011.

wanted, as I will discuss later.

The most significant existing literature on middle powers is a study of Australia by Higgott and Cooper. Higgott and Cooper defined Australia as a middle power by discussing its role in 1990 during the first half of Uruguay Round (UR). They highlighted its initiative to organize the Cairns Group (CG) by inviting agricultural producers all over the world, setting the agenda the group had to stick to, and maintaining a devoted attitude while its partner Canada defected from the leadership role. As it sounded like the CG was doing well against the United States and Europe, the two authors appreciated the value of the group's function in the international negotiation at the time when they published their thesis.

However in reality, during the course of UR negotiations, Australia shifted its position from a middle power, as the balancer between the diverse positions taken by the United States and European Community, to a position that was much more supportive of the United States. Consequently, it lost credibility with the EC and, if anything, the case study showed Australian failure in following through on its middle power role. My preliminary findings are that Japan was therefore more successful as a middle power during the Asian financial crisis than Australian was during the Uruguay Round negotiations.

By contrast Japan during the Asian financial crisis began with a unilateral policy initiative but quickly embraced a 'middle' balancer position that allowed it to establish new frameworks to deal with any recurrence of crises in future. This is a much more constructive example of middle power and my thesis will make an important contribution to the literature. Even though the early work by Higgott and Cooper spearheaded the middle power theory, it was unfinished because the thesis was released in 1990 without covering the second half of the negotiation through

1994. In this regard, the 1990s Japanese case can offer us a more robust version of middle power diplomacy including the aftermath of the AFC. This is the advantage of my argument and contribution to the literature in order to discuss the whole context relating to the AFC and AMF plan.

The role of middle powers has rarely been covered in the discussion of international political economy and there are few case studies about the concept. For example, the hegemonic stability theory does not identify the middle power. Although Lake added concepts such as supporters, spoilers, and free riders, he did not discuss the role of middle powers. As he categorized those factors on the premise that the United States as a sole power in the Western bloc during the Cold War led the rest, it cannot be applied easily to the post-Cold War era. In addition, the meaning of “middle power” is not necessarily definite. It is difficult to identify what the middle power is among some elements; military power, economic power, political influence, size of population and most importantly diplomatic achievement as a coordinator of coalition. In my argument, I pay attention to limited conditions of Japan which is economically strong but militarily constrained. As Japan’s influence is militarily limited, Japan is not able to be a great power from realist’s perspective. Hence, it is possible for me to describe Japan as a middle power. In any case, the study of middle power diplomacy is still at an incipient stage.

The only serious application of middle power theory for economic diplomacy is the case study of the Uruguay Round by Higgott and Cooper, as I have already mentioned above. Although they recount each process of the Cairns Group from coalition building to management of the group observing Australia as a mediator, there are few specific examinations and actual cases for discussing middle power theory. It was not until Japan in the late 1990s that a similar example emerged. With

the concept of middle power, it is, accordingly, possible to analyze the rare concept such as the AMF plan as well as the Cairns Group.

A middle power is expected to drive a balance between two alternative perspectives and be a neutral arbiter helping to arrive at a compromise position. Japan deviated from the middle power role by proposing the establishment of an AMF, as an alternative to the IMF, without prior consultation with the United States. Although an original AMF would have been welcomed by most Asian countries, the United States favored only the IMF as an arbiter of crisis management. In the first phase immediately after the crisis surfaced, Japan appeared to have acted more like a spoiler for the United States, even though the idea of the AMF was widely welcomed in the region. American rejection quickly reminded Japan that it was in no position to overlook American interests and that it had to try and balance two competing interests if it was to play a constructive role in the crisis. In this second phase of Japanese diplomacy, we see newer initiatives are successfully implemented that achieve a balance between protecting the role of the IMF as the crisis manager and assisting regional countries in dealing with the aftermath of the crisis. It is in this second phase that we see Japan emerge as a regional middle power.

The post-Cold War era is an age of economical multi-polarization. While many developing nations, especially in Asia, became wealthier, the economic dominance of the United States was in decline. Despite this decline, the United States remains the most powerful nation in the world both economically and militarily. However, it was the time to redefine diplomacy away from the assumption of bipolarity between the United States and the Soviet Union along with the end of the Cold War. Although Beeson describes the situation during the Cold War as, “the shattering of an old order which had seen most of the world locked into a bipolar

system that left little room for maneuver, let alone the sort of creativity,”<sup>10</sup> the post-Cold War era was a new age to incorporate the ex-Eastern bloc into the world economic order. The United States and international organizations such as the IMF redefined their roles and began supporting new friends like Russia, but economic reform in Russia was up and down. One thing was certain; there were too many things for the United States to deal with to actively engage the Asian crisis because the United States did not donate any funds at all to save Thailand falling into inescapable plight. As Krasner noted about the lack of leadership by the United States, Asian nations in crisis thought from the case of Thailand that America “will adopt a more narrowly self-interested policy. It will be less concerned about upholding international economic rules that are not optimal for itself.”<sup>11</sup>

It is true that the United States as a hegemonic power looked quite passive to rescue Thailand soon after the crisis broke out. Although Webb and Krasner point out that “the real test of hegemonic leadership arises in times of crises,”<sup>12</sup> the United States neglected to make perplexed Asian nations feel at ease. Gilpin states that “the president (Clinton) dismissed the crisis as “a few small glitches in the road.” This abandonment by the Clinton Administration caused the Thai government, a close friend of the United States, to feel deep resentment.”<sup>13</sup> What is worse, IMF measure after the joint relief fund as well as the US reluctance to share the burden to save Thailand was regarded as a wrong policy. Ciorciari says that “Thai authorities held the U.S. government largely responsible for the perceived flaws of the IMF. In particular, they resented the pace of financial disbursement and requirements to

---

<sup>10</sup> Beeson, Mark. “*Can Australia save the world? The limits and possibilities of middle power diplomacy*”. Australian Journal of International Affairs Vol. 65, No. 5, November 2011

<sup>11</sup> Krasner, Stephen. “*International Theory- Positivism and Beyond*”, “Chapter five, the accomplishment of international political economy”. Cambridge University Press. 1996.

<sup>12</sup> Webb, Michael. Krasner, Stephen. “*Hegemonic stability theory: an empirical assessment*”. Review of international Studies. 1989.

<sup>13</sup> Gilpin, Robert. “*The Challenge of Global Capitalism: The World Economy in the 21st Century*”. Princeton University Press. 2000.

liberalize the Thai economy.”<sup>14</sup> The United States as a hegemon did not show its firm will again to contain the crisis quickly by leading other regional partners as in the age of the Great Depression. In this regard, the Clinton administration did not seem to learn a lesson from Kindleberger who formulated the hegemonic stability theory explaining that “the 1929 Depression was so wide, so deep, and so long because no leading country was able and willing to discharge the role of a stabilizer.”<sup>15</sup> The US unwillingness to intervene into the Asian Crisis was the similar to the response during the financial tragedy in 1920s. Therefore, it was a unique time that Japan as rising power and the United States with the temporary lack of motivation intersected at the very tense situation.

Australia was an early example of middle power but the Cairns Group itself was not a neutral mediator between European and the American interests. Australia tried to lead the group to benefit from the deal with the two giants, yet in consequence the Cairns Group got closer to a more tolerant America and kept away from die-hard Europe because the European Community was too obstinate to make decisive compromises in agricultural issues. Still, the case of Australia during the Uruguay Round negotiations provides us with a meaningful example, which should nonetheless be evaluated separately from Japan’s case during the Asian Financial Crisis. Overall, I conclude that Japan managed to play the role of middle power by altering its strategy while Australia finally relinquished the role.

In order to demonstrate that Japan is a middle power country, I will delve into its response to the Asian Financial Crisis, which broke out in the summer of 1997 in Thailand. Although Japan gained support from Asian members in the discussion for creating an AMF due to the fact that those states such as Thailand,

---

<sup>14</sup> Ciorciari, John. “*The Limits of Alignment: Southeast Asia and the Great Powers Since 1975*”. Georgetown University Press. 2010.

<sup>15</sup> Kindleberger, Charles. “*Hierarchy versus inertial cooperation*”. International Organization 40, 4, Autumn 1986.



South Korea and Indonesia were concerned parties in the crisis, Japan was forced to withdraw the idea because it was not supported by the United States, while China and South Korea also opposed it. Therefore, the fact that the early stage of the movement for establishing the AMF was generally regarded as a failure of Japanese diplomacy is most convincing in Japanese academic society, as a well-known Japanese historian Iokibe indicates.<sup>16</sup> In fact, Mr. Sakakibara, one of the key persons in Japan in those days admitted that, “it was impetuous to proceed and fatal blow not to secure enough prior consultation with the US and China.”<sup>17</sup> However, if we look attentively at the subsequent process, we come to understand that the failure of the AMF to get the US approval was not diplomatic defeat but a tactical retreat for Japan to redefine itself as the middle power.

Japan learned a lesson not to undermine US hegemony when the AMF package was turned down. As Lipsy explained, “debates over the AMF proposal have revolved around distributive political issues rather than the quintessential question of economic efficiency.”<sup>18</sup> Therefore, Japan paid cautious attention to how the United States responded thereafter to its actions and accordingly conducted prior consultation with Washington. In a series of agreements, mutual surveillance, bail-outs and currency swap systems were realized. As adequate coordination with the United States was made, Japan did not elicit any strong reaction again during these processes. In addition, as Miyashita points out, Japan “sought no institutionalization of Asian Monetary Fund. The United States quickly supported the new proposal.”<sup>19</sup>

---

<sup>16</sup> Makoto, Iokibe. “*Sengo Nihon Gaikoshi (Japanese diplomacy in the post war period)*”. YuhikakuAruma, third edition. 2014.

<sup>17</sup> Sakakibara, Eisuke. “*Nihon to Sekai ga Furueta hi (The Day that Rocked Japan and the World)*”. Tokyo: Chuo KoronShinsha, 2000

<sup>18</sup> Lipsy, Phillip “*Japan's Asian Monetary Fund Proposal*” Stanford Journal of East Asian Affairs Volume 3, Number 1, spring 2003

<sup>19</sup> Miyashita, Akitoshi. “*Foreign Policy in Comparative on Perspective, Domestic and International Influences on State Behavior –Chapter 7, Japanese Foreign Policy: The International- Domestic Nexus-*”. Congressional Quarterly Inc. 2002.

As a consequence, the aim to protect Asian financial order through an AMF was gradually achieved, as Hook, Gilson, Hughes, and Dobson said that the “AMF was rejected by the IMF, the US, and China, only to be resurrected in various stages and different guises as the Manila Framework, New Miyazawa Initiative, and then the Chiang Mai initiative.”<sup>20</sup>

In order to think about the role of middle power theory, however, one question remains from the previous paragraph. Must a middle power always give in to the superpower? Cannot it develop an independent diplomacy from the hegemon? My answer is basically “Yes”, but it is not surrender and more like a partnership. First, a middle power country is not a great country but a state with limited power. It is not equal to stronger nations regarding national strength or nature of power such as in the legal restraint of the Japanese constitution. Second, a middle power aims at coordinating interests among members of a coalition and has the hegemon accept their requests. To be more precise, confrontation against the superpower is not the diplomatic way to be taken to realize their interests but concerting with the strongest is needed. As the United States as a hegemon is the most important nation for almost any country economically and militarily which is with few exceptions for members of the Cairns Group and Asian nations regarding the AMF plan, these members also wanted the middle power to maintain cooperative relations with the United States. As many of them looked upon the hegemon as a military ally, they did not seek disputes with America despite the fact that GATT and the AMF were obviously the way to ask America to compromise economically for them. In fact, Australia drove the Cairns Group into cooperation with the United States, even though Japan originally ignored the mechanism.

---

<sup>20</sup> Hook, Glenn. Gilson, Julie. Hughes, Christopher. Dobson, Hugo. *"Japan and the East Asian Financial Crisis: Patterns, Motivation and Instrumentalisation of Japanese Regional Economic Diplomacy"* European Journal of East Asian Studies, Vol.1 No.2 2002

The concept of middle power is helpful to explain my argument, but I have to admit that the theory is not necessarily common outside of the academic community. Soeya recounts that it was quite a laborious work to enhance understanding about Japanese diplomacy as the middle power when he developed his argument. While pacifists in Japan were cautious about the more active role of Japan, which reminds people of Imperial Japan during the Second World War, traditional nationalists including an influential member of Japanese parliament were not convinced because they believed that Japan was a major power commensurate with the United States and China.<sup>21</sup> Therefore I deal with this cumbersome idea carefully by applying it to the case study.

This thesis is divided into five parts. Chapter 2 will introduce the international political economy in the post Second War era, that is, the path to the financial crisis and its aftermath. Then, it will deal with the positioning of the middle power in the discourse of International Political Economy (IPE) by explaining how it works to solve the problem. In Chapter 3, I will describe how Australia responded as the leader of the Cairns Group during GATT Uruguay Round by applying the role of the middle power country.

In chapter 4, I will address the issue that Japan played the role of the middle power nation in the case study. As it was successful in spite of the difficult process, I will examine closely the process to prove that Japan is the middle power country.

At the end of the thesis, I will conclude with a brief summary in Chapter 5. In my thesis, I would like more to explore how Japan rearranged these plans after the original AMF plan was refused.

---

<sup>21</sup> Soeya, Yoshihide. *"Nihon no middle power gaiko [Japan's middle power diplomacy]"*. Chikumashinsyo. 2005.

## Chapter 2: Positioning of middle power in IPE

The question in this chapter is how the middle power should be categorized in the two case studies of Australia during Uruguay Round and Japan during the Asian financial crisis, in each of which there were certain elements of middle power diplomacy. Therefore, in this chapter I will define the concept in the context of international political economy.

The middle power concept is not is not well developed but has been used in analyzing Australia's role in establishing the Cairns Group during the Uruguay Round of GATT negotiations, which started in 1986 and concluded in 1994. Middle powers play an issue-specific role in areas of particular interest and are not to be confused as regional powers. In addition, a middle power, according to Higgott and Cooper, is willing to coordinate various interests and procedures for "restraining and modifying the behavior of larger, more powerful actors through the strengthening of order in the world economy."<sup>22</sup> In the Uruguay Round, Australia together with Canada coordinated the interests of agriculture producing and exporting countries to push for free trade and inject itself as a third force, possibly mediating conflicts between the United States and EU. As for Japanese case, it is the second case following the Australian case defining the Japanese response in the late 1990s during the Asian Financial Crisis as the middle power.

Unlike the theory of middle power, there are other state categories that have been better theorized, for example by Kindleberger and David Lake. Kindleberger as an authority of economic history first put forward hegemonic stability theory (HST) and then Lake developed categories of states in HST that includes hegemons, supporters, challengers and free riders. According to Lake, Japan and West Germany

---

<sup>22</sup> Higgott, Richard. Cooper, Andrew. *"Middle Power leadership and coalition building: Australia, and Cairns Group, and the Uruguay Round of trade negotiations"* International Organization 44, 4, Autumn 1990.

might be classified as “supporter” nations whereas the United States was positioned as “hegemonic leader” in the international political economy. Lake states that “when a hegemonic leader exists within the international economy, supporters will free-ride, protecting industry at home and expanding exports abroad.”<sup>23</sup> Japan was exempt from assuming the burden for the world economy as a whole. In fact, Japan could not afford to share equal burden with the United States in the years immediately after the Second World War. Japan struggled to stabilize its domestic society to the best of its ability, and suffered heavily from the lack of food. It barely managed to rule the country as a state in the late 1940s under the US occupation. Therefore, the United States was intentionally willing to accept cheap Japanese products and tolerantly encouraged Japan to develop its export-led economy. The United States also needed Japan to be a tractable ally and a successful state in the Western bloc as a front line against the communist China and the Soviet Union. This generous and strategic assistance was a match in Asia for the European Recovery Program (ERP), the so-called Marshall Plan. Although the bilateral relationship over the Pacific Ocean based on the post-war strategy faced a lot of trade frictions regarding textiles, steel and color television during 1960s to 1980s, the economic privilege was a major driving force to achieve the miraculously swift growth of the Japanese economy in the post-war era predicated on American hegemony.

The middle power is neither a hegemonic leader nor a free rider, but another significant actor that is able to contribute to order in the global political economy. A middle power clearly has strong interests in maintaining system stability and with sufficient economic, diplomatic, or political resources to find resolution to systemic problems. These characteristics apply to Japan because it has been an important

---

<sup>23</sup> Lake, David. “*International Economic Structures and American Foreign Economic Policy, 1887-1934*”. *World Politics* Vol. 35, No. 4, July, 1983.

beneficiary of the post war economic system established by the United States and is a global economic power with strong potential to contribute to regional stability. Japan has been deeply engaged in the regional economies through trade and investment, especially since the 1985 Plaza Accord that led to a sharply revalued Yen. According to Hisane, “The sharply higher yen prompted Japanese manufacturers to rush to shift production abroad, especially to Southeast Asia, to take advantage of cheaper labor there.”<sup>24</sup> Hence the maintenance of system stability is critical for Japanese economic growth and prosperity.

In order to maintain the steadiness of the international economic structure, a middle power nation can contribute to complicated issues that interest regional states or relations between regional states and the hegemon. As Hundt describes, “middle powers can act as catalysts of new initiatives, facilitators of coalitions in support of existing initiatives and agenda-setting, and as managers of extant institutions.”<sup>25</sup> As I argue, Australia and Japan fulfilled these expectations as leaders of the Cairns Group and in dealing with the Asian Financial Crisis, respectively.

The concept of middle power is helpful in discussing examples such as the Cairns Group mainly initiated by Australia and the AMF initiative by Japan. If Lake’s classification is applied, these two cases could be both supporters, toward hegemonic leaders by forces that try, to a certain extent, to assume more of a role than other countries. Although Maswood notes that “the role of the supporter is to take on an additional burden of cost sharing”<sup>26</sup>, he does not say that a supporter means to replace a hegemon with itself. Lake’s definition for supporters says that “nor- unlike a hegemonic leader- are they willing to accept high short-term costs for long-term

---

<sup>24</sup> Masaki, Hisane. “*China and the legacy of the Plaza Accord*”. ASIA TIMES, September 21<sup>st</sup>, 2005, accessed on November 4th 2015, [http://www.atimes.com/atimes/Global\\_Economy/GI21Dj01.html](http://www.atimes.com/atimes/Global_Economy/GI21Dj01.html)

<sup>25</sup> Hundt, David. 2011. “*Middle Powers and the Building of Regional Order: Australia and South Korea compared*”. Korean Observer, Vol. 42, No.1, Spring 2011.

<sup>26</sup> Maswood, Javed. “*Japan and Protection: The Growth of Protectionist Sentiment and the Japanese Response*”. Routledge, 2002.

gains". Therefore, the concept of supporter is an actor that works with a hegemon and is willing to play a big role but does not have a long-term strategy. Although a middle power also collaborates with a hegemon, it is more independent than a supporter and leads a group of collective interests; freer trade on agriculture for the Australian case and economic stability in Asia for the Japanese case, to coordinate interests among some members. Hence it is possible to argue that Australia and Japan attempted to go beyond the above limit of a supporter.

The two nations were eager to do more by mediating interests between their members - 14 nations in the CG and some of the Asian countries which supported the AMF plan, but did not seem to desire to take responsibility for undertaking all the burdens as hegemons. Whether or not the two middle powers aimed to replace the United States as a hegemonic power, America was overall superior to them in many respects, which necessarily positioned the United States in a role of hegemonic nation essentially over the all related parties in the Cairns Group and AMF plan.

The middle power as a terminology in international relations theory has not become a major political idea yet and is not necessarily unified among scholars and policy makers who apply it to analyze the international relations. Realists do not mention the concept nor do liberalists, so it is not clear what it is and how it is positioned in IR discourse. It is not yet a prevailing term as it is a relatively new concept. As Carr says that "the middle-power role is not a fixed universal but something that has to be rethought continually in the context of the changing state of the international system."<sup>27</sup> The role of middle power is not commonly shared and is likely to change, depending on the development of international affairs. Until the final stage of the Cold War, no one paid much attention to the role of middle powers in the

---

<sup>27</sup> Carr, Andrew. *"Is Australia a middle power? Systemic impact approach"*. Australian Journal of International Affairs, Volume 68, No. 1, 2014

showdown between the two super powers. As for the international economy, since the United States still overwhelmed the rest of the world, not every country had to or could mediate interests with the hegemon.

Although it is not necessarily evident, “the decline of America” has been discussed over and over again. Huntington wrote that people were preoccupied with this talk in late 1980s and said that America did appear ill socially, economically and politically and could not offer a successful model to the world.<sup>28</sup> In fact, even now any story of American hegemonic decline obsesses scholars and policy makers in the world as “the End of Pax Americana” is discussed in the latest version of Foreign Affairs magazine.<sup>29</sup> For instance, Lake demonstrates that “America's decline has gained new prominence in the current political debate. There is little doubt that the country's economic competitiveness has, in fact, waned since its hegemonic zenith in the 1950s.”<sup>30</sup> Any event which plagues the United States such as the 2008 Global Financial Crisis and endless chaos in Afghanistan, Iraq and Syria seems to indicate that America is no longer willing to tackle problems and is perhaps incapable of solving them. However, Strange plainly rejects the periodically repeated argument that the US hegemony is gradually declining, calling it “the persistent myth of lost hegemony.”<sup>31</sup> Judging from history, the United Kingdom became so rapidly wealthy from the Industrial Revolution since the middle of the 18<sup>th</sup> century that Britain was able to lead the world in a period of Pax Britannica in the 19<sup>th</sup> century and the early 20<sup>th</sup> century. In this sense, US hegemony has lasted for just less than 100 years, which is half of the period of Britain supremacy.

---

<sup>28</sup> Huntington, Samuel. “*The Third Wave: Democratization in the Late Twentieth Century*”. University of Oklahoma Press 1991.

<sup>29</sup> Simon, Steven and Stevenson, Jonathan. “*The End of Pax Americana Why Washington's Middle East Pullback Makes Sense*”. Foreign Affairs, November/December 2015 Issue.

<sup>30</sup> Lake, David. “*International political economy : perspectives on global power and wealth (4th edition)*”. Bedford/St. Martin's, c2000.

<sup>31</sup> Strange, Susan. “*The persistent myth of lost hegemony*”. International Organization 41, 4, Autumn 1987.



A middle power is an actor with great interest to stabilize the international order but it is not strong enough to lead the whole world. Hence a middle power is required to work together with the hegemon as a matter of course. As Strange indicates, “collective action is still possible but only when the United States takes the lead when, in short, it still chooses to act as a leader.”<sup>32</sup> This was the exact mistake Japan made when it proposed an AMF plan without prior approval by the United States. Japan seemed more confident to regain the Asian economy by only its initiative than its actual position in those days. Japan needed to learn, according to Cox, that “middle power may play a supporting role in such a hegemonic order.”<sup>33</sup> In fact, scholars Beeson and Higgott also emphasize the importance of the role of the hegemon by saying “for all the potential that middle powers may possess in theory, in practice without the agreement and participation of the ‘great’ powers, substantive and effective international cooperation and policy innovation- difficult at the best of times- is all but impossible.”<sup>34</sup>

In this thesis, I argue that Japan is a middle power country or played a role as a middle power by all accounts above. Japan is not a great power regardless of its national strength. In fact, the rising sun is the world’s third largest economy and without any objection much of its budget is allocated to military expenditures. However, as the country is militarily restricted by its constitution, it cannot deter potentially hostile actors with implied threats of military invasion. According to Bull, in order to act the part of a great power, usable military power is prerequisite. Political influence cannot be exercised without hard power capabilities in the international

---

<sup>32</sup> Ibid

<sup>33</sup> Cox, Robert. *"Middlepowermanship, Japan, and future of world order"* International Journal XLIV autumn 1989.

<sup>34</sup> Beeson, Mark. Higgott, Richard. 2014. *"The changing architecture of politics in the Asia-Pacific: Australia's middle power moment?"* International Relations of the Asia-Pacific Volume 14.

community.<sup>35</sup> Japan has kept the constitution intact since it was put in force in 1947. Although it was originally aimed at constraining a militarized Japan by the occupation authority, mainly the United States, America itself was irritated with Japan as a non-cooperative ally. The post-war constitution was prevented from revision even through changing times such as the Korean War, the Vietnam War, the Cold War and its end. Therefore, successive leaders and diplomatic authorities were required to develop foreign relations within the limitation. Japan, instead fixed its diplomatic direction on economic development, which has taken hold of Japanese diplomacy in the post-war era. Consequently, the role of middle power is the course of nature for such a constrained nation to pursue its diplomatic principle.

As I described a role of middle power, a middle power country can play an important part in international affairs. It is not an actor getting into the limelight but a coordinator leading followers, which need persistent devotion to maintain coalition and to keep cooperation with the hegemonic leader. In the next two chapters, I will argue how the middle power functions by applying the two cases; Australia and Japan.

---

<sup>35</sup> Bull, Hedley. *"The Anarchical Society – A Study of Order in World Politics"*. Macmillan Press Limited. 1977.

### **Chapter3: Australian role for the Cairns Group during the GATT Uruguay Round**

Since the GATT regime was founded after the Second World War, many nations benefited from free trade in which its primary norms such as non-discrimination were well respected until early 1970s. The GATT regime functioned quite well based on reciprocity, liberalization, and nondiscrimination under American hegemony, which had swiftly expanded the scale of world trade. At the same time, the number of GATT members also dramatically increased from 26 in the Dillon Round in 1960-1961 to 123 in the Uruguay Round in 1986-1994. However, a lot of complaints were stewing in some small and medium sized countries where agriculture was their primary industry. As they were not big enough to compete respectively with great powers, “nominal” free trade made them felt unfair under the GATT regime. This was the environmental factor which induced Australia to lead like-minded nations to work together by organizing the Cairns Group. The discontent was exactly what Australia shared. In this chapter, I will argue how Australia initiated collective bargaining during the GATT Uruguay Round.

As Modelski explains in his theory of the long cycle that the hegemon tends to take the lead in “the formation of economic organizations of global scope.”<sup>36</sup> While the International Trade Organization (ITO) was not approved by the United States in the late 1940s, on the other hand the GATT was perceived as a good diplomatic tool to maximize its economic interests. For example, the United States volunteered to open its own domestic market to devastated allies such as Japan and the West Germany because the US administration understood that the economic growth of other nations in the Western bloc would make a great contribution toward

---

<sup>36</sup> Modelski, George. “*Long Cycles and U.S. Strategic Policy*”.Policy Studies Journal. Autumn, Vol. 8 Issue 1. 1979.

its own economic interests and strategic outlook against the Eastern bloc. As Keohane points out, “awareness of its hegemony was therefore the foundation on which American generosity rested.”<sup>37</sup> In this sense, the United States positioned itself very clearly as the leader of the free world. In addition, it was attentive to the details of what allies wanted as well and generously willing to compromise with them.

However, Gilpin states that “no nation has yet chosen to pursue either an exclusively free trade or an exclusively nationalistic policy. A nation’s mix of these two policies is a function of its domestic economy and of conditions prevailing in the world economy.”<sup>38</sup> While it was generous of the United States to tolerate free-riders, those countries such as Japan and South Korea as the front line in the Cold War against communism hosted American military bases and barely managed to placate anti-American and capitalism sentiments in their countries. In this context, the economic relationship between Japan and the United States was often tense; the richer Japan became the more trade conflicts broke out between the both countries.

Regarding European Community, Tanner says that, after Europe changed its status “from being a net importer to being a net exporter of agricultural products in the mid 1970s,”<sup>39</sup> trade disputes arose with increasing frequency between Europe and other countries because it took advantage of protective policy. The change of power balance, especially the ostensible decline of the United States through the quagmire of the Vietnam War and Nixon Shock, which ended the post-war Bretton Woods system in 1971, woke up Europe to speak out in the world Market.

Consequently, the emergence of European Community (EC) as an exporter marginalized Australia because the EC was also an agricultural giant. In 1980s, the

---

<sup>37</sup> Keohane, Robert. *After Hegemony -Cooperation and Discord in the World Political Economy-*. Princeton University Press. 1984.

<sup>38</sup> Gilpin, Robert. *The Political Economy of International Relations*. Princeton University Press. 1987.

<sup>39</sup> Tanner, Carolyn. *Agricultural Trade Liberalization and The Uruguay Round*. Australian Journal of Agricultural Economics. Vol. 40, No. 1 (April 1996)

EC was in the process of market integration and economic unification in Europe appeared to Australia as the construction of a trade fortress. Kawahara explains that the Common Agricultural Policy (CAP) for the EC to promote its agricultural exports helped spread protectionism across the world.<sup>40</sup> The CAP was originally set for intra-Europe steady development and rescue of those who worked in its agricultural industry. In effect, the European Commission elucidates why the policy was made:

The CAP has its roots in 1950s Western Europe, whose societies had been damaged by years of war, and where agriculture had been crippled and food supplies could not be guaranteed. The CAP aimed at encouraging better productivity in the food chain, ensuring fair standard of living to the agricultural community, market stabilization and ensuring the availability of food supplies to EU consumers at reasonable price.<sup>41</sup>

However, various complaints from other countries revealed that the CAP was a highly protectionist mechanism holding on to the vested interests. Even though the EC made an epoch-making decision to reluctantly accept the agenda of agriculture for discussion in the Uruguay Round, the group kept showing a passive negotiating attitude all along with no intention of abandoning the CAP, which irritated the United States and the Cairns Group.

Although each nation in Europe was not necessarily singularly strong in agriculture, the European Community as a whole of small and medium sized states trumped Australia in all. There were, in those days, pessimistic viewpoints rampant in

---

<sup>40</sup> Kawahara, Masami. *"Uruguay Round and Australia [Uruguay Round to Australia]"* Australian Study Vol. 6. 1995.

<sup>41</sup> European Commission. *"Agriculture and Rural Development"*, accessed on September 27th 2015, [http://ec.europa.eu/agriculture/cap-history/early-years/index\\_en.htm](http://ec.europa.eu/agriculture/cap-history/early-years/index_en.htm)

Australia for its future economic outlook owing to its marginalization in the world economy. For example, former Treasurer and then Prime Minister of Australia Keating stated that Australia was no longer a “Lucky Country”, an affectionate term which originally came from the title of a book published in 1964 describing the good old days of Australia.<sup>42</sup> Rather, Keating argued, Australia was on its way to becoming a banana republic as a ruined nation. Hence, the down-and-out needed to shift the current trend to achieve a breakthrough in the deadlock.

Equitable free trade was the only means for Australia to boost its economy. As the former Prime Minister Hawke recognized the GATT as “the old-fashioned FTAs based on a 40-year-old GATT Article which sanctions discrimination,”<sup>43</sup> he was very suspicious and frustrated with the status quo until the Tokyo round from 1973 to 1979. Hence, he placed great importance on the principle of free trade. Australia tried to observe the rule as much as possible and provided legitimacy by positioning itself as the Fair Trader in Agriculture. However, at the same time, the Hawke administration was not utopian and because of the huge gap of economic power, knew that it was not likely to influence decision making processes occupied by the big two as long as Australia individually tried to urge them. Higgott highlights the limits of bargaining power by weaker states by saying “smaller players on the other hand, invariably do not have the luxury of choice that would allow them to adopt defensive strategies. Smaller states are unable to avoid the impact of many of the changes that take place in the international political economy. Similarly, they are in no position to alter these changes single-handed”.<sup>44</sup> Australian leaders recognized that the country was no longer a rich continent at the time of 1980s. Nor did it have a

---

<sup>42</sup> Horne, Donald. “*The Lucky Country*”. Penguin Books. 1964

<sup>43</sup> Hawke, R.J.L. “*APEC or regional agreements – the real implications*”. AQ Summer 1992.

<sup>44</sup> Higgott, Richard. “*The politics of Australia’s International Economic Relations: Adjustment and Two-Level Games*”. Australian Journal of Political Science. Vol.26, 1991.

political influence to compete with the big two; The United States and the European Community. However, Australia still influenced many small states dependent on agricultural trade all over the world and had the know-how in terms of smoother, more functional and experienced bureaucratic system. This realistic perception and self-diagnosis encouraged Australia in a constructive manner to form the Cairns Group with other agricultural countries.

In order to discuss the role of middle powers specifically, Higgott and Cooper offer us a good example to analyze the role of Australia as the middle power by running the Cairns Group in the GATT Uruguay Round. It was established in 1986 and contained diverse nations from Asia-Pacific, South America, and even from East Europe in order to appeal collectively to the fairness of trade in agricultural products, which was monopolized by the United States and Europe. As each member was politically weaker and economically smaller in agriculture than the two agricultural giants, Australia tried to turn their power into a combined bargaining group to compete fairly with the world agricultural hegemony. In this regard, Higgott and Cooper indicated that “the formation of the Cairns Group was designed to overcome this disadvantage.”<sup>45</sup> The strategy of the Cairns Group to gather collective power against great powers is not a new idea but historically common. For example, the integration of Europe was originally designed to prevent regional members from waging war against each other. However, it was also intended for Europe as a whole to participate in the global power game, competing with the United States, the Soviet Union and China. It was more or less impossible for most countries to reflect their own interests in international negotiations unless they formed an alliance to rival stronger nations equally.

---

<sup>45</sup> Ibid

Equally important, this was a joint project for developed and developing countries to work together for gaining common benefits from free trade in agriculture, which encouraged developing nations such as Indonesia and Brazil to join the GATT Uruguay round. In this sense, it was epoch-making in the history of international political economy.

**Table 2**

The original members of the Cairns Group			
No.	Participating countries	GDP per capita (current US\$) in 1986	Region
1	Australia	11364.0	Oceania
2	New Zealand	9427.6	Oceania
3	Fiji	1795.7	Oceania
4	Canada	14335.7	North America
5	Thailand	813.1	South East Asia
6	Philippines	535.2	South East Asia
7	Malaysia	1741.1	South East Asia
8	Indonesia	483.0	South East Asia
9	Argentina	3602.2	South America
10	Colombia	1137.5	South America
11	Brazil	1928.7	South America
12	Uruguay	1940.0	South America
13	Chile	1437.2	South America
14	Hungary	No data	East Europe

Source: The World Bank

Australia was consistent in the role of middle power by leading the members of the Cairns Group and trying to obtain conditions more favorable to the group's members. Among 14 diverse members, Australia knew what others expected and was actually willing to exercise leadership in the international limelight. Historically speaking, Australia showed strong inclination to get into power games and tried to



take the lead in the international politics in the turmoil of post-war era when Evatt, Australian Minister for External Affairs from 1941- 1949, steered its diplomacy. According to Capling, “Australia’s participation in this trilateral process represented another aspect of its Cairns Group leadership: intermediary leadership, or the willingness to try to mediate a resolution to the burgeoning conflict between the great powers. This was a coup for Australian diplomacy and for the Cairns Group: it was unprecedented for the two economic superpowers to invite a third and much smaller power to the table in a multilateral trade negotiation and it confirmed the Cairns Group’s role as the “third force” in the agriculture negotiations.”<sup>46</sup> This was the inevitable role as the middle power to bundle up numerous countries that did not have the same level of economic power. It was not easy for Australia to mediate various interests among the 14 members, but the lucky country did not depart from the focus on one specific topic which was agriculture. Higgott and Cooper highlight that “Australia was able to preserve the single-issue orientation of the coalition by defusing Brazilian pressures to broaden the Group’s agenda.”<sup>47</sup> The group might have collapsed once the sole topic connecting 14 members was put aside because they were very different from each other except for agriculture. While the world political structure dramatically transformed around 1990 from the end of the Cold War and the break-down of the Eastern bloc, the Uruguay Round continued until 1994 for a total of 8 years, which went through the historic transformation and its subsequent uncertainty. As a result, Australia managed to run the third force of an agricultural bloc toward the two hegemonic leaders, the United States and Europe, by “restraining and modifying the behavior of larger, more powerful actors,”<sup>48</sup> mentioned by the two

---

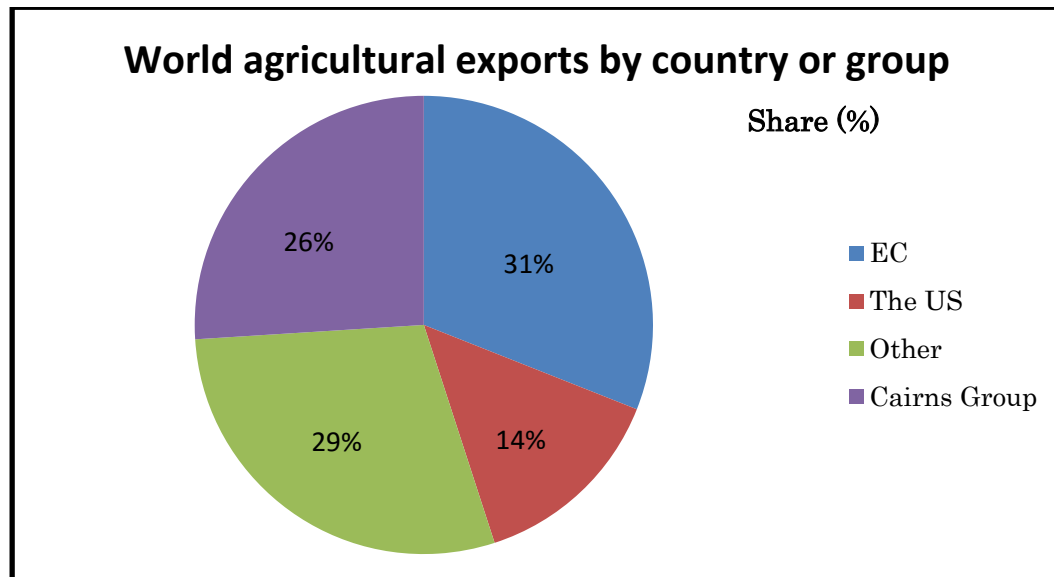
<sup>46</sup> Capling, Ann. *“Australia and the global trade system –from Havana to Seattle–”*. Cambridge University Press. 2001

<sup>47</sup> Ibid

<sup>48</sup> Ibid

authors.

**Figure 1**



Source: Department of Trade, Annual Report 1986-87 (Canberra: Australian Government Publishing Service, 1987)

One of the key reasons why Australia kept the members unified through the negotiation was the persistent effort for the cause. The country was involved in the movement calling for fairness in the international economic system for a long time. Consequently, it gained a good reputation and confidence from developing economies, which helped the country to initiate the CG. The two scholars argue that “Australia’s long-standing sympathy for the position of raw material exporting nations was exemplified by the country’s repeated attempts in the 1950s and 1960s to introduce more equity into the international political economy.”<sup>49</sup> The hard and steady approach from Canberra finally came into bloom when Australia called on other members to form the group based on mutual trust. On the other hand, the stance of

---

<sup>49</sup> Ibid

another leader, Canada was not fixed as a coordinator. Canada is often regarded as middle power country in the debate of international relations similar to Australia. Nevertheless, the North American country failed to lead because it also shared various stakes with the United States as a member of North American traders. As Canada was the biggest economy among the members, it was supposed to take on its leadership more straightforwardly but it looked more an opportunist between America and the other members. The double-tongued diplomacy and unwillingness to lead the CG revealed that Canada would not be a natural actor. Therefore, the group members gradually lost confidence in Canada and inversely put more trust on Australia with the passage of time. As Tyers pointed out during the UR negotiations, “the leadership of the Cairns Group has fallen predominantly to Australia.”<sup>50</sup> In order to play a role of a middle power country, Australia was more fitting because the lucky country as a coordinator had never waived collective interests belonging to the Cairns Group.

The role of a middle power country is to mediate various interests among the group members and also with the hegemon. In this respect, Higgott and Cooper describe the Australian role very closely during the GATT negotiation as I indicated above. As a matter of fact, the group as a third force succeeded in drawing massive attention to small and medium sized countries and gaining compromise from the United States. The middle power policy Australia pursued during the Uruguay Round created actual benefits that proved that the CG was not a group of utopian dreamers for ideal cooperation between the North and the South, but a voluntary working force from a pragmatic viewpoint. Former Prime Minister Paul Keating accepted the conclusion of GATT UR negotiation and praised its result by providing concrete numbers:

---

<sup>50</sup> Tyers, Rod. “*The Cairns Group and Uruguay Round of International Trade Negotiations*”. The Australian Economic Review. 1<sup>st</sup> Quarter 1993.

...a 21 per cent reduction in subsidized export volumes, an outcome that will be particularly significant in relation to Europe and the United States, our principal competitors in world agricultural markets limits on the extent to which governments can artificially support inefficient domestic industries cuts in trade barriers and improved market access for a wide range of commodities of particular significance to Australia ( including rice, beef, dairy), and a much more predictable and transparent trading environment through the conversion of non-tariff measures to tariffs, together with commitments to reduce tariffs substantially.<sup>51</sup>

In addition, the GATT secretariat complimented Australia officially on its performance in general and its role of coordinator in the Cairns Group:

Australia's role in the international trading system. Members recognized Australia's strong support for the multilateral trading system, based on the GATT. Most of Australia's external trade was MFN (Most Favored Nation) -based and, apart from two exceptions in the meat sector, not subject to any bilateral restraints. Australia had worked vigorously for the successful outcome of the Uruguay Round. Several members highlighted Australia's perseverance as the coordinator of the Cairns Group.<sup>52</sup>

---

<sup>51</sup> Australian Government, Department of Prime Minister and Cabinet. *"STATEMENT BY THE PRIME MINISTER THE HON PJ KEATING MP Prime Minister - Keating, Paul Media Release - 15 December 1993"*, accessed on August 15th 2015, <http://pmtranscripts.dpmc.gov.au/browse.php?did=9083>.

<sup>52</sup> GATT Press Communique. *"TRADE POLICY REVIEW OF AUSTRALIA 3 - 4 FEBRUARY 1994 GATT Council's Evaluation"*, accessed on August 15th 2015, <https://docs.wto.org/gattdocs/q/.%5CGG%5CGATT%5C1615.PDF>.

Although it is true that the United States and the EC were too strong for the CG to break the vested interests, there is no doubt that the CG played a certain role to rectify the unfairness. It was indisputable that faint but desperate voices from tiny nations were reflected against the international cartel of the two agricultural giants. If it had not been for the Cairns Group, the tightly closed society would have remained monopolized by the United States and the EC and the two owners would have enjoyed the cozy board meeting exclusively. In this sense, the CG was successful at least to drive in a wedge between the big two. It was also a remarkable result to prove that small nations in the group had obtained a way to reflect their voice and interests in the negotiations and exercise some political leverage on the decision making. It was not an easy path because the redefinition of Australian diplomatic policy entailed the change of national identity from Europe-oriented country to a member of Asia-Pacific. However, in order to get the CG success in the negotiation, Australia made itself intentionally cut back internal regulation and protection for agricultural products, which bestowed legitimacy to lead the group to a certain extent. Hence, Okamoto enumerates the role of Australia during the UR as a successful case for its middle power diplomacy.<sup>53</sup>

On the other hand, there is another perspective to suspect whether Australia managed to run the CG as a middle power country. In the beginning of the UR, the group was supposed to mediate interests as a third force between the United States and Europe, but what actually happened was for the CG to choose the United States as a partner while separating itself from Europe. In order to achieve freer world trade, the CG shared interests with the United States. For example, the CG and the United States advocated winding back export subsidies on agriculture exports, whereas the

---

<sup>53</sup> Jiro, Okamoto. “*Australia no taigai keizai seisaku to ASEAN (Australian foreign policy and ASEAN)*”. Institute of Developing Economies. 2008.

EC insisted on maintaining the assistance. However, as Maswood points out, “by throwing its weight behind the US, the CG lost credibility with the EU and was unable to fulfill a potentially useful role in mediating the gulf between the US and the EU.”<sup>54</sup> While America was pliable as the Regan administration espoused free trade to a certain extent, Europe was too bigoted to show any leeway in its position. The EC was a group of many countries compared with a singular America. In addition, many of them were heavily reliant upon export of their agricultural products. In this respect, the former foreign minister of Australia Gareth Evans in those days admitted that the CG and the United States worked together against a die-hard Europe rather than convincing it tenaciously. Evans notes that “the basic demand- which came to be supported by the United States- was for significant movement in all three contested areas of agriculture policy: export subsidies, import access and internal support.”<sup>55</sup>

As Australia forsook Europe in the end while the country kept the unity of the CG persistent, Australia’s legitimacy as a middle power is not necessarily clear-cut. This chapter provides us with the two examples; the possibility of middle power as a facilitator in the group and the limit of middle power as a negotiator with the two rivals at the same time. Whether or not Australian diplomacy was not regarded as a middle power theory, it is an essential precedent to compare with the Japanese response toward the AFC in the next case study.

---

<sup>54</sup> Maswood, Javed. *“Trade, Development and Globalization”*. Routledge. 2013.

<sup>55</sup> Evans, Gareth. Grant, Bruce. *“Australia’s foreign relations in the world of the 1990s (Second Edition)”*. Melbourne University Press 1995

## **Chapter 4:**

### **International Political Economy and Testing Japan's Response to the Asian Financial Crisis**

The international economy moved back to free trade from bloc economy both nominally and virtually when the United States undertook the role of hegemon. The international political economy enjoyed a stable period on the whole under the US leadership until its junior partners began encroaching on the power monopoly. In this chapter, I will take a look at the post-war economic history and position the Japanese case study. In addition, I will argue how Japan developed its economic diplomacy more successfully as a middle power compared with the Australian case in the previous chapter.

Since the end of the Second World War, the United States has led the rest of the capitalist world as the hegemon. Pax Americana encouraged economically and materially devastated states to focus on their own development and the United States was willing to assume economic burdens to open its market very generously. Japan and West Germany were the biggest beneficiaries to boost their economy under American leadership. It was a strategic choice for the United States to hold back key allies within the Free World, even though it looked like a kind of favoritism to specific countries. Lake states, “when a hegemonic leader exists within the international economy, supporters will free-ride, protecting industry at home and expanding exports abroad.”<sup>56</sup> At the same time, America took the lead of establishing international institutions to promote economic development and stabilize international economy. While it is the Bretton Woods system that the United States sustained which includes the International Monetary Fund (IMF) and the World Bank Group

---

<sup>56</sup> Lake, David. “*The state and American trade strategy in the pre-hegemonic era*”. International Organization 42, 1, Winter 1988.

(WB), an International Trade Organization (ITO) was pursued to create the idea of free trade. Although America failed to found the initial version, it turned into the General Agreement on Tariffs and Trade (GATT) later in 1947 and eventually World Trade Organization (WTO) in 1995. It is no exaggeration to say that the United States laid a solid infrastructure for speedy restoration after the Second World War.

Japan exploited favorable international conditions to rebuild its economy and as Japanese businesses returned to Asia, the Japanese government was careful to reassure regional countries that the country only had peaceful intentions. Part of this effort to minimize fear and mistrust of Japan was the Fukuda Doctrine issued in 1977, to reaffirm Japan's rejection of military power, promotion of a relationship of mutual confidence and trust or heart-to-heart diplomacy, and equal partnership with ASEAN for building peace and prosperity throughout Southeast Asia. According to Chachavalpongpan, "in essence, his speech indicated that for the first time in the post –World War II era, Japan was willing to play an active role in both economic and political affairs in Southeast Asia without depending on military imperatives and in such a way as to make military considerations less prominent."<sup>57</sup> Japan made huge progress onward owing to Asia's positive response thereafter and began working together for mutual profits. In addition, the change of foreign industrial policy pushed the trend for Japanese firms to get more involved in Asia as a whole. Jomo explains that "The Japanese Ministry of International Trade and Industry (MITI) adopted a new Asia Industrial Development (AID) regional policy, encouraging Japanese firms to relocate, not only in the East Asian newly industrialized economies of South Korea, Taiwan, Hong Kong and Singapore, but especially in the Southeast Asian MIT (Malaysia, Indonesia and Thailand) newly industrializing countries as well as

---

<sup>57</sup> Chachavalpongpan, Pavin. *"Approaches toward regionalism: Japan, China, and the implication on ASEAN"*. ASEAN-Japan Relations Institute of Southeast Asian Studies. 2013.



China.”<sup>58</sup> In this context, Southeast Asia came to be a big market for Japanese products and base for exporting finished products such as automobiles by late 1990s when the crisis hit the region. Hence, Japanese banks had also opened local branches along with the current of Japanese business getting into Southeast Asia and began paying more attention to the region in proportion to the importance of increasingly growing economic dependence. This changing economic structure also meant that Asian nations such as Thailand became more and more reliant on Japanese investment. As Table 3 shows, the loans from Japan occupied a large share in Indonesia, Malaysia and Thailand, which tells us that those economies were vulnerable depending on the gradually declining economy in Japan after its bubble economy collapsed.

**Table 3**

Sources of External Commercial Bank Debt to End of June 1997						
	Loans (US\$ billion)	% from Japan	% from US	% from UK	% from Rest of Europe	% from Others
Indonesia	58.7	39.4	7.8	7.4	30.9	14.5
Malaysia	28.8	36.4	8.3	7.0	37.0	11.3
Philippines	14.1	14.9	20.0	7.6	40.5	17.0
South Korea	103.4	22.9	9.6	5.9	29.3	32.3

<sup>58</sup> Jomo Kwame Sundaram. “*Whither the East Asian Flying Geese? Prospects for Regional Integration in East Asia*”. The transcript of his lecture at London School of Economics. 2005.

Thailand	69.4	54.4	5.8	4.1	24.5	11.3
Total	274.5	33.6	10.3	6.4	32.4	17.3

Source: Bank for International Settlements, as cited in FEER 23th July 1998, 38.

Japan was not the only force to inject financial flow into Asia. Massive and rapid financial liberalization attracted a large number of global companies and their investment, starting from the 1980s. In fact, other Asian nations such as the Newly Industrializing Economies (NIES) South Korea, Singapore, Hong Kong and Taiwan and others had enjoyed a rapid economic boom in the middle of the 1980s to 1997. The region was the most prosperous area in the world in those years. When “the East Asian Miracle” was applauded by the World Bank in 1993, Asia was at the peak of bright optimism.<sup>59</sup> Given the fact that the Petronas Twin Towers in Kuala Lumpur were constructed as the tallest building in the world just after the crisis broke out in 1998, the 1990s in Asia could be described as an unprecedented boom period. On the other hand, the idea that capital market was omnipotent was predominant and pushed more risky investment and speculation in many places should also be considered. In fact, Lawrence Summers as the U.S. Deputy Secretary of the Treasury, who was one of the influential men in the international economy, intentionally used a metaphor; “global capital markets pose the same kinds of problems that jet planes do. They are faster, more comfortable, and they get you where you are going better.”<sup>60</sup> As a result, a decade-long economic bubble was increasingly inflated by many foreign investments and their undue expectation.

#### Table 4

<sup>59</sup> The World Bank. *“The East Asian Miracle”*. Oxford University Press. 1993

<sup>60</sup> TIME. *“The Three Marketeers”*. Feb 15<sup>th</sup>, 1997. Accessed on August 31<sup>st</sup>, <http://content.time.com/time/world/article/0,8599,2054093,00.html>

Investment/GDP (%)					
	1990-1995	1996	1997	1998	1999
Indonesia	31.3	29.6	28.7	22.1	19.3
South Korea	36.8	36.8	35.1	29.8	28.0
Malaysia	37.5	42.5	43.1	26.8	22.3
Thailand	41.0	41.1	33.3	22.2	21.0

Source: Jomo Kwame Sundaram in the United Nations Department of Economic and Social Affairs (DESA)

To be fair, it may not be appropriate for us to blame those who were in a state of euphoria, because of remarkable economic growth. Even high-ranking officials in ASEAN and IMF did not expect that the economic situations would deteriorate so quickly. At the time of March 1997, finance ministers in ASEAN were quite optimistic about the future outlook of Asian economy in general and even the IMF Managing Director Michel Camdessus held shared perspective that the robustness of ASEAN economic fundamentals remained intact and still looked sustainably hopeful<sup>61</sup> until July 1997. As the crisis was as if a big earthquake suddenly hit a place where people had previously enjoyed economic prosperity, no one had held a specific concern about the economic outlook. Furthermore, even after Thailand's government faced an acute shortage of reserve funds, Indonesia as a potential victim did not take it seriously. Ginandjar Kartasasmita as the former Coordinating Minister of Economics, Finance, and Industry admitted that, "it was generally believed that Indonesia would not suffer the same fate. Indonesia's economic fundamentals were believed to be

---

<sup>61</sup> Soesastro Hadi. "ASEAN during the crisis". ASEAN Economic Bulletin Vol. 15, No.3. December 1998.

strong enough to withstand the external shock of Thailand's collapse."<sup>62</sup> For that reason, only when the bubble burst and hit a country, its people finally realized that "investors are not consistently rational, that they do get caught up in financial euphoria, and that, when the speculative bubble bursts, many innocent people get hurt."

63

Alan Greenspan, Chairman of the Federal Reserve, Robert Rubin, Secretary of the Treasury, and Lawrence Summers were at the forefront of a campaign to blame the lack of governance in Asian countries as the cause of the financial crisis. They said that pernicious practices such as the ruling family and its hangers-on in Indonesia and "*chaebol*" as a local conglomerate in South Korea were such practices of institutions. They had to be reformed. These were symbols of unfairness which was deeply rooted in their society, preventing newcomers from starting business to encroach on their vested interests and blocked economic reform to open their markets and undertake deregulation. Thus, they repeatedly insisted that the old-fashioned customs should be replaced with a more equitable business environment. On the other hand, there were also those who faced a head-on confrontation with the committee. For example, Bhagwati named "the Wall Street-Treasury Complex" as the joint force to distort world economy intentionally and criticized the network as the one that is "unable to look much beyond the interest of Wall Street, which equates with the good of the world".<sup>64</sup> What he meant is that for their shared goal, the influential businessmen and high-ranking officials worked together to remake the rule of the game in the name of free market, transparency, deregulation and so on. On the other hand, Sakakibara described "the turmoil in Far Eastern economies as "not an Asian

---

<sup>62</sup> Kartasasmita, Ginandjar. "*Globalization and the Economic Crisis: The Indonesian Story*". Weatherhead Center for International Affairs, Harvard University. 2001.

<sup>63</sup> Gilpin, Robert. "*A Postscript to the Asian Financial Crisis: The Fragile International Economic Order*". Cambridge Review of International Affairs, Volume 16, Number 1, 2003.

<sup>64</sup> Bhagwati, Jagdish. "*The Capital Myth: The Difference between Trade in Widgets and Dollars*". Foreign Affairs, May/June 1998 Issue.

crisis, but a crisis of global capitalism."<sup>65</sup> As a matter of fact, the financial crisis first broken out in Thailand spread over Asian borders and eventually reached Russia and Brazil thereafter. Sakakibara attributed the crisis to a liquidity problem, in other words, the confusion of foreign exchange markets.<sup>66</sup> From all the different viewpoints, it is clear that there are various arguments for the reasons of the rapid economic growth in Asia and its fall.

However, perspectives like Sakakibara's that pay attention to a crisis of global capitalism like Sakakibara is the mainstream of the academic world in advance of other theories such as "the committee to save the world" and "the Wall Street-Treasury Complex". As a result of rapid economic development, the Asian crisis of global capitalism in 1997 was precipitated by excessive borrowings of foreign short-term capital based on free capital movement. Hellman defines the AFC as "mainstream scholarly literature in the West" explaining it as "simply a severe debt-servicing emergency that wreaked havoc in several Asian nations."<sup>67</sup> In addition, Johnson questions the so-called Western blamers regarding rampant corruption, on the basis of the same viewpoint for the cause by saying that "Crony capitalism is an inadequate explanation for what has happened in East Asia."<sup>68</sup> In this respect, the AFC was not only essentially inherent in Asia. Therefore, it spread to Russia and Brazil later.

The role of IMF during the Economic crisis was controversial. While the United States and IMF justified so-called austerity policy and imposed conditionality on Thailand, Indonesia and South Korea, Asian countries and many economists

---

<sup>65</sup> Warner, Jeremy. "Japanese minister blames Asian woes on 'crisis of global capitalism'". The Independent. Saturday 31st January 1998.

<sup>66</sup> Sakakibara, Eisuke. "Keizai kosyo ni mita honmono no kosyoryoku (Competent bargaining power on foreign economic negotiation)". Shisosya, 2014.

<sup>67</sup> Hellmann, Donald. "A Decade After the Asian Financial Crisis - Regionalism and International Architecture in a Globalized World". ASIAN SURVEY, VOL. XLVII, No. 6, November/ December 2007.

<sup>68</sup> Johnson, Chalmers. "Financial Liberalization and the Asian Crisis". Palgrave Macmillan, 2001.

insisted that the IMF made the situation worse. Although the IMF seemed to be an organization with respectful professionals, the international institution could not necessarily dispatch regional experts promptly who were familiar with the countries in crisis and tended to espouse one-size-fits-all solutions to all nations universally. For example, according to Feldstein the IMF imposed a similar package on different nations by saying “the proper remedy is a variant of the traditional IMF medicine tailored specifically to each country-some combination of reduced government spending, higher taxes, and tighter credit.”<sup>69</sup> At another level, there were some in Asian countries who actually welcomed the IMF rescue plan. Blustein recounts that an Indonesian minister of finance in those days secretly asked the United States and IMF to put more pressure for reforms which the minister was trying to implement.<sup>70</sup> The watchdog was very eager to get rid of intrinsic evil practices “*KKN* (korupsi, kolusi, dan nepotisme)” meaning rampant “corruption, collusion and nepotism”. This was also the case in South Korea. The ossified economic structure in South Korea monopolized by its financial conglomerate “chaebol” was diagnosed by America and the IMF as the symbol of crony capitalism which had to be replaced with a fairer system. Kim and Park say that “South Korea’s active acceptance of the IMF led restructuring started with an intention to promote domestic economic restructuring with the use of Western capitalistic authority names IMF.”<sup>71</sup> When the crisis hit South Korea very seriously in the end of 1997, it was the time for presidential election which caused the change of administration. When Kim Dae Jung was elected, even the well-known leftist Kim recognized that there was no alternative but to accept the IMF rescue plan.

---

<sup>69</sup> Feldstein, Martin. “*Refocusing the IMF*”. Foreign Affairs, March/April 1998 Issue.

<sup>70</sup> Blustein, Paul. “*The chastening : inside the crisis that rocked the global financial system and humbled the IMF*”. Public Affairs. 2001.

<sup>71</sup> Kim, Young-Chu. Chang-Gun, Park. “*The Financial Crisis and Regional Institutionalization in East Asia*”, accessed on August 17th 2015, <http://www.apecweb.org/confer/sea06/papers/kim-park.pdf>

Regarding the Asian model in order to boost economy, although the World Bank published the report as I mentioned, there was no unanimous consensus about the model of the bank. The Washington consensus did not have a great deal of legitimacy for Asian countries. Hence there were conflicting opinions even in the related parties such as the US Treasury, the World Bank and the IMF. Whereas the United States placed importance on governance and liberalization, Asian nations such as Japan emphasized a big role of administration. All competed ardently to prove that their theories were right respectively. As it was true that Asia emerged economically as a promising region, whether American capitalists supported it or not, the bank made a decision to examine how economic success was accomplished, provided that Japan donated 12 million dollars. It was also a deal for the World Bank that Japan would act harmoniously with a deregulation plan the bank devised.<sup>72</sup> In this context, it was not an easy path until “the East Asian Miracle” was officially approved within the bank. Even after the report was published, the Asian developmental model was, therefore, the objective to suspect whether the model was the right path to a certain extent. There were still viewpoints in western economists that the model was not open, free, and transparent, judged against western capitalism.

True or not, the Asian path for economic development was seen overall as a good role model by international institutions in early 1990s and then was highly criticized as irresponsible soon after its peak of unstinted praise. Alliance capitalism as the alternative to “greedy” American capitalism which originally came from “*keiretsu*” meaning enterprise groups in Japan<sup>73</sup> was extended all over Asia and regarded as the most successful example. In fact, Vogel extolled its management style

---

<sup>72</sup> Okuda, Hiroshi. “*Japan’s response toward Washington Consensus in the Asian monetary crisis (Washington Consensus ni taisuru nihon seihu no taio –Asia tuka kiki no nakade-)*”. Ritsumeikan kokusai kenkyu. 2004.

<sup>73</sup> Gerlach, Michael. “*Alliance Capitalism -The Social Organization of Japanese Business-*”. University of California Press.1997.

of Japanese corporations and the strong role of state such as the Ministry of International Trade and Industry (MITI) and the Ministry of Finance (MOF) when Japan enjoyed its economic prosperity.<sup>74</sup> In this period, the Japanese model swept across the world as the successful mold. However, it was turned into “a war criminal” responsible for defeat in the moment when the AFC hit Asia exposing negative aspects of business practice in this region. For example, *keiretsu* as a secret of success was regarded as an inefficient model while state-led economic structure was blamed as a form to produce nontransparent and unfair results. As The Economist points out, “these days *keiretsu* ties are no longer constructive. They are being used to contain damage, and are a source of weakness as they slow down change.”<sup>75</sup> As there was intrinsically no end to doubts raised concerning the model in the United States and international institutions, the reputation was reversed once the situation changed.

Whether the cause of the Asian Financial Crisis was the lack of good governance in Asian nations or “Manias, Panics and Crashes” of global flow of money, the unexpected vulnerability in the international market was suddenly exposed in Thailand in July 1997. Strange had warned us about instability of the money game a decade earlier, well beyond the massive disruption in the hub of manufacturing activity in South East Asia.<sup>76</sup> Once it began, its aftereffect quickly infected other countries such as South Korea and Indonesia. The crisis damaged those countries regardless of the difference of development type; Thailand heavily depended on Foreign Direct Investment (FDI) while South Korea achieved economic development by making use of foreign trade as the lever.<sup>77</sup> As Gilpin explains the mechanism of financial crisis, when speculators and foreign companies withdrew

---

<sup>74</sup> Vogel, Ezra. “*Japan as Number One: Lessons for America*”. Harvard University Press. 1979.

<sup>75</sup> The Economist. “*Japan's keiretsu, Undone, Whither Japan's corporate groups?*”. March 20th 2003, accessed on November 5th 2015, <http://www.economist.com/node/1649463>

<sup>76</sup> Strange, Susan. “*Casino Capitalism*”. Manchester University Press. 1986.

<sup>77</sup> Tanaka, Akihiko. Urata, Syujiro. “*East Asian Community and the course of Japanese diplomacy (Higashi Asia kyodotai to nihon no shinro)*”. NHK syuppan. 2005.



their investment, in Thailand, the government used up its foreign exchange reserve swiftly and was unable to respond effectively to stop the flow. Thailand was as if it just stood at a loss for what to do.<sup>78</sup> In this context, Japan decided to take the lead for rescue package which was, I argue, the first indication of middle power diplomacy. Although the process where the AMF plan was turned down was an obvious failure, the idea was revived as the Chiang Mai Initiative (CMI). Later, the process to start over again from failure to the establishment of the CMI was perceived as an example of the Japanese experiment in the new diplomatic direction.<sup>79</sup>

America was obviously unwilling to get involved in the multinational rescue team given the fact that America did not even pay a cent, as table 6 shows us later. The reluctance to initiate the joint effort to save Thailand was in contrast to its commitment to save Mexico in 1994, just a few years previously, which is the so-called Tequila Crisis. As a matter of fact, the United States Secretary of the Treasury Robert Rubin was obviously less active for the Clinton administration to initiate an international rescue team for Thailand than Mexico. Even though there was a fund at the US Treasury called Exchange Stabilization Fund (ESF), the Treasurer did not want to use it to prop up Bangkok for strategic reasons. According to Woodward, “Rubin said at one meeting with Greenspan, look, we do not know what is going to happen, but it may be we are going to need that ESF, and if we use it now, and Congress actually takes our ability to use it away, then what would happen when we really need it?...Rubin wanted to leave Thailand to the International Monetary Fund (IMF) and support their efforts. Greenspan agreed.”<sup>80</sup> The lack of US commitment disappointed Asian countries. Moreover, the United States blamed Japan for its mismanagement of domestic economy after the bubble economy collapsed in

---

<sup>78</sup> Ibid

<sup>79</sup> Park, Chul, Yung. Wang, Yunjong. *“The Chiang Mai Initiative and Beyond”*. Blackwell Publishing Ltd, 2005.

<sup>80</sup> Woodward, Bob. *Maestro- Greenspan's Fed and The American Boom-*. Simon & Schuster. 2000.

the early 1990s and inappropriate stimulus packages to help desperate Asian nations. It goes without saying that other Asian countries were also criticized for their poor economic management. Sheng describes this cruel response by indicating that “it was remarkable that the United States and Europe did not contribute at all but still insisted on the principle of transparency that the Bank of Thailand had to reveal.”<sup>81</sup> In consequence, Asian states overall recognized harsh and indifferent US attitude without specific action to save Asia as a grave betrayal and tried to find a way out of financial crisis without American assistance.

Second, IMF policy made Asian leaders and policy makers suspect what the international organization really wanted. Passive US response made them distrustful of the only country which possessed virtual “veto” in the IMF decision making process. What the IMF tried to impose on Asia was, from their perspective, actually a US intention, manipulating its policy behind the scenes. In fact, the bail-out plan required recipients to carry out liberalization of their markets and deregulation to invite foreign corporations to advance to them. The fact that Citibank occupied a majority share in Thailand was a product coming about from the reform in the wake of IMF conditionality, which spurred Thai people to distrust the IMF. Essentially, IMF officials failed to offer an effective plan to restore damaged countries and rather worsened the crisis. Trimboth explains that “Stanley Fischer, then deputy managing director of the IMF, admitted in 1998 that he had underestimated the probability of the global capital crisis.”<sup>82</sup> As a result, IMF action led to the view that it was eager to break the Asian tradition and restructure the successful Asian developmental model, and privately take advantage of the cause of radical reform on purpose to get rid of outdated models and corruption. The article “the politics of resentment”, written by

---

<sup>81</sup> Sheng, Andrew. *From Asian to Global Financial Crisis – An Asian Regulator’s View of Unfettered Finance in the 1990s and 2000s*. Cambridge University Press. 2009.

<sup>82</sup> Trimboth, Susanne. *Lessons Not Learned: 10 Steps to Stable Financial Markets*. Spiramus Press. 2015.

Higgott,<sup>83</sup> inevitably depicted the image that Asia protested against American inroads into the region.

On the other hand, the IMF made a definite counterargument toward the above notion that the IMF as a US minion tried to transform Asia into a favorable environment for business. In fact, the monetary institution asked three Asian countries, Thailand, South Korea, and Indonesia to implement a series of reforms. It put politically heavy pressure to revamp their economic structures by some measures such as advancing financial system and closing insolvent banks, although even aforementioned IMF high-ranking official Fischer admitted that these requests needed dramatic change to be met. The IMF was very consistent with its rigorous attitude all along. Fischer demonstrates that “simply letting the chips fall where they may would surely cause more bankruptcies, larger layoffs, deeper recessions, and even deeper depreciations than would otherwise be necessary to put these economies back on a sound footing.”<sup>84</sup> As a major pillar to maintain stable global economy, the IMF obviously had no option to leave the matter as it was. Therefore, it could be possible from its perspective that IMF volunteered to take on a bad-guy role to restore the Asian economy.

When Japan proposed that a regional institution for stabilizing financial affairs, a so-called Asian Monetary Fund (AMF), needed to be built, Japan did not consult with the United States of America. The MOF initiated the plan with strong support by then Prime Minister Hashimoto (1996-1998) who also previously served as the Minister of Finance (1989-1991), and International Trade and Industry (1994-1996). This scheme was without consensus among ministries and private

---

<sup>83</sup> Higgott, Richard. “*The Asian Economic Crisis: A Study in the Politics of Resentment*”. New Political Economy, Vol.3, No.3, 1998.

<sup>84</sup> Fischer, Stanley. “*The Asian Crisis: a View from the IMF*”. Journal of International Financial Management and Accounting, 1998.

business circles within Japan. Hashimoto was much more used to economic diplomacy than previous Prime Ministers, in particular, the international negotiations with the United States through vehement trade negotiation and financial cooperation during the Gulf War in 1991. Hashimoto testified that Japan should assume a willing role willingly to mediate interests in the world without mentioning middle power diplomacy and that he personally did not trust IMF measure on Indonesia. For example, he said that the type of policy devised for Thailand should not be uniformly imposed on Indonesia because of different economic structures and environment in both countries; Thailand as a singular land mass and Indonesia as a multitude of islands, are completely different.<sup>85</sup> If a local bank on an island in Indonesia, for example, was closed down for restructuring, the economy and life of the island as a whole would come to a standstill. PM Hashimoto was very eager to strengthen the regional integration through political, security and cultural ties as well as the rescue plan for appeasing economic crisis. Lam Peng Er terms his diplomacy as the Hashimoto Doctrine and calls Japanese diplomacy in those days “a Generator of Ideas.”<sup>86</sup> In short, it may safely be said for Asian nations that Japan was ready to play an active part in regional matters.

It was beneficial for Japan to initiate the plan whether Japan included the United States or not. After the bubble economy collapsed in the early 1990s and the outlook of domestic economy was quite uncertain owing to bankruptcy of well-known companies, Japan recognized the significance of networks with Asian neighbors to take advantage of their emerging national strength. It was an energy-efficient way of Japanese diplomacy with relatively less effort. Jain and Stephens named the way as network diplomacy and articulate on its usefulness by saying that “Japan uses network

---

<sup>85</sup> Makoto, Iokibe. Taizo, Miyagi. “*Hashimoto’s memoirs on his diplomacy (Hashimoto Ryutaro Gaiko Kaikoroku)*”. Iwanami Syoten. 2013.

<sup>86</sup> Lam Peng Er. “*Japanese Foreign Policy Today*”. Palgrave TM. 2000.

diplomacy as an effective foreign policy strategy to help secure its position as an influential and respected regional power.”<sup>87</sup> The two authors did not mention middle power policy. However, the creation of networks set up all over Asia is prerequisite factor to develop middle power diplomacy considering the role to lead its coalition for influencing great powers with collective voices.

There was an argument that the AMF would not maintain appropriate conditions to avoid moral hazard which may encourage investors to make irresponsible decisions. The discourse was developed that lax standards for urgent rescue spoils those who are involved in business and damages the fundamental principle of capitalism. Even though there was some truth in that, scholar and policy makers in this issue analyzed that the AMF plan led by Japan was a grave threat against US hegemony. Stiglitz states that “while the IMF was a strong advocate of competition in markets, it did not want competition in its own domain, and the Asian Monetary Fund would provide that.”<sup>88</sup> This was exactly what the United States seemed to comprehend, judging from the long cycle theory advocated by Modelski.

On the other hand, there was another arguing point about the confrontation between Japan and America which was based on the difference of identity. The Japanese model with strong and farsighted bureaucracy, in other words a developmental state model, shared by countries was the symbol of rapid economic development, the so-called East Asian Miracle shared by other countries. However the United States thought that the model was a hotbed of crony capitalism preventing a fair and open market from being established. To take an illustration, Alan Greenspan as the chairman of the Federal Reserve was in the vanguard of criticism against the Asian model. According to his testimony in the American national bank,

---

<sup>87</sup> Jain, Purnendra. Williams, Brad. *“Japan In Decline”*. Global Oriental. 2011.

<sup>88</sup> Stiglitz, Joseph. *“Globalization and Its Discontents”*. W. W. Norton & Company. 2003.

“my sense is that there is a growing understanding and appreciation of the benefits of market capitalism as we practice it- that what is being prescribed in IMF programs fosters their own interests.”<sup>89</sup> While the United States asked Asian nations to reform their structure, they felt forcefully pushed to accept the American model. As a result, the IMF came to be regarded as a puppet in the hands of America to implement its desired policies which were generally based on free market, deregulation policy, smaller government, autonomous private business and transparency. According to Lee, “the MOF strongly felt the US presence behind the IMF operation, which was interpreted to be working in the United States. interest in bringing down the Asian model with no appropriate reason to do so.”<sup>90</sup> This sentiment was also shared with other Asian leaders in those days such as Malaysian Prime Minister Mahathir. As Camdessus, the managing director of the IMF, and Fisher, its deputy director, were supportive toward the AMF plan at the outset, there was a consensus among the related parties in the dispute that only the United States, as a country owning “virtual veto” in the IMF, urged them to change their mind.

Regardless of whether it was an identity clash, not every Asian country agreed with the Japanese initiative which would divide the ties between Asia and the United States. Although it was an absolutely unprecedented financial crisis in Asia, some countries were much less affected by the monetary storm such as Taiwan and mainland China on the grounds that they were not economically dependent on foreign money while Thailand, South Korea and Indonesia were in a state of economic devastation. Among other things, China and South Korea were opposed to AMF plan. Furthermore, Sakakibara infers an anonymous member in Asia informed America of

---

<sup>89</sup> The Federal Reserve Board. “*Testimony of Chairman Alan Greenspan*”. March 3<sup>rd</sup> 1998. Accessed on September 9<sup>th</sup> 2015, <http://www.federalreserve.gov/boarddocs/testimony/1998/199803032.htm>

<sup>90</sup> Lee, Yong Wook. “*Japan and the Asian Monetary Fund: An Identity-Intention Approach*”. International Studies Quarterly. 2006.

the Japanese plan in secret. He said that after Japan made a tentative overture to would-be AMF's original members, Deputy Secretary of the Treasury Summers called Sakakibara in a rage in the middle of the night by saying that "I thought you were my friend."<sup>91</sup> The leak tells us that some still expected the United States to lead Asia or that division between the two regions was not a good idea in the midst of the crisis. Bergsten illustrates that "it would be especially foolhardy to risk dividing Asia and the Americans at this time of global crisis, with its desperate need for leadership from the United States...thoughtful Asians have in fact insisted on American participation in any such scheme."<sup>92</sup> While the United States and the IMF were harshly blamed, they were also welcomed to a certain extent because of their willingness to speak to Asia without reserve about what was necessary to deal with the crisis.

Fierce opposition from the United States aborted the AMF plan and called upon Japan to shift its strategy to a more acceptable framework. It is true that Japan as the middle power country tried to coordinate Asian voices about the AMF plan among ASEAN members and brought consensus in some degree, but it paid the price for its negligence to communicate well with the super power. In addition, Japan was not able to clear up misunderstanding of China and failed to persuade South Korea. China was promising to develop rapidly at the time of late 1990s, it was very ambitious to play a bigger role as a regional leader than an economically declining Japan and wary of Japan's regional strategy. Furthermore, Kim and Park say that "South Korea also took tepid position on Japanese proposal for the creation of AMF and in fact expressed opposing position." The two scholars infer that Japanese initiatives "continue its patron role of East Asia."<sup>93</sup> As Hefeker and Nabor note, "this prospect (China as the

---

<sup>91</sup> Ibid.

<sup>92</sup> Bergsten, Fred. "Reviving the Asian Monetary Fund". The International Economy, November/December 1998.

<sup>93</sup> ibid

regional dominant economic power) must be taken into consideration when planning monetary cooperation.”<sup>94</sup> Therefore, these two nations did not support Japan’s proposal despite the worsening depression in Asia. As Carr also stated with regards to the hegemonic stability theory, “the working hypothesis of an international order was created by a superior power. The hypothesis has been destroyed by the decline, relative or absolute, of that power.”<sup>95</sup> Japanese diplomacy during the financial crisis, as a consequence, was perceived by the United States as a challenge against Pax Americana.

Although the United States was opposed to the establishment of an “Asian” Monetary Fund excluding America, it was not opposed to the regional financial cooperation. In fact, Lawrence Summers as Deputy Secretary of the Treasury placed more importance on intervention rather than just trusting market mechanisms naively and leaving behind desperate countries. According to the Economist, “Summers Doctrine fuses microeconomic laissez faire with macroeconomic activism. Markets should allocate capital, labor and ideas without interference, but sometimes markets go haywire, and must be counteracted forcefully by government.”<sup>96</sup> Therefore, judging from his economic ideology, the idea to contain causes of crisis through a new institution does not necessarily seem to contradict his principle. According to Hamanaka despite of the fact that his argument is not mainstream, the real reason behind the US opposition was the Japanese challenge to disapprove the membership of America in the new organization. As he coined “the politics of membership”, after the intense “competition between the Japan-sponsored Asia-only framework and the

---

<sup>94</sup> Hefeker, Carsten. Nabor, Andreas. “*China’s Role in East-Asian Monetary Integration*”. International Journal of Finance and Economics. 2005.

<sup>95</sup> Carr, E.H. “*The Twenty Years’ Crisis 1919-1939: An Introduction to the Study of International Relations*”. Harper Perennial. 1964.

<sup>96</sup> The Economist. “*American economic Policy- The legacy of Larry Summers-*”. December 13<sup>th</sup> 2010, accessed on September 9<sup>th</sup> 2015, [http://www.economist.com/blogs/freexchange/2010/12/american\\_economic\\_policy\\_0](http://www.economist.com/blogs/freexchange/2010/12/american_economic_policy_0)



US-sponsored Asia-Pacific framework”<sup>97</sup> and the disposal of the original AMF plan, the United States put forth a Manila Framework in November 1997 for regional surveillance without including “Asia” or any word to imply removal of the United States. An issue of membership to join a new organization is often influenced by geopolitical factors rather than economic rationality. At any rate, the framework to complement the IMF was the only realistic plan countering the ongoing crisis. Therefore, Japan decided to step up to the new proposal by securing effective measures for solving the problem. According to the report by Institute for International Monetary Affairs (IIMA), Japan accepted the counter-proposal with the condition of withdrawing the original AMF plan. As a result, the United States promised to arrange the surveillance system and Cooperative Financing Arrangement (CFA) in return.<sup>98</sup> It was no doubt Japan’s capitulation. However, this is one example of middle power diplomacy where Japan changed its strategy flexibly and took profit rather than fame, because Japan did not adhere intransigently to its original plan and found another way to work with the hegemon. A favorable environment for the United States to work without losing face was established after the harsh competition and cooperation over the Pacific became much smoother.

It could also be added that no states disagreed with the regional rescue mechanism once Japan shifted its strategy to coordinate interests with the United States. For example, China showed its willingness to make a progress for the financial cooperation in Asia even after China smothered Japanese proposal with the United States. China did not feel comfortable to hear that Japan would magnify its political influence over Asia as China’s traditional sphere of influence. However, it was also

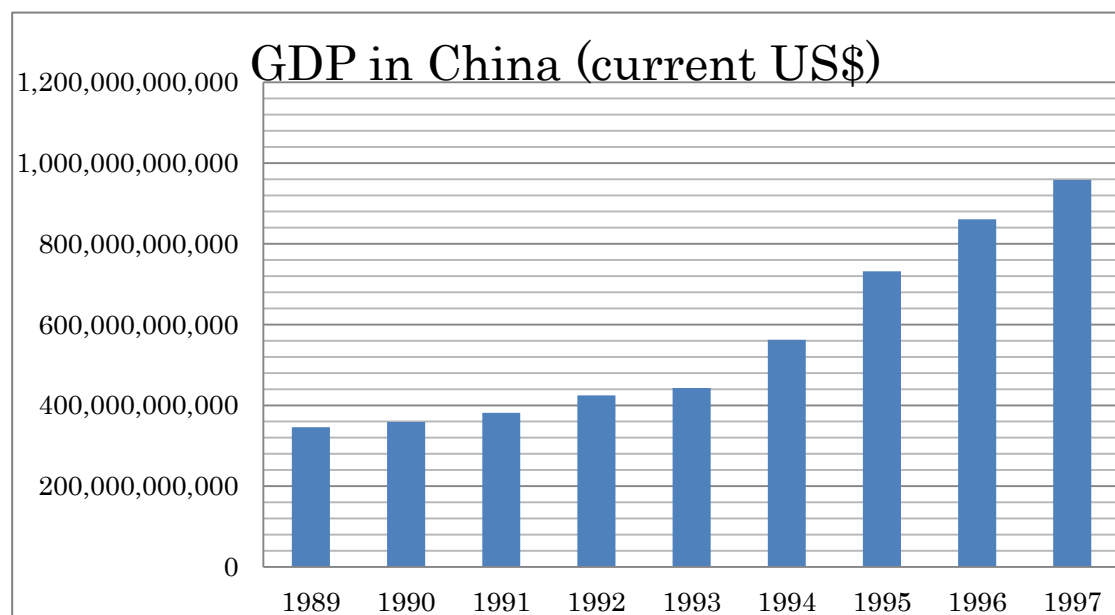
---

<sup>97</sup> Hamanaka, Shintaro. “Asian Financial Cooperation in the 1990s: The Politics of Membership”. *Journal of East Asian Studies* 11. 2011.

<sup>98</sup> Institute for International Monetary Affairs (IIMA). “Wagakuni no Asia tukakiki shien no seisaku hyoka (Policy evaluation for Asian Financial Crisis)”. 2002.

true that stable economy in Asia was prioritized for Beijing because its economic growth got under way based on the reform and open-door policy and had just restarted normal diplomacy escaping from its international isolation after the Tiananmen Massacre in 1989. Chinese leaders knew that stable economy in Asian was all about its own development, which had to be seamlessly continued.

**Figure 2**



Source: The World Bank

Billington reported that Malaysia's Prime Minister Mahathir had a summit

meeting with Chinese leaders in August 1999 and proposed the creation of an Asian Monetary Fund. According to him, “both Premier Zhu and President Jiang shared Malaysia’s view of the need for new global financial architecture and greater transparency of capital flows.”<sup>99</sup> As a proof of China’s stance, China participated in the CMI framework through the ASEAN plus Three for its own accord.

After the Manila Framework was concluded in November 1997, Japan quickly moved to the next step. In October 1998, New Miyazawa Initiative (NMI) was delivered at the annual meetings of World Bank Group and International Monetary Fund. In order to help devastated neighbors such as Indonesia, South Korea, Malaysia, Philippines and Thailand, Japan dealt with the matter by itself by announcing its commitment for 30 billion dollars. According to the Foreign Ministry of Japan, “15 billion will be made available for the medium to long-term financial needs for economic recovery in Asian countries, and another \$15 billion will be set aside for their possible short-term capital needs during the process of implementing economic reform.”<sup>100</sup> As this project was swiftly implemented, Shimura states that the NMI was positioned as a measure to reconstruct the East Asian economy and stabilize its financial market. It could even be said that the Cooperative Financing Arrangement (CFA), which was deferred to be effectuated within the Manila Framework, was revived as a bilateral support in the new initiative.<sup>101</sup> The arrangement is a concerted mechanism to help devastated nations, which enables other countries to jointly participate in the rescue program the IMF chiefly implements to make up financially for the lack of a plan. In consequence, a country that falls into the economic abyss is likely to be supported more quickly and

---

<sup>99</sup> Billington, Gail. “*Malaysia’s Prime Minister Mahathir strengthens ties to Russia, China*”. EIR Volume 26, Number 35, September 3, 1999.

<sup>100</sup> Ministry of Foreign Affairs of Japan. “*Asian Economic Crisis and Japan’s Contribution*”, accessed on August 27<sup>th</sup> 2015, <http://www.mofa.go.jp/policy/economy/asia/crisis0010.html>

<sup>101</sup> Shimura, Noriko. “*Higashi Asia ni okeru chiki kinyu kyoryoku no shinten (The development of regional financial cooperation in East Asia)*”. International Economic and Financial Review. October 1, 2004.

efficiently.

Another framework to prevent additional crisis and manage it well when it actually occurs was invented not only through Japanese initiative but also through ASEAN plus Three (China, Japan, and South Korea), that is the Chiang Mai Initiative (CMI), now renamed as the Chiang Mai Initiative Multilateralization (CMIM). The multilateralisation of financial cooperation or post-CMI cooperative activity in Asia was mainly induced by dropping western influence, especially after the Global Financial Crisis (GFC) originated from the US mortgage-related securities in 2008. As the CMI frankly did not satisfy its members enough, it was transformed into the CMIM. Grimes describes the CMIM as “a regional bailout fund, or even an Asian Monetary Fund in the mold of the International Monetary Fund (IMF).”<sup>102</sup> The main role of the mechanism is to swap currency quickly among members when another crisis breaks out. This was exactly what Kuroda, currently the governor of Bank of Japan, insisted on creating. When he was, currently he is the governor of Bank of Japan, a high-ranking official at MOF in the late 1990s and early 2000s; he was also involved along with Sakakibara in the strenuous efforts to set up the AMF. He reckoned that it was indispensable to have a financial cooperation mechanism which was supposed to work regionally to assist the IMF on the condition that interdependence was increasingly strengthened as any future economic crisis is very likely to be contagious quickly and broadly.<sup>103</sup> In fact, the managing director of IMF Kohler (2000-2004) welcomed the CMI and positioned it as an important function to complement IMF regional operations.<sup>104</sup>

---

<sup>102</sup> Grimes, William. *“Sustainability of Regional Financial Cooperation in Asia: Chiang Mai Initiative Multilateralization and the Return of Politics”*. The Research Institute of Economy, Trade and Industry (RIETI). 2014.

<sup>103</sup> Kuroda, Haruhiko. *“TukaGaiko- Zaimukan no 1,300 nichi (Monetary diplomacy -1,300 days as the vice minister of finance-)”* Toyokeizai. 2003.

<sup>104</sup> Toshika, Nakagawa. *“IMF at the crossroads- The relation with reform Agenda and regional financial cooperation (Kiro ni tatsu IMF –Kaikaku no kadai, chiki kinyu kyoryoku tonon kankei-)”*. Institute of Developing Economies. 2009.

On the other hand, the linkage with the IMF tends to accompany a negative image on the CMI. The IMF conditionality was automatically supposed to be annexed to the CMI program. It was easy to guess, countries such as Thailand, South Korea and Indonesia had traumatic memories of the hasty IMF rescue plan. In addition, it was very risky for them to ask the IMF for financial help even indirectly because people in respective nations did not have a good impression on anything about the IMF. For example, South Korea did not contact the IMF but asked the United States, China and Japan for financial help directly when another crisis broke out from New York in 2008. Terada quotes the former Thai Finance Minister in his paper to mention the distrust toward the IMF by saying “the IMF link needs to be modified, otherwise countries are likely to bypass CMIM like they bypassed CMI during the global financial crisis...it would be best to design the CMIM to be workable given the IMF stigma.”<sup>105</sup>

The mechanism begun in 2000, expanded step by step and amounted to 240 billion dollars in 2012. After the CMI developed itself as the CMIM, Pempel emphasized that “multilateralization gave the CMIM significant independence from IMF conditionality, giving the economies of the region the enhanced security of a collective safety net and an enhanced bargaining position in any future negotiations with the IMF and global financial houses.”<sup>106</sup> Furthermore, Pitakdumrongkit recounts the autonomy of the CMIM from the IMF by saying that “the IMF delinked portion was raised to 30 percent, meaning that members could draw up to 30 per cent of their maximum borrowing amount without requiring IMF lending conditions.”<sup>107</sup> A later

---

<sup>105</sup> Terada, Takashi. “*Japan’s Asian Policy Strategy: Evolution of and Prospects for Multilateralism in Security, Trade and Financial Cooperation*”. Policy Research Institute, Ministry of Finance, Japan, Public Policy Review, Vol. 10, No.1, March 2014.

<sup>106</sup> Pempel, T.J. Tsunekawa, Keiichi. “*Two Crises, Different Outcomes: East Asia and Global Finance*”. Cornell University Press. 2015.

<sup>107</sup> Pitakdumrongkit, Kaewkamol. “*Where to now for the Chiang Mai Initiative Multilateralisation*”. East Asian Forum, 28<sup>th</sup> August 2015, accessed on September 8<sup>th</sup> 2015, <http://www.eastasiaforum.org/2015/08/28/where-to-now-for-the-chiang-mai-initiative-multilateralisation/>

development of the CMIM is the ASEAN plus Three Macroeconomic Research Office (AMRO) which was established in 2011 and to conduct macroeconomic monitoring and analysis on East Asian economies. The AMRO is an independent 14 member unit and is expected to help CMIM decision-making (ASEAN plus Three and Hong Kong). Its Director Nemoto declares that “AMRO will help safeguard the ASEAN plus Three countries from global challenges and ensure their economic prosperity by effectively detecting such risks and contributing to the swift implementation of remedial actions and effective decision-making of the CMIM.”<sup>108</sup> Regional financial multilateralisation has gradually been developed through the ASEAN plus Three mechanisms.

This process and outcome was the crystallization of ASEAN plus Three as the new framework. Because Japan gave priority to results rather than mere title as the founder of AMF plan, it functioned positively bringing in China and South Korea. This was exactly a part of middle power diplomacy which took advantage of the ASEAN plus Three’s framework as a legacy of the Hashimoto doctrine in 1997 and changed the strategy flexibly not to stand out as a leader but to materialize the end to create the CMI. Soeya’s argument is extremely thought-provoking in regard to Japanese diplomacy during the crisis, by saying that “the concept of middle-power cooperation might provide a clue. Japan must recognize that it will be a truly equal partner with other Asian countries in the Asian century.”<sup>109</sup> Until the end of bubble economy in the early 1990s, Japan ran without stopping in the process of rapid economic development and played a role as a successful developmental model for neighboring nations. However, once a dark sign began to be seen in the Japanese

---

<sup>108</sup> ASEAN plus Three Macroeconomic Research Office (AMRO) , accessed on September 22nd 2015, <http://www.amro-asia.org/about-amro/overview/message-from-amro-director/>

<sup>109</sup> Soeya, Yoshihide. “*Prospects for Japan as a middle power*”. East Asia Forum. 29<sup>th</sup> July 2013, accessed on September 11th 2015, <http://www.eastasiaforum.org/2013/07/29/prospects-for-japan-as-a-middle-power/>

economic prosperity which overwhelmed others and the “ex-students” emerged inversely one after another, the power balance in Asia transformed. Henceforth, it was indispensable for Japan to pursue becoming an equal partner with other Asian countries. In sum, the regionally independent institution the original AMF envisaged to stabilize international economy against the financial crises was, as a consequence, remade as a form being more or less intact. Therefore, the AMF plan needs to be observed not as the original package but as its whole process.

**Table 5**

Members of Asian Groups				
No.	Members	Asian Monetary Fund	Manila Framework Group	Chiang Mai Initiative
1	Japan	○	○	○
2	China	×	○	○
3	South Korea	×	○	○
4	ASEAN	○	○	○
5	Hong Kong	△	○	×
6	Australia	△	○	×
7	The US	×	○	×

8	IMF	×	○	×
---	-----	---	---	---

It was arguably remarkable for Japan to reach the conclusion where the swap system was set up with ASEAN and its two East Asian neighbors because the collective unit as the ASEAN plus Three had two advantages. Whereas it could sidestep direct confrontation stemming from regional distrust among China, Japan and South Korea, it was possible for ASEAN to bring the three states into this framework to work out problems together as partners impartially. As Grimes reminds us, “the two states (China and Japan) compete for regional leadership and in which the basic problem of mistrust has limited the scope and effectiveness of regional cooperation.”<sup>110</sup> In addition, the ASEAN plus Three was fairly a convenient scheme bearing in mind that the original AMF plan was rejected by the United States and IMF “with the support of China and South Korea, which were afraid of Japanese regional ambitions.”<sup>111</sup> In this regard, the existence of Japan in the group did not have to be highlighted too much. On the other hand, it was favorable for the ASEAN in working with the three East Asian countries. Although the ASEAN made great progresses to add more members and integrated itself in 1990s, the Asian Financial Crisis astonished its members as a harsh wake-up call. It demonstrated its vulnerability despite the process to unify, which revealed that the ASEAN was much more fragile internally than it seemed externally. Hence, China, Japan and South Korea were strong backers to make up for the lack of the organization.

In order for the ASEAN plus Three to be founded, Japan made a positive approach to the ASEAN. The ASEAN plus Three as the framework to collaborate was

<sup>110</sup> Grimes, William. “*The Asian Monetary Fund Reborn? Implications of Chiang Mai Initiative Multilateralization*”. Asia Policy, Number 11, January 2011.

<sup>111</sup> Narine, Shaun. “*ASEAN and the Idea of an Asian Monetary Fund: Institutional Uncertainty in the Asia Pacific*”, accessed on August 26th 2015, <http://archive.unu.edu/ona/seminars/securityinasia/shaunnarine.pdf>



not originally the expected style for Japan, because Prime Minister Hashimoto proposed in January 1997 that Japan and the ASEAN would hold regular summit meetings when he visited South East Asia. The ASEAN in turn invited the other two states as well as Japan in order to have a meeting in December 1997. Japan decided to make use of the opportunity rather than adhering to its own suggestion because the new group to discuss regional problems appeared a very convenient framework, which was very business-oriented and not tightly binding to members. In the wake of the process, Japanese Prime Ministers, Hashimoto and his successor Obuchi, visited the region six times thereafter from 1997 to 2000 in the incipient stage of the regional cooperation toward the financial crisis.<sup>112</sup> As they were quite frequent visitors, it tells us how effective the framework was for Japan to implement its diplomacy. It functioned well to coordinate various interests among the members, which was optimal for the middle power policy.

Japan played a vital part as a middle power country in the process to restore regional economy from the inception of the crisis. Japan made contributions by leading coordination with neighbors, technical assistance, leadership determination and regional representation on behalf of Asia. First, Japan hosted an international conference in August 1997 in order to offer Thailand an urgent relief fund which essentially amounted to 17.2 billion dollars. It was strikingly devoted indeed because the emergency meeting was convened in August 1997 soon after the financial crisis erupted in July 1997 from Bangkok. Japan initiated the discussion by bearing 40 billion dollars alone in its early stages, which encouraged other rich Asian states, such as Singapore, in table 6, to donate and as a result paved the way for Asian nations to follow the trend to contain the crisis. Even though the total amount of funds could not

---

<sup>112</sup> Susumu, Yamakage. *“nihon no gaiko-Taigai seisaku chiki hen-(Japanese Diplomacy-Regional Foreign Policy-)”*. Iwanami Syoten. 2013.

meet the actual cost, it obviously revealed that Japan was the only country to lead the rest of Asian states in terms of its will and capacity, while the United States was extremely reluctant to take the lead for the regional stabilization as a hegemon.

**Table. 6**

Composition of the Thai rescue package		
	Amount of fund (Billion\$)	Share (%)
<b>Japan</b>	<b>4</b>	<b>23.3</b>
Singapore	1	5.8
Australia	1	5.8
Malaysia	1	5.8
Hong Kong	1	5.8
China	1	5.8
South Korea	0.5	2.9
Brunei	0.5	2.9
Indonesia	0.5	2.9
IMF	4	23.3
World Bank	2.7	15.7
Asian Development Bank		

<b>The United States</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>17.2</b>	<b>100</b>

Source: IMF and Japanese Ministry of Foreign Affairs

Second, Japan had a more advanced and experienced bureaucracy than other Asian nations as a model of Asian development. Malaysian Prime Minister Mahathir had put forward a ‘Look East Policy’ to emulate Japan over Western-style economic management. Although they had imitated Japan’s successful model of developmental state which achieved miraculous restoration from ruins after the Second World War, other Asian states were not well prepared to face such an unprecedented crisis. The financial crisis was too complex for them to respond. Therefore, Japan played a role as a mentor. Manupipatpong demonstrates that “to facilitate this (exchanging information on short-term capital flows) Japan has been providing technical assistance to some member countries to improve their monitoring, collection, and reporting system on capital flows, with an emphasis on short-term flows.”<sup>113</sup> This was necessary cooperation for all related parties to share the same extent of awareness and work together smoothly, which reminds us that Australia also offered technical assistance to fellow members in the Cairns Group during GATT Uruguay Round.

Third, a leader’s commitment is not a peripheral element as a driving force to get things done. As Australian Prime Ministers Hawke and Keating were invariably determined to keep the Cairns Group unified during GATT Uruguay Round, firm commitment of a leader in a mediating state on issues influences the rest of members to fulfill the objective by maintaining solidarity. In this sense, Japanese Prime Minister Hashimoto in those days was a good example. He initiated the formation of

---

<sup>113</sup> Manupipatpong, Worapot. “*The ASEAN Surveillance Process and the East Asian Monetary Fund*”. ASEAN Economic Bulletin Vol. 19, No. 1, 2002.

collective framework for dialogue with ASEAN, which expanded into the ASEAN plus Three in December 1997 amid the crisis. It was originally proposed to hold regular meetings exclusively with Japan, but as a consequence China and South Korea were added in the scheme. In order to address the financial crisis in tandem with all Asia, the ASEAN plus Three was a really favorable structure not to put China on the alert for Japanese hegemony in Asia. As Bi explains, “initially, China was skeptical of the original AMF proposal, fearing a Japanese quest for regional dominance. Later, in 1999, China changed its position, adopting an open attitude toward the proposal.”<sup>114</sup> Moreover, Hashimoto was eager to mediate interests between Indonesia and the IMF. After special envoy Mondale, the former US vice president under the Carter administration, failed to persuade President Suharto in March 1998, Hashimoto decided to visit him voluntarily in Jakarta and successfully convinced him to act in concert with the IMF after almost three hours of meeting. Kartasasmita recalls that the Prime Minister was in frequent contact with the President to exchange ideas during the crisis.<sup>115</sup> Even though Ikenberry and Mastanduno mention that “state actors are rationally seeking to maximize their national interests,”<sup>116</sup> the process to do so is not necessarily in a straight line. The way to harmonize the group as a whole is also possible, which is a more suitable method for a middle power country to lead members and maximize their national interests in the end.

In the process of materializing the AMF plan, Japan did not notify America at first and then changed the strategy to work together. Although Japan made a consensus with ASEAN members for the original plan, it was foiled in the attempt to get approval from the United States, the IMF, South Korea and China. Japan

---

<sup>114</sup> Bi, Jianhai. “*An Asia Monetary Fund?*”. New Zealand International Review Vol. 34 Issue 6. 2009.

<sup>115</sup> Kartasasmita, Ginandjar. “*Managing Indonesia's Transformation An Oral History*”. World Scientific Publishing. 2013.

<sup>116</sup> Ikenberry, Jone. Mastanduno, Michael. “*International Relations Theory and the Asia-Pacific*”. Columbia University Press. 2003.

conceived that it was integral to share the aim with the United States and draw in the hegemon. This was the time that the concept of the fund transformed from the intra-regional framework to the broader scheme over the Pacific Ocean. Hamanaka wraps up the power balance in the area by saying that “it is reasonable to conclude that whether the United States supported the creation of a regional monetary fund depends on whether it included the United States or not.”<sup>117</sup> Australia as a coordinator of the Cairns Group chose the United States to work with, so did Japan to get the AMF plan back on the track. Looking back on Asian recent history about regionalism, new organizations such as Asia-Pacific Economic Cooperation (APEC) and the ASEAN Regional Forum (ARF) also included America as a watchdog. In the context of connecting regional interests with the hegemonic country, collaboration between a region and the hegemon is indispensable. Moreover, it is the middle power country that coordinates between members and the hegemon persistently. Judging from a series of observations on Japanese responses during the Asian financial crisis, the conclusion is that Japan played a coordinating role as the middle power.

Japanese diplomacy during the AFC was not a single path but more like a successive modification of a planned course of action in reality. For example, the CMI was a product of windfall because the new framework ASEAN plus Three invented during the crisis was used as the umbrella; that is, the whole process was trial and error. However, Japan constantly maintained its position in the center of the coalition and consistently coordinated interests among the members and with the hegemon. Therefore, the diplomacy Japan unfolded corresponded exactly with the middle power policy.

---

<sup>117</sup> Hamanaka, Shintaro. *Asian Regionalism and Japan*. Routledge. 2009.

## **Chapter 5-Conclusion**

The hegemonic country always cares how it can maintain its power supremacy over other influential powers in history. The British felt threatened against emerging Germany in chase of Empire when Germany finally overtook Britain in industrial power. When the United States as its replacement after the war was also rapidly pursued by Japan and the West Germany, the hegemon figured out that two chasers were not junior partners but serious competitors for America. It was, therefore, no surprise that the upshot of the matter was that the example to create an AMF in 1997 caused fear to infringe upon American hegemony as well as the current expanding China. Although Japan did not intentionally violate the tacit law not to lay down a challenge to the US hegemony in their international relations, the Japanese action was interpreted as a grave challenge because Japan did not notify the United States of the original AMF plan in the early stage. This perspective is the shared view among scholars in the international political economy.

The immediate US rejection of the AMF plan was an unexpected blow to Japan, but Japan took advantage of the opportunity to restructure its diplomacy for more acceptable architecture between the Asian countries led by Japan and the United States. While Japan failed to win America over to an AMF framework, the country solidified ties with its Asian neighbors steadily through the rescue plan for Thailand which went into bankruptcy in July 1997. As table 6 shows us, Hashimoto

administration successfully put together donations from respective nations into the 17.2 billion dollar package without American participation. It is safe to argue that Japan gained in confidence and Asian countries especially Thailand felt convinced that Japan could play a role of active coordinator when the United States did not support Asia. In fact, there was an emotional uplift among policy makers in Asia while they were working together. As Lipsky quotes a remark from Sakakibara, when the international conference for helping Thailand took place in August 1997, “he asserts that an “Asian sense of solidarity” pervaded this meeting and became a key factor in his decision to promote the AMF plan.”<sup>118</sup> From this meeting the MOF began persuading Asian countries to join an AMF but the success made Japan conceited. This was the wrong perception for the failure to pass the original AMF plan for Japanese diplomacy in summer 1997.

The Japanese government did not seriously consider how the United States would respond to a blueprint for a new international financial organization without American involvement. It was an imprudent process for Japan to discuss the AMF plan as a new international institution among only some Asian nations and give misperception to the United States. As a result, Japan learned the lesson to work with the hegemon. As a matter of fact, the United States did not intend to refuse any collaborative work to stabilize the Asian economy but only to sabotage any plan which might have encroached upon U.S. supremacy. As Nye and Welch argue, “fears of an economic domino effect in which collapse of some developing economies would undermine confidence in others meant that the United States and other advanced economies could not continue to stand idly by.”<sup>119</sup> Looking back on the

---

<sup>118</sup> Ibid

<sup>119</sup> Nye, Joseph. Welch, David. “*Understanding Global Conflict and Cooperation –An Introduction to Theory and History-(Ninth Edition)*”. Pearson, 2013.

process of the AMF package as a whole, this stumble was the turning point where Japan adopted middle power diplomacy in terms of close cooperation with the hegemonic predominance.

It was middle power policy Japan developed during the Asian Financial Crisis, even though Japan did not pursue the middle power diplomacy actively. No one in the Japanese government in those days uttered “middle power” as its official diplomatic policy. Japan was the second biggest economy in the world and much more economically influential in Asia though the economic bubble had already burst when the AFC hit Thailand. To be more precise, judging what contribution Japan made during the crisis is exactly applicable to the role of the middle power country defined in this thesis. As Soeya argues that “in the case of Japan, however, both external and domestic observers have largely neglected the fact that an imbalance exists among these three factors (behavior, status and strategy); Japan’s diplomatic behavior has essentially reflected ‘middle-power internationalism’, while its status has been uncertain and its strategy confused or non-existent”.<sup>120</sup> This is the feature of Japanese middle power.

In the post Second World War era, the United States rebuilt devastated countries in the Western Europe and Asia, established international institutions such as the IMF and the World Bank and took on more burdens to maintain the international economy and reinforce political unity in the free world. Lake demonstrates that “the GATT, the IMF, the World Bank, and many United Nations organizations all give concrete- and lasting- substance to America’s global economic leadership. As a result, international liberalism has been institutionalized in international relations.”<sup>121</sup> The United States overwhelmed its junior partners

---

<sup>120</sup> Soeya, Yoshihide. “*Japanese middle-power diplomacy*”. East Asian Forum, November 22<sup>nd</sup> 2012.

<sup>121</sup> Lake, David. “*International Political Economy; Perspective on Global Power and Wealth*”. Bedford / St. Martin’s. 2000.



militarily and economically as a supreme ruler in the world. However, once new economic powers like West Germany and Japan reemerged, America's lead had diminished step by step. It became quite obvious that the United States continued to weaken compared with those nations. This transformation of power balance required a new actor. That is not "a supporter" but "a middle power" country to lead its partners for a shared purpose.

A supporter holds up a hegemon but does not pick up voices from small and medium sized nations whereas a middle power is a concept to lead those relatively weaker countries. A middle power is supposed to coordinate various interests among other members, put them together, and convince the hegemonic leader. In the time immediately after the Second World War, no one argued the importance of a middle power thesis, but more and more states participated increasingly in the international regime. The newcomers were seriously seeking a way to reflect their desires on the US-led free trade negotiation. When GATT Uruguay Round opened by adopting agriculture as a new agenda, the number of members was 123, a new record in the history of the regime. Therefore, it was an inevitable trend that Australia as a relatively wealthier and more experienced country was expected to organize the Cairns Group responsibly to bargain with agricultural giants; The United States and European Community. This was the curtain rise for the middle power in the international political economy.

What are the commonalities and differences between Japan and Australia as middle powers? Both Japan and Australia were stronger economies when the Cairns Group was formed and the financial crisis drove Thailand into bankruptcy. While Australia initiated establishing the group, set the agenda to push and maintained the solidarity by the end of the Uruguay Round, Japan took a lead to save Thailand and

was consistent all along to stabilize the Asian economy. Although Japan failed to get the original AMF plan approved by the United States, it was persistently involved in successive schemes such as the Manila Frame Work, the New Miyazawa Initiative and the Chiang Mai Initiative. According to Kikuchi, the CMI was proposed by Japan in order to create a currency swap system during the ASEAN plus Three's conference which took place in 2000.<sup>122</sup> In this respect, it is safe to say that Japan was also actively engaged in the AMF plan as a whole.

The only thing to diverge between the two countries stems from the endgame of the negotiation. Both Japan and Australia successfully prevented members from defecting and coordinated interests within the respective group. While Australia kept agriculture as the sole agenda in the Cairns Group, Japan worked together with its Asian neighbors and cooperated additionally with China and South Korea in the new framework ASEAN plus Three after the original AMF plan was rejected. As Japan could not persuade China and South Korea to stick to the original plan, it paid more careful attention to the consolidation of the group in the second half of the game. Australia did not mediate interests with the European Community because the lucky country chose the United States to conclude the deal. The deal was made between the Cairns Group and the United State due to the fact that the EC was so intransigent that the Cairns Group gave up on agreement. On the other hand, as Japan was in charge of collaborating with the United States until the currency swap system materialized, the two conclusions formed a striking contrast. Judging from the two conclusions, I argue that Australia was not able to play a middle power role fairly. This is the deference between Japan and Australia. What I do argue instead is, therefore, that Japan was the more successful as a middle power than Australia was in terms of fairness.

---

<sup>122</sup> Kikuchi, Tsutomu. "*Shinkokoku no taito to Global Governance no syorai (The Rise of Emerging Nations and the Future of Global Governance)*". The Japan Institute of International Affairs, 2012. Accessed on November 9<sup>th</sup> 2015, [http://www2.jiia.or.jp/pdf/resarch/H23\\_GlobalGovernance/H23\\_GlobalGovernance.php](http://www2.jiia.or.jp/pdf/resarch/H23_GlobalGovernance/H23_GlobalGovernance.php)

Regarding the guiding principle of Japanese diplomacy during the AFC and the way for the policy to restore the Asian economy, in conclusion, I can argue that Japan responded to the Asian Financial Crisis as a middle power country. In addition, the country mediated mutual interests between Asia and the United States in order to stabilize the highly damaged Asian economy and prevent a recurrence of another crisis.

## Bibliography

1. ASEAN plus Three Macroeconomic Research Office (AMRO) , accessed on September 22nd 2015,  
<http://www.amro-asia.org/about-amro/overview/message-from-amro-director/>
2. Australian Government, Department of Prime Minister and Cabinet.  
“*STATEMENT BY THE PRIME MINISTER THE HON PJ KEATING MP Prime Minister - Keating, Paul Media Release - 15 December 1993*”, accessed on August 15th 2015, <http://pmtranscripts.dpmc.gov.au/browse.php?did=9083>.
3. Beeson, Mark. “*Can Australia save the world? The limits and possibilities of middle power diplomacy*”. Australian Journal of International Affairs Vol. 65, No. 5, November 2011
4. Beeson, Mark. Higgott, Richard. 2014. “*The changing architecture of politics in the Asia-Pacific: Australia's middle power moment?*” International Relations of the Asia-Pacific Volume14.
5. Bergsten, Fred. “*Reviving the Asian Monetary Fund*”. The International Economy, November/December 1998.
6. Bhagwati, Jagdish. “*The Capital Myth: The Difference between Trade in Widgets and Dollars*”. Foreign Affairs, May/June 1998 Issue.
7. Bhagwati, Jagdish. “*Lessons from the East Asian Experience: Opening Address*”. Conference Series; (proceedings), 2000, vol. 44, issue Jun.
8. Bi, Jianhai. “*An Asia Monetary Fund?*”. New Zealand International Review Vol. 34 Issue 6. 2009.
9. Billington, Gail. “*Malaysia’s Prime Minister Mahathir strengthens ties to Russia, China*”. EIR Volume 26, Number 35, September 3, 1999.
10. Blustein, Paul. “*The chastening : inside the crisis that rocked the global financial system and humbled the IMF*”. Public Affairs. 2001.
11. Bull, Hedley. “*The Anarchical Society –A Study of Order in World Politics-*”. Macmillan Press Limited. 1977.

12. Capling, Ann. *"Australia and the global trade system –from Havana to Seattle–"*. Cambridge University Press. 2001
13. Carr, Andrew. *"Is Australia a middle power? Systemic impact approach"* Australian Journal of International Affairs, Volume 68, No. 1, 2014
14. Carr, E.H. *"The Twenty Years' Crisis 1919-1939: An Introduction to the Study of International Relations"*. Harper Perennial. 1964.
15. Chachavalpongpun, Pavin. *"Approaches toward regionalism: Japan, China, and the implication on ASEAN"*. ASEAN-Japan Relations Institute of Southeast Asian Studies. 2013.
16. Ciorciari, John. *"The Limits of Alignment: Southeast Asia and the Great Powers Since 1975"*. Georgetown University Press. 2010.
17. Cox, Robert. *"Middlepowermanship, Japan, and future of world order"* International Journal XLIV autumn 1989.
18. Drifte, Reinhard. *"Japan's Foreign Policy in the 1990s"*. ST. Martin's Press, INC. 1996.
19. European Commission. *"Agriculture and Rural Development"*, accessed on September 27th 2015,  
[http://ec.europa.eu/agriculture/cap-history/early-years/index\\_en.htm](http://ec.europa.eu/agriculture/cap-history/early-years/index_en.htm)
20. Evans, Gareth. Grant, Bruce. *"Australia's foreign relations in the world of the 1990s (Second Edition)"*. Melbourne University Press 1995
21. Feldstein, Martin. *"Refocusing the IMF"*. Foreign Affairs, March/April 1998 Issue.
22. Fischer, Stanley. *"The Asian Crisis: a View from the IMF"*. Journal of International Financial Management and Accounting, 1998.
23. Garnaut, Ross. *"East Asia in Crisis –From being a miracle to needing one?"*. Routledge. 1998.
24. GATT Press Communiqué. *"TRADE POLICY REVIEW OF AUSTRALIA 3 - 4 FEBRUARY 1994 GATT Council's Evaluation"*, accessed on August 15th 2015, <https://docs.wto.org/gattdocs/q/.%5CGG%5CGATT%5C1615.PDF>.
25. Gerlach, Michael. *"Alliance Capitalism -The Social Organization of Japanese Business–"*. University of California Press. 1997.
26. Gilpin, Robert. *"The Political Economy of International Relations"*. Princeton University Press. 1987.

27. Gilpin, Robert. "*The Challenge of Global Capitalism: The World Economy in the 21st Century*". Princeton University Pres. 2000.
28. Gilpin, Robert. "*Global Political Economy: Understanding the International Economic Order*" Princeton University Press. 2001.
29. Gilpin, Robert. "*A Postscript to the Asian Financial Crisis: The Fragile International Economic Order*". Cambridge Review of International Affairs, Volume 16, Number 1, 2003.
30. Grimes, William. "*The Asian Monetary Fund Reborn? Implications of Chiang Mai Initiative Multilateralization*". Asia Policy, Number 11, January 2011.
31. Grimes, William. "*Sustainability of Regional Financial Cooperation in Asia: Chiang Mai Initiative Multilateralization and the Return of Politics*". The Research Institute of Economy, Trade and Industry (RIETI). 2014.
32. Hamanaka, Shintaro. "*Asian Regionalism and Japan*". Routledge. 2009.
33. Hamanaka, Shintaro. "*Asian Financial Cooperation in the 1990s: The Politics of Membership*". Journal of East Asian Studies 11. 2011.
34. Hawke, R.J.L. "*APEC or regional agreements – the real implications*". AQ Summer 1992.
35. Hefeker, Carsten. Nabor, Andreas. "*China's Role in East-Asian Monetary Integration*". International Journal of Finance and Economics. 2005.
36. Hellmann, Donald. "*A Decade After the Asian Financial Crisis - Regionalism and International Architecture in a Globalized World*". ASIAN SURVEY, No. 6, November/ December 2007.
37. Higgott, Richard. Cooper, Andrew. "*Middle Power leadership and coalition building: Australia, and Cairns Group, and the Uruguay Round of trade negotiations*" International Organization 44, 4, Autumn 1990.
38. Higgott, Richard. "*The politics of Australia's International Economic Relations: Adjustment and Two-Level Games*". Australian Journal of Political Science. Vol.26, 1991.
39. Higgott, Richard. "*The Asian Economic Crisis: A Study in the Politics of Resentment*". New Political Economy, Vol.3, No.3, 1998.
40. Hook, Glenn. Gilson, Julie. Hughes, Christopher. Dobson, Hugo. "*Japan and the East Asian Financial Crisis: Patterns, Motivation and Instrumentalisation of Japanese Regional Economic Diplomacy*" European Journal of East Asian Studies,

41. Horne, Donald. "*The Lucky Country*". Penguin Books. 1964
42. Hundt, David. 2011. "*Middle Powers and the Building of Regional Order: Australia and South Korea compared*". Korean Observer, Vol. 42, No.1, Spring 2011.
43. Huntington, Samuel. "*The Third Wave: Democratization in the Late Twentieth Century*". University of Oklahoma Press, 1991.
44. Ikenberry, John. Mastanduno, Michael. "*International Relations Theory and the Asia-Pacific*". Columbia University Press. 2003.
45. Iokibe, Makoto. Taizo, Miyagi. "*Hashimoto's memoirs on his diplomacy (Hashimoto Ryutaro Gaiko Kaikoroku)*". Iwanami Syoten. 2013.
46. Iokibe, Makoto. "*Sengo Nihon Gaikoshi (Japanese diplomacy in the post war period)*". Yuhikaku Aruma, third edition. 2014.
47. Jain, Purnendra. Williams, Brad. "*Japan In Decline*". Global Oriental. 2011.
48. Jiro, Okamoto. "*Australia no taigai keizai seisaku to ASEAN (Australian foreign policy and ASEAN)*". Institute of Developing Economies. 2008.
49. Johnson, Chalmers. "*Financial Liberalization and the Asian Crisis*". Palgrave Macmillan, 2001.
50. Jomo Kwame Sundaram. "*Whither the East Asian Flying Geese? Prospects for Regional Integration in East Asia*". The transcript of his lecture at London School of Economics. 2005.
51. Jomo Kwame Sundaram. "*Obstacle to Implementing Lessons from the 1997-1998 East Asian Crises*". DESA Working Paper No.66. August 2008.
52. Kartasasmita, Ginandjar. "*Globalization and the Economic Crisis: The Indonesian Story*". Weatherhead Center for International Affairs, Harvard University. 2001.
53. Kartasasmita, Ginandjar. "*Managing Indonesia's Transformation An Oral History*". World Scientific Publishing. 2013.
54. Kawahara, Masami. "*Uruguay Round to Australia (Uruguay Round and Australia)*". Australian Study Vol. 6. 1995.
55. Keohane, Robert. "*After Hegemony -Cooperation and Discord in the World Political Economy-*". Princeton University Press. 1984.
56. Kikuchi, Tsutomu. "*Shinkokoku no taito to Global Governance no syorai (The Rise of Emerging Nations and the Future of Global Governance)*". The Japan

- Institute of International Affairs, 2012. Accessed on November 9<sup>th</sup> 2015,  
[http://www2.jiia.or.jp/pdf/resarch/H23\\_GlobalGovernance/H23\\_GlobalGovernance.php](http://www2.jiia.or.jp/pdf/resarch/H23_GlobalGovernance/H23_GlobalGovernance.php)
57. Kim, Young-Chu. Chang-Gun, Park. “*The Financial Crisis and Regional Institutionalization in East Asia*”, accessed on August 17<sup>th</sup> 2015,  
<http://www.apecweb.org/confer/sea06/papers/kim-park.pdf>
  58. Kindleberger, Charles. “*Hierarchy versus inertial cooperation*”. International Organization 40, 4, Autumn 1986.
  59. Kindleberger, Charles. Aliber, Robert. “*Manias, Panics and Crashes –A History of Financial Crises- Sixth Edition*”. Palgrave Macmillan. 2011.
  60. Krasner, Stephen. “*International Theory- Positivism and Beyond*”, “*Chapter five, the accomplishment of international political economy*”. Cambridge University Press. 1996.
  61. Kuroda, Haruhiko. “*TukaGaiko- Zaimukan no 1,300 nichi (Monetary diplomacy -1,300 days as the vice minister of finance-)*” Toyokeizai. 2003.
  62. Lake, David. “*International Economic Structures and American Foreign Economic Policy, 1887-1934*”. World Politics Vol. 35, No. 4, July, 1983.
  63. Lake, David. “*Beneath the Commerce of Nations: A Theory of International Economic Structures*”. International Studies Quarterly, 1984
  64. Lake, David. “*The state and American trade strategy in the pre-hegemonic era*”. International Organization 42, 1, Winter 1988.
  65. Lake, David. “*International political economy: perspectives on global power and wealth (4th edition)*”. Bedford/St. Martin's, 2000.
  66. Lam Peng Er. “*Japanese Foreign Policy Today*”. Palgrave TM. 2000.
  67. Lee, Yong Wook. “*Japan and the Asian Monetary Fund: An Identity-Intention Approach*”. International Studies Quarterly. 2006.
  68. Lipsky, Phillip “*Japan's Asian Monetary Fund Proposal*” Stanford Journal of East Asian Affairs Volume 3, Number 1, spring 2003
  69. Manupipatpong, Worapot. “*The ASEAN Surveillance Process and the East Asian Monetary Fund*”. ASEAN Economic Bulletin Vol. 19, No. 1, 2002.
  70. Masaki, Hisane. “*China and the legacy of the Plaza Accord*”. ASIA TIMES, September 21<sup>st</sup>, 2005, accessed on November 4<sup>th</sup> 2015,  
[http://www.atimes.com/atimes/Global\\_Economy/GI21Dj01.html](http://www.atimes.com/atimes/Global_Economy/GI21Dj01.html)



71. Maswood , Javed. " *Japan and Protection: The Growth of Protectionist Sentiment and the Japanese Response*". Routledge, 2002.
72. Maswood, Javed. " *Trade, Development and Globalization*". Routledge. 2013.
73. Ministry of Foreign Affairs of Japan. " *Asian Economic Crisis and Japan's Contribution*", accessed on August 27<sup>th</sup> 2015,  
<http://www.mofa.go.jp/policy/economy/asia/crisis0010.html>
74. Miyashita, Akitoshi. " *Foreign Policy in Comparative on Perspective, Domestic and International Influences on State Behavior –Chapter 7, Japanese Foreign Policy: The International- Domestic Nexus-*". Congressional Quarterly Inc. 2002.
75. Modelski, George. " *Long Cycles and U.S. Strategic Policy*". Policy Studies Journal. Autumn, Vol. 8 Issue 1. 1979.
76. Nakagawa, Toshika. " *IMF at the crossroads- The relation with reform Agenda and regional financial cooperation (Kiro ni tatsu IMF –Kaikaku no kadai,chiki kinyu kyoryoku tonon kankei-)*". Institute of Developing Economies. 2009.
77. Narine, Shaun. " *ASEAN and the Idea of an Asian Monetary Fund: Institutional Uncertainty in the Asia Pacific*", accessed on August 26<sup>th</sup> 2015,  
<http://archive.unu.edu/ona/seminars/securityinasia/shaunnarine.pdf>
78. Nye. Joseph. Welch, David. " *Understanding Global Conflict and Cooperation –An Introduction to Theory and History-(Ninth Edition)*". Pearson, 2013.
79. Okuda, Hiroshi. " *Washington Consensus ni taisuru nihon seihu no taio –Asia tuka kiki no nakade- (Japan's response toward Washington Consensus in the Asian monetary crisis)*". Ritsumeikan kokusai kenkyu. 2004.
80. Park, Chul, Yung. Wang, Yunjong. " *The Chiang Mai Initiative and Beyond*". Blackwell Publishing Ltd, 2005.
81. Pempel, T. J. " *The politics of the Asian Economic Crisis*". Cornell University Press. 1999.
82. Pempel,T.J. Tsunekawa, Keiichi. " *Two Crises, Different Outcomes: East Asia and Global Finance*". Cornell University Press. 2015.
83. Pitakdumrongkit, Kaewkamol. " *Where to now for the Chiang Mai Initiative Multilateralisation*". East Asian Forum, 28<sup>th</sup> August 2015, accessed on September 8<sup>th</sup> 2015,

<http://www.eastasiaforum.org/2015/08/28/where-to-now-for-the-chiang-mai-initiative-multilateralisation/>

84. Sachs, Jeffrey. Woo, Wing Thye. "*The Asian Financial Crisis- Lessons for a Resilient Asia*". The MIT Press. 2000.
85. Sakakibara, Eisuke. "*Nihon to Sekaiga Furueta Hi (The Day that Rocked Japan and the World)*". Tokyo: Chuo Koron Shinsha, 2000
86. Sakakibara, Eisuke. "*Keizai kosyo ni mita honmono no kosyoryoku (Competent bargaining power on foreign economic negotiation)*". Shisosya, 2014.
87. Sheng, Andrew. "*From Asian to Global Financial Crisis – An Asian Regulator's View of Unfettered Finance in the 1990s and 2000s*". Cambridge University Press. 2009.
88. Shimura, Noriko. "*Higashi Asia ni okeru chiki kinyu kyoryoku no shinten (The development of regional financial cooperation in East Asia)*". International Economic and Financial Review. October 1, 2004.
89. Simon, Steven and Stevenson, Jonathan. "*The End of Pax Americana Why Washington's Middle East Pullback Makes Sense*". Foreign Affairs, November/December 2015 Issue.
90. Soesastro Hadi. "*ASEAN during the crisis*". ASEAN Economic Bulletin Vol. 15, No.3. December 1998.
91. Soeya, Yoshihide. "*Nihon no middle power gaiko (Japan's middle power diplomacy)*". Chikumashinsyo. 2005.
92. Soeya, Yoshihide. "Japanese middle-power diplomacy". East Asian Forum, November 22<sup>nd</sup> 2012.
93. Soeya, Yoshihide. "*Prospects for Japan as a middle power*". East Asia Forum. 29<sup>th</sup> July 2013, accessed on September 11th 2015, <http://www.eastasiaforum.org/2013/07/29/prospects-for-japan-as-a-middle-power/>
94. Stiglitz, Joseph. "*Globalization and Its Discontents*". W. W. Norton & Company. 2003.
95. Strange, Susan. "*Casino Capitalism*". Manchester University Press. 1986.
96. Strange, Susan. "*The persistent myth of lost hegemony*". International Organization 41, 4, Autumn 1987.
97. Susumu, Yamakage. "*nihon no gaiko-Taigai seisaku chiki hen-(Japanese*

- Diplomacy-Regional Foreign Policy-)*”. Iwanami Syoten. 2013.
98. Tanaka, Akihiko. Urata, Syujiro. “*East Asian Community and the course of Japanese diplomacy (Higashi Asia kyodotai to nihon no shinro)*”. NHK syuppan. 2005.
  99. Tanner, Carolyn. “*Agricultural Trade Liberalization and The Uruguay Round*”. Australian Journal of Agricultural Economics. Vol. 40, No. 1 (April 1996)
  100. Terada, Takashi. “*Japan’s Asian Policy Strategy: Evolution of and Prospects for Multilateralism in Security, Trade and Financial Cooperation*”. Policy Research Institute, Ministry of Finance, Japan, Public Policy Review, Vol. 10, No.1, March 2014.
  101. The Economist. “*Japan’s keiretsu, Undone, Whither Japan’s corporate groups?*”. March 20th 2003, accessed on November 5th 2015, <http://www.economist.com/node/1649463>
  102. The Economist. “*American economic Policy- The legacy of Larry Summers-*”. December 13<sup>th</sup> 2010, accessed on September 9<sup>th</sup> 2015, [http://www.economist.com/blogs/freeexchange/2010/12/american\\_economic\\_policy\\_0](http://www.economist.com/blogs/freeexchange/2010/12/american_economic_policy_0)
  103. The Federal Reserve Board. “*Testimony of Chairman Alan Greenspan*”. March 3<sup>rd</sup> 1998. Accessed on September 9<sup>th</sup> 2015, <http://www.federalreserve.gov/boarddocs/testimony/1998/199803032.htm>
  104. The World Bank. “*The East Asian Miracle*”. Oxford University Press. 1993
  105. TIME. “*The Three Marketeers*”. Feb 15<sup>th</sup>, 1997. Accessed on August 31<sup>st</sup>, <http://content.time.com/time/world/article/0,8599,2054093,00.html>
  106. Trimpath, Susanne. “*Lessons Not Learned: 10 Steps to Stable Financial Markets*”. Spiramus Press. 2015.
  107. Tyers, Rod. “*The Cairns Group and Uruguay Round of International Trade Negotiations*”. The Australian Economic Review. 1<sup>st</sup> Quarter 1993.
  108. Vogel, Ezra. “*Japan as Number One: Lessons for America*”. Harvard University Press. 1979.
  109. Warner, Jeremy. “*Japanese minister blames Asian woes on `crisis of global capitalism*”. The Independent. Saturday 31st January 1998.
  110. Webb, Michael. Krasner, Stephen. “*Hegemonic stability theory: an empirical*

*assessment*". Review of international Studies. 1989.

111. Woodward, Bob. "*Maestro- Greenspan's Fed and The American Boom-*". Simon & Schuster. 2000.