

# U.S. Leadership in the Asia-Pacific Region: Some Help from Economic Strategies?\*

CHYUNGLY LEE

*The foundations of the United States' hegemonic leadership in the Asia-Pacific region during the Cold War no longer exist. The emergence of a new balance of economic power in the region and the trend of closer ties between the Asia-Pacific economy and U.S. economic prosperity have prompted the United States to pursue a non-hegemonic leadership to integrate U.S. economic interests into the Asia-Pacific and ensure economic security. In this vein, the Asia-Pacific Economic Cooperation (APEC) forum has been an effective policy tool to realize U.S. goals.*

**Keywords:** Asia-Pacific region; APEC; economic security; flying-geese development pattern; U.S. hegemonic leadership

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For more than four decades, U.S. engagement in Asia and U.S. leadership in the region were primarily based on the United States' strong military commitment to Cold War security and its extraordinary economic power. However, the collapse of the Soviet Union and the decline of U.S. economic superiority in relation to the rise of regional economic powers have shaken the necessity and effectiveness of U.S. hegemonic leadership

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**Dr. Chyungly Lee** is Associate Research Fellow of the Institute of International Relations, National Chengchi University.

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in the region. In contrast to Central and Eastern Europe and the former USSR, where changes in the post-Cold War era have been driven by failures in the political economy, much of the ferment in Asia is a product of the region's unique and dramatic economic success. Some have even pointed out that the rise of the Asia-Pacific region has mainly been measured in economic terms.<sup>1</sup> Thus, while military power is still at the center of maintaining regional stability, international political leverage from economic strength deserves more urgent attention than before. Should the United States attempt to conduct its relations with the region as in the past, its capacity for a comprehensive and effective leadership will be questioned.

Since Bill Clinton's inauguration, the U.S. administration has recognized economics as a new focus in international relations, and the concept of *economic security* has been formally documented in its foreign policy. The challenges and opportunities for the United States are in the need for an economic strategy toward the Asia-Pacific region to maintain its dominance. The main objective of this study is to explore whether the current Asia-Pacific economic dynamics and the current U.S. economic strategies toward the region are sufficient to ensure U.S. leadership. The first section of this paper summarizes the current economic trends in the Asia-Pacific region. The second section reviews U.S. economic strategies toward the region in response to recent developments. The third section discusses U.S. regional leadership on the basis of its policy goals. Finally, a few concluding remarks are made to summarize the study.

### **The Economic Power Structure in East Asia: Emergence of a Trifold Dominance**

Recent developments in Asia-Pacific economies,<sup>2</sup> particularly in East

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<sup>1</sup>Dipankar Banerjee, "U.S. Policies in the Asia-Pacific," *Strategic Analysis* 18, no. 8 (November 1995): 1007.

<sup>2</sup>The Asia-Pacific economies covered in this paper refer to economic activities among Asian economies along the Pacific Ocean. These economies include Australia, New Zealand, Japan, China, Hong Kong, South Korea, Taiwan, Indonesia, the Philippines, Singapore, Malaysia, Thailand, and Brunei.

Asia,<sup>3</sup> can be characterized by dynamism in economic growth and heavy dependence on international trade and investment. In the 1980s, most East Asian economies had average annual national growth rates double the world average. In the first half of the 1990s, statistics indicated even more rapid growth: except for Japan and the Philippines, the annual growth rates of East Asian economies were three times greater than the world average. Second, trade flows in the region have increased far faster than the world average. For example, the export growth rates of Indonesia and Thailand in the first half of the 1990s were over 20 percent, or four times greater than the world average. In another example, China's import growth rate during the period 1990-95 was at 24.8 percent, or four times greater than the world average (see table 1).

However, the region has not been equally developed, as it comprises economies from three different levels. Japan is a well-developed, advanced economy; the newly industrialized economies (NIEs), including Taiwan, Hong Kong, South Korea, and Singapore, are catching up with developed economies; and East Asian lower-income economies (LIEs), including Malaysia, Thailand, the Philippines, Indonesia, and China, are still deemed as developing economies. The phenomena in which each individual economy has sustained rapid growth under a structure of regional economic disparity can be best explained by the "flying-geese" development pattern.

### *"Flying-Geese" Regional Economic Development*

In the 1930s, Japanese economist Kaname Akamatsu developed a "flying-geese" theory of economic development to explain how Japan achieved its industrialization between 1880 and 1930 through import substitution.<sup>4</sup> According to the theory, economic changes in more advanced

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<sup>3</sup>East Asia includes both Northeast and Southeast Asia. Economies covered in this paper include Japan, China, Hong Kong, South Korea, Taiwan, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

<sup>4</sup>According to Walter Hatch and Kozo Yamamura's summary, "The theory acquired its name because the wedge-shaped pattern of import substitution, plotted on a graph reflecting time, resembled a flying-geese formation." See Walter Hatch and Kozo Yamamura, *Asia in Japan's Embrace* (New York: Cambridge University Press, 1996), 214.

**Table 1**  
**Average Annual Growth Rate of GDP and Trade**

Unit: %

Region/ Country	GDP		Exports		Imports	
	1980-90	1990-95	1980-90	1990-95	1980-90	1990-95
World	3.1	2.0	4.7	6.0	4.9	5.8
U.S.	3.0	2.6	3.6	5.6	7.2	7.4
Japan	4.1	1.0	5.0	0.4	6.5	4.0
Hong Kong	6.9	5.6	15.4	15.3	11.0	15.8
South Korea	9.4	7.2	13.7	7.4	11.2	7.7
Taiwan	—	6.4	11.6	5.9	12.8	14.2
Singapore	6.4	8.7	12.1	16.1	8.6	12.1
Indonesia	6.1	7.6	5.3	21.3	1.2	9.1
Malaysia	5.2	8.7	11.5	17.8	6.0	15.7
Philippines	1.0	2.3	2.9	10.2	2.4	15.2
Thailand	7.6	8.4	14.3	21.6	12.1	12.7
China	10.2	12.8	11.4	14.3	10.0	24.8

**Sources:** The World Bank, *World Development Report 1997* (New York: Oxford University Press, 1997), 234-35, 242-43.

economies would be repeated after time lags in the less-developed ones, with the latter being able to build up their own industrial capacities by substituting domestic production for the imports from more advanced economies. As it acquired their own manufacturing capability, less-developed countries would then export their increasingly sophisticated products to other still less-developed countries, which would then undergo the same process of import substitution and industrial upgrading. This theory has been expanded to explain the regional economic development in East Asia, with the flows of foreign direct investment (FDI), rather than imports, playing the dominant role in economic transition.

Through FDI and technology transfers from Japan and the United States in the 1960s, NIEs emerged as major exporters of labor-intensive manufacturing products. However, the specialization of production became more complex during the 1970s and 1980s as the NIEs climbed up the manufacturing ladder toward more skill-intensive goods. In NIEs' total inward FDI, the amount delegated to non-manufacturing areas, especially

**Table 2**  
**Shares of Japan's Outward FDI Flows by Economy**

	Unit: %									
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
EU	15.15	14.88	18.83	17.71	20.77	23.38	21.13	19.46	19.74	14.46
U.S.	44.16	45.54	44.07	46.15	48.18	45.91	43.35	40.48	40.87	42.22
NIEs	5.88	6.86	7.73	6.94	7.39	5.89	5.30	5.63	6.71	6.98
LIEs	5.70	3.49	6.76	4.81	4.77	6.31	8.81	12.50	11.35	15.72

**Source:** Data calculated from statistics presented in Organization for Economic Cooperation and Development (OECD), *International Direct Investment Statistics Yearbook 1996* (Paris: OECD, 1996), 164-65.

services, increased, and among the manufacturing subsectors, the labor-intensive sectors were gradually taken over by the technology-intensive sectors. Meanwhile, the composition of outward FDI from the NIEs since the late 1980s has focused on labor-intensive manufacturing. The LIEs have been the primary targeted destinations for NIEs' outward FDI.

As for Japan's outward FDI flows, the substantial appreciation of the yen after the Plaza Accord of 1985<sup>5</sup> led Japanese firms to undertake FDI in Asian countries, especially in NIEs, so as to take advantage of low production costs. Gradually, Japanese firms have partially shifted the location of FDI from NIEs to LIEs, as NIEs' cost advantages have declined due to rising wages and the appreciation of their currencies. For instance, the share of Japanese outward FDI to LIEs increased from 5.7 percent of its total outward FDI in 1985 to 15.72 percent in 1994, while NIEs only accounted for about 7 percent of Japan's total outward FDI in 1994 (see table 2). Among other manufacturing sectors, shifts in electronic machinery have been the most obvious.<sup>6</sup> While receiving technology transfers and inward FDI from

<sup>5</sup>On September 22, 1985, the finance ministers of the United States, Japan, West Germany, Great Britain, and France met in New York City to sign a pact aimed at relieving America's nagging trade deficit via an "orderly appreciation of the main nondollar currencies against the dollar." Japan's currency responded, jumping in value from 250 yen to the dollar in the summer of 1985 to 150 by the summer of 1986.

<sup>6</sup>Shujiro Urata, "Changing Patterns of Direct Investment and the Implications for Trade and Development," in *Pacific Dynamism and the International Economic System*, ed. Fred Bergsten and Marcus Noland (Washington, D.C.: Institute for International Economics, 1993), 277.

both NIEs and Japan, LIEs have started to move out of resource-based production into labor-intensive manufacturing and upgrading their export and industrial structures.

### *Emergence of Trifold Economic Dominance*

The flying-geese pattern of intra-Asian FDI flows has led to a de facto East Asian economic interdependence in which trade and investment have been directly linked. As a result, intra-regional trade has surged while intra-industry and intra-firm flows of capital and intermediate goods have also increased. The economic growth of individual countries within such intra-regional economic interdependence relies on the inflow of foreign capital on the supply side and exports on the demand side.<sup>7</sup> The economic performance of these economies is thus highly vulnerable to developments beyond their national borders. In the past, when trading with the United States generated tremendous trade surpluses for Asian economies, the U.S. economic growth rate had the largest effect on Asian economic growth. Recent developments in trade and investment patterns, however, have shifted the major determinants of economic performance to more regional factors.<sup>8</sup> In particular, Japan and the NIEs have joined the United States as pillars supporting regional economic growth and stability.

*Japan*—the hub of East Asian economic interdependence: The rise of intra-Asian trade and direct investment, along with Japanese technological leadership, has created an East Asian economic bloc with Japan at the hub. However, the significance of Japan's role in regional economic growth is better illustrated by the flows of its outward FDI toward the region, rather than its trade relationship with the region, as NIEs and LIEs have recently become less dependent on Japanese markets. Japan was previously the

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<sup>7</sup>The adoption of supply-demand analysis in the economic interdependence equation can be seen in Donald C. Hellmann, "America, APEC, and the Road Not Taken: International Leadership in the Post-Cold War Interregnum in the Asia-Pacific" (Paper released by the National Bureau of Asian Research, 1995); David P. Rapkin, "Leadership and Cooperative Institutions in the Asia-Pacific," in *Pacific Cooperation: Building Economic and Security Regimes in the Asia-Pacific Region*, ed. Andrew Mack and John Ravenhill (Boulder, Colo.: Westview Press, 1995), 98-129.

<sup>8</sup>For more detail analyses, see C. H. Kwan, *Economic Interdependence in the Asia-Pacific Region: Towards a Yen Bloc* (London: Routledge, 1994), 1-5.

**Table 3****Imports of the Asia-Pacific Economies**

(Shares of Total Imports of Individual Economies/Groups, %)

Importer	Exporter	1984	1987	1990	1993	1996
Japan	U.S.	19.75	21.18	22.46	23.16	22.86
	NIEs	6.05	11.23	9.53	9.70	9.59
	LIEs	17.58	15.89	15.52	20.62	23.51
U.S.	Japan	17.70	20.77	18.00	18.40	14.43
	NIEs	11.47	14.45	12.23	10.71	10.42
	LIEs	4.73	4.37	6.71	10.36	12.45
NIEs	U.S.	17.46	16.02	16.84	15.14	15.29
	Japan	23.31	26.17	22.31	21.98	18.60
	NIEs	8.46	10.21	11.32	12.07	11.95
	LIEs	15.73	17.41	19.44	24.22	24.70
LIEs	U.S.	16.74	13.29	13.33	12.66	13.20
	Japan	26.52	23.63	21.59	24.90	23.51
	NIEs	14.76	19.53	24.50	19.59	20.18
	LIEs	5.66	5.82	5.58	5.22	9.68

**Sources:** Data calculated from statistics presented in IMF, *Direction of Trade Statistic Yearbook*, 1991 and 1997 editions.

major import source for NIEs, but the ratio of imports from Japan in NIEs' total imports decreased from 23.31 percent in 1984 to 18.6 percent in 1996, while those in LIEs decreased from 26.52 percent to 23.51 percent over the same period (see table 3). Japan's shares in the total exports of NIEs and LIEs have also decreased: the proportion of LIE exports to Japan decreased from 28 percent in 1984 to 19.3 percent in 1996, while that of NIEs remained around 10 percent (see table 4). Overall, the trade imbalance between Japan and other East Asian economies is still a major feature in their trade relations.

However, as a major source of FDI for East Asian economies, Japan has fueled regional economic growth. As shown in figures 1-4, the growth rates of gross domestic product (GDP) in both NIEs and ASEAN-4<sup>9</sup> are closely correlated with the growth rate of Japanese FDI toward them. For

<sup>9</sup>They are Thailand, the Philippines, Indonesia, and Malaysia.

**Table 4**

**Exports of Economies in the Asia-Pacific Region**

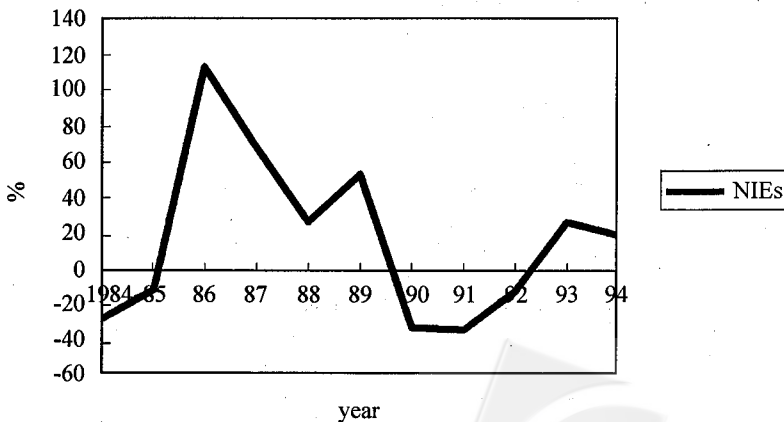
(Shares of Total Exports of Individual Economies/Groups, %)

Exporter	Importer	1984	1987	1990	1993	1996
Japan	U.S.	35.60	36.75	31.68	29.48	27.52
	NIEs	14.34	17.21	19.75	17.71	19.63
	LIEs	9.79	7.76	9.87	13.86	17.73
U.S.	Japan	10.82	11.17	12.36	10.30	10.84
	NIEs	8.13	9.31	10.38	11.30	12.14
	LIEs	4.11	3.68	3.97	5.38	6.07
NIEs	U.S.	36.44	36.67	27.92	24.13	20.69
	Japan	10.09	11.63	11.42	8.98	9.61
	NIEs	8.94	9.79	12.32	13.23	14.05
	LIEs	20.71	21.54	28.29	41.19	44.40
LIEs	U.S.	16.25	14.78	14.75	19.70	18.63
	Japan	27.99	21.78	20.26	18.38	19.29
	NIEs	23.41	28.21	32.71	26.56	27.02
	LIEs	4.04	4.52	4.84	5.07	6.81

Sources: Same as table 3.

**Figure 1**

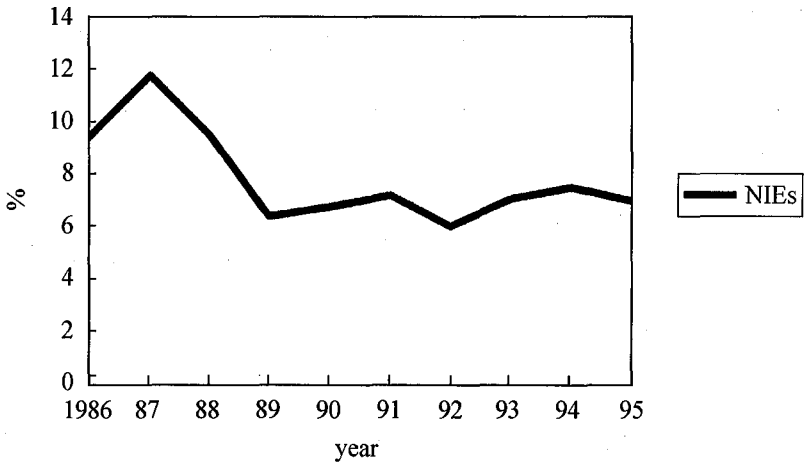
**Annual Growth Rate of Japan's Outward FDI to NIEs**



Source: Data calculated from statistics presented in OECD, *International Direct Investment Statistics Yearbook 1996* (Paris: OECD, 1996), 164-65.

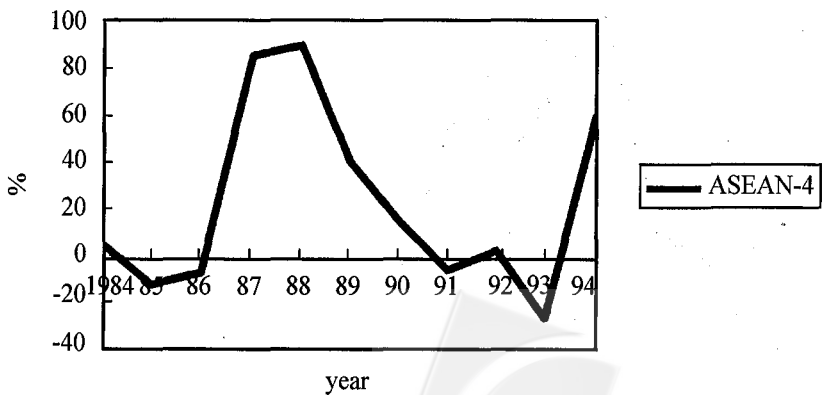


**Figure 2**  
**GDP Annual Growth Rate of NIEs**



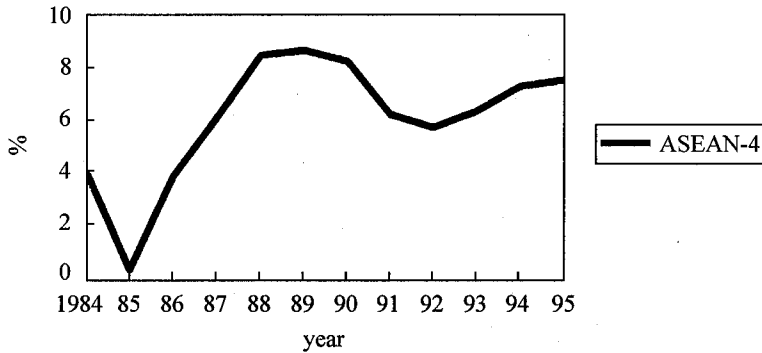
**Sources:** Based on Asian Development Bank (ADB), *Asian Development Outlook 1992* (New York: Oxford University Press, 1992), 288; APEC Secretariat, *APEC Economic Outlook 1996* (Singapore: APEC Secretariat, 1997), 28, 37, 55, 58.

**Figure 3**  
**Annual Growth Rate of Japan's Outward FDI to ASEAN-4**



**Source:** Same as figure 1.

**Figure 4**  
**GDP Annual Growth Rate of ASEAN-4**



**Sources:** Based on *Asian Development Outlook 1992*, 288; *APEC Economic Outlook 1996*, 25, 31, 40, 52.

instance, the NIEs' average economic growth rate increased after the drastic surge of Japan's outward FDI toward NIEs in 1986, and their economic growth slowed as the latter dropped after 1986. In the case of ASEAN-4, when Japan's outward FDI toward these countries surged in 1987 and 1988, their average economic growth rate climbed in the following years. Such strong correlations indicate Japan's decisive role in East Asian economic growth and stability in the late 1980s, and as the foundation for their further growth in the 1990s.

The inflow of FDI has become a major factor determining economic growth in Asian economies because of its trade-oriented feature. De facto East Asian economic integration (without any formal arrangements from governments) can be seen as a multilevel production alliance in which Japanese capital and technology are stitching together the disparate Asian economies. To varying extents, all the Asian economies have used this alliance to expand their manufacturing exports.<sup>10</sup> As exports account for the major source of national economic growth, Japanese trade-oriented FDI in

<sup>10</sup>See Hatch and Yamamura, *Asia in Japan's Embrace*.

**Table 5**  
**Share of FDI Inflows to LIEs by Source, 1993**

Unit: %						
Source \ Share	China	Indonesia	Malaysia	Philippines	Thailand	Total
ASEAN	0.8	0.5	5.4	0.5	0.5	1.7
Europe	4.4	16.1	19.6	11.7	11.0	10.3
Japan	10.2	17.6	22.2	26.4	35.6	18.4
NIEs	70.9	25.2	29.8	17.9	35.4	49.0
U.S.	8.0	6.8	10.8	36.9	13.6	10.9
Others	5.6	33.7	12.1	6.5	3.9	9.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

**Source:** Claude E. Barfield, "Trade, Investment, and Emerging U.S. Policies for Asia," in *Expanding U.S.-Asian Trade and Investment: New Challenges and Policy Options*, ed. Claude E. Barfield (Washington, D.C.: AEI Press, 1997), 26.

the region has thus become one of the major determinants of Asian growth, despite Japan's decreasing role in trade.

*NIEs*—dual roles in regional economic controls: NIEs have emerged as the second pole supporting regional economic stability mainly due to their dual roles in the region's economic growth. On the one hand, NIEs are the major input sources for LIEs' growth; in some cases, they even surpass Japan while the export production structures of LIEs are centered on labor-intensive manufacturing. For instance, the total FDI inflows to LIEs from NIEs in 1993 accounted for 49 percent of the world total, while Japan's share was only 18.4 percent (see table 5).

On the other hand, NIEs have played increasingly crucial roles in East Asian trade interdependence. NIEs accounted for 20.18 percent of LIEs' total imports in 1996, an increase from 14.76 percent in 1984; and accounted for 27.02 percent of LIEs' total exports in 1996, an increase from 23.41 percent over the same period (see table 3). In terms of the concentration of NIEs' trading partners, NIEs used to be asymmetrically dependent on imports from Japan and exports to the United States. However, imports to NIEs from LIEs increased from 15.73 percent of their total imports in 1984 to 24.7 percent in 1996, while the share from Japan decreased to 18.60 percent. In a further contrast, NIE exports to LIEs in-

creased from 20.71 percent in 1984 to 44.4 percent in 1996, while exports to the United States decreased from 36.44 percent to 20.69 percent over the same period (see tables 3 and 4). The increase of regional trade ties between NIEs and LIEs has thus led NIEs to play a more decisive role in East Asian economic interdependence.

*The United States*—a powerful controller of developing transpacific economic ties: Despite increasing intra-regional trade and FDI among East Asian economies, the United States remains the most important single destination for East Asian manufacturing outputs, especially high-technology products. Specifically, the share of NIE exports to the United States was 20.69 percent of their total exports in 1996, while that of LIEs was 18.63 percent. However, under the framework of Japan's Asian production alliance, the United States' importance to East Asian economic growth is not only reflected in its trade relations with NIEs and LIEs. As a final exporter for most high-technology products, Japan's trade with the United States also has an indirect effect on the economic growth of other East Asian economies, who remain vulnerable to any protectionist U.S. backlashes.

In terms of outward FDI, East Asia has not been a major investment market for the United States, and U.S. FDI inflows to Asian economies have not been major. However, the stock shares of FDI in the total stocks of receiving economies in East Asia do not reflect the decline of inputs from the United States in the 1980s and 1990s. In some cases, the shares were even greater than other FDI sources (see table 6). It can therefore be said that the role of U.S. FDI in East Asia has not changed despite of the surge of intra-regional investment.

Nevertheless, the overall U.S. role in East Asia's regional economic development has changed with the emergence of the new economic power structure derived from the flying-geese investment pattern. The emergence of two new poles—Japan and the NIEs—has prompted the United States to adjust its economic role in the region. As a major source of expanding transpacific economic ties for East Asian economies, U.S. economic leverage in the region is still profound; however, shifts in economic power have implications for America's leadership capacity in the region that are perhaps more important than those in the security realm.

**Table 6**  
**FDI Stocks in East Asia**  
 (% share of total stock in each host country)

Recipients	Investors	1982	1986	1990	1993
South Korea	U.S.	29.1	29.5	28.7	29.3
	Japan	47.1	52.3	48.2	40.1
	NIEs	n.a.	3.7	3.6	3.0
Taiwan	U.S.	30.3	29.2	24.9	24.7
	Japan	20.9	25.2	29.3	28.9
	NIEs	8.3	5.8	5.6	8.9
Singapore	U.S.	32.3	36.7	37.4	39.2
	Japan	16.8	24.0	28.2	28.2
	NIEs	—	—	—	—
Malaysia	U.S.	9.9	8.7	5.6	11.2
	Japan	21.8	19.4	25.2	22.3
	NIEs	11.6	15.4	36.7	31.3
Thailand	U.S.	8.5	19.1	11.6	14.0
	Japan	23.4	20.5	35.4	23.8
	NIEs	14.0	12.3	17.2	24.9
Philippines	U.S.	48.3	57.0	53.6	50.2
	Japan	18.0	13.7	15.2	15.5
	NIEs	5.9	6.0	6.8	9.3
Indonesia	U.S.	5.6	7.7	5.7	5.5
	Japan	36.9	33.2	24.9	20.6
	NIEs	10.1	16.2	23.0	25.5
China	U.S.	—	15.6	11.2	8.1
	Japan	—	15.1	13.6	8.6
	NIEs	—	54.0	60.7	65.0

**Source:** Akira Kohsaka, "Interdependence through Capital Flows in Pacific Asia and the Role of Japan," in *Financial Deregulation and Integration in East Asia*, ed. Takatoshi Ito and Anne O. Krueger (Chicago: University of Chicago Press, 1996), quoted in Chao-Jen Huang, "East Asia in the Post-Cold War World Order" (Ph.D. dissertation, University of York, UK, 1997), 111.

## **U.S. Economic Strategies Toward the Region: An Extension of Economic Security Strategy**

U.S. President Bill Clinton's first address on foreign policy in 1993 unveiled a new concept of national security—economic security.<sup>11</sup> During his first trip to Asia as President, instead of emphasizing U.S. hegemonic military superiority over the region, Clinton set forth a vision of a "New Pacific Community" built on shared strength, shared prosperity, and shared values on democracy.<sup>12</sup> Economic policy stands at the center reinforcing these three mutually related elements,<sup>13</sup> and U.S. active participation in the Asia-Pacific Economic Cooperation (APEC) forum is the key among the various bilateral and multilateral policy initiatives to realize the vision.<sup>14</sup>

### *The Asia-Pacific Region:*

#### *The Core of U.S. Economic Security*

During the Cold War, economics played a marginal role in world politics and international security; it was a political tool serving the United States' overall international domination and military strategy. However, as a new economic power structure has emerged in the world economy in which U.S. economic hegemony is being challenged, economics has become a key element in maintaining U.S. world leadership. In several remarks by the Clinton administration, economics has thus been highlighted as a new focus in the post-Cold War international relations. Economic security was formally documented when then-Secretary of State Warren Christopher listed it as the first priority of Clinton's foreign policy in testi-

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<sup>11</sup>Remarks by President Bill Clinton at American University Centennial Celebration, February 26, 1993, released by the White House Office of Press Secretary.

<sup>12</sup>Bill Clinton, "Building a New Pacific Community" (Address at Waseda University, Tokyo, Japan, July 7, 1993), *U.S. Department of State Dispatch* 4, no. 28 (July 12, 1993): 485-88; and Bill Clinton, "Fundamentals of Security for a New Pacific Community" (Address before the National Assembly of the Republic of Korea, July 10, 1993), *ibid.*, 509-12.

<sup>13</sup>Warren Christopher, "America's Pacific Future" (Address at the University of Washington, Seattle, November 17, 1993), *ibid.*, no. 48 (November 29, 1993): 819.

<sup>14</sup>John S. Wolf, "U.S. Policy in the Asia-Pacific" (Speech to the Pacific Leaders Forum, Seattle, Washington, October 1, 1996), *ibid.* 7, no. 41 (October 7, 1996): 499-501.

mony before the Senate Foreign Relations Committee.<sup>15</sup> Later, in the annual *National Security Strategy Report* released by the White House, national economic strength, along with defense capability and world democracy, was highlighted as one of the three pillars in U.S. foreign policy.<sup>16</sup>

As the world's only military superpower, economic security for the United States entails not only ensuring its own national security through economic means, but also gaining political leverage through winning economic leadership over the European Union and Japan.<sup>17</sup> In President Clinton's own words, the U.S. position in the world will be increasingly determined "as much by the skills of [its] workers as by the strength of [its] weapons; as much by [its] ability to pull down foreign trade barriers as [its] ability to breach distant ramparts."<sup>18</sup> One of the central tenets of the Clinton administration has therefore been the clear linkage between rebuilding the domestic economy to ensure U.S. strength abroad.<sup>19</sup> Accordingly, domestic economic concerns have had an increasing impact on the U.S. capacity for effective international leadership.

With the recent increased share of trade in GDP and higher pay from trade-related employment, U.S. external economic policy has had a more direct effect on the U.S. domestic economy; its economic strength now depends on healthy trade relations with its trading partners. For example, the share of trade in its GDP increased from 14 percent in 1970 to 30 percent in 1995, and the average income from export-related jobs is 1.5 times

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<sup>15</sup>Warren Christopher, "The Strategic Priorities of American Foreign Policy" (Statement before the Senate Foreign Relations Committee, Washington, D.C., November 4, 1993), *ibid.* 4, no. 47 (November 22, 1993): 796-98.

<sup>16</sup>Bill Clinton, *National Security Strategy Report*, 1994.

<sup>17</sup>The Clinton administration recognizes that the United States may be the world's only political and military superpower, but when it comes to economic and business matters, it has competition. See Joan E. Spero, "The International Economic Agenda and the State Department's Role" (Address before the Congressional International Economic Issues Forum, Washington, D.C., February 25, 1994), *U.S. Department of State Dispatch* 5, no. 10 (March 7, 1994): 123.

<sup>18</sup>Bill Clinton, "The APEC Role in Creating Jobs, Opportunities, and Security" (Address to the Seattle APEC Host Committee, Seattle, Washington, November 19, 1993), *ibid.* 4, no. 48 (November 29, 1993): 814.

<sup>19</sup>Joan E. Spero, "The New Centrality of Economics: The U.S. and the Asia-Pacific Region" (Address to the Council on Foreign Relations, New York, October 5, 1993), *ibid.*, no. 42 (October 18, 1993): 728.

higher than that of non-export-related jobs. Every one billion dollars of exports will create two million jobs for the United States, and between 1988 and 1992, almost 60 percent of real growth in the U.S. economy came from export expansion. Therefore, trade is now considered to be a major element enhancing U.S. national economic strength, as well as a foundation for building national security and world leadership.<sup>20</sup>

In the context of the new emphasis on economics in U.S. foreign policy, especially in trade issues, no region is more important than the Asia-Pacific, which as a whole has become the core of U.S. economic security/foreign policy based on the following developments. First, the rise of the East Asian economies and their rapid growth in the 1980s and early 1990s has created irresistible export markets for the United States in the Clinton administration's export expansion trade policy. Current trends in U.S.-East Asia trade indicate the growing importance of the region; U.S. exports to East Asia increased from 20.5 percent of its total world exports in 1980 to 27.48 percent in 1994, while imports from the greater Asia-Pacific region increased from 46.97 percent of total U.S. imports in 1980 to 63 percent in 1994.

Second, the trade imbalance between the United States and East Asia has been the main source for U.S. trade deficits which have been perceived as eroding its economic strength. In terms of regional concentration of trade, in 1994 U.S. trade with East Asia accounted for about one-third of its total world trade, and was approximately equal to its separate trade with Western Europe or the North American Free Trade Area (see table 7). However, in terms of sources contributing to U.S. trade deficits, East Asia is responsible for 83 percent (see table 8). Such imbalances have not only hurt the United States in terms of trade, but are also closely linked to its domestic employment; according to the International Monetary Fund (IMF), U.S. exports to East Asia in 1993 alone created 150 million jobs for

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<sup>20</sup>President Clinton remarked at the American University Centennial Celebration (February 26, 1993) that making trade a key element of American security was the second step to building national economic strength. Also see Michael Kantor, "Trade Central to America's Future in the World" (Address before the National Press Club, Washington, D.C., May 5, 1993), *U.S. Department of State Dispatch* 4, no. 20 (May 17, 1993): 352-56.



**Table 7**  
**Share of U.S. Merchandise Trade by Selected Trading Bloc or Region**

Region	Unit: (%)					
	Total Trade		Exports		Imports	
	1980	1994	1980	1994	1980	1994
(1) North America	22.46	29.22	22.89	32.24	22.07	26.88
(2) East Asia	22.59	34.57	20.58	27.48	24.41	40.06
(3) Western Europe	24.51	20.93	30.58	22.96	19.03	19.52
(4) APEC	47.75	66.23	46.97	63.00	48.45	68.73

**Sources:** Data calculated from *Statistical Abstract of the United States*, 1993 and 1995 editions.

**Notes:**

- (1) Canada and Mexico.
- (2) Japan, China, Hong Kong, South Korea, Taiwan, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.
- (3) Belgium, Luxembourg, Denmark, France, Greece, Ireland, Italy, the Netherlands, Portugal, Spain, United Kingdom, Germany, Austria, Finland, Iceland, Norway, Sweden, Switzerland, and Turkey.
- (4) Australia, New Zealand, Brunei, Chile, India, Papua New Guinea, and countries in 1 and 2.

Americans. Therefore, correcting the trade imbalance with Asian economies will not only create export markets for U.S. business, but also initiate job opportunities for U.S. labor.

*APEC: A Regional Focus of U.S. Economic Strategy*

The trade imbalance with East Asia has occupied the United States' attention for some time, as its trade policy toward the region has also targeted narrowing bilateral trade deficits with individual trading partners. Until recently, the major focus was bilateral in nature, and characterized by individual market-opening negotiations with major trading partners. On the one hand, the United States has urged its trading partners to open their import markets in favor of U.S. products by threatening to close U.S. domestic markets for their exports. On the other hand, when imports from Asian economies disrupt the U.S. domestic market, unilateral actions will be taken by the U.S. government to retaliate against its trading partners.

**Table 8**  
**U.S. Merchandise Trade Balance by Selected Country**

Unit: US\$ millions

Country	1980	1985	1990	1994
All Countries	-24,088	-132,130	-101,718	-151,098
Pacific Basin				
Australia	1,584	2,604	4,091	6,581
New Zealand	-104	-133	-62	88
Japan	-9,924	-46,152	-41,105	-65,669
Hong Kong	-2,053	-5,610	-2,805	1,748
South Korea	538	-4,057	-4,081	-1,629
Taiwan	-2,517	-11,696	-11,175	-9,633
Singapore	1,112	-784	-1,778	-2,339
Indonesia	-3,672	-3,774	-1,444	-3,712
Malaysia	-1,240	-761	-1,847	-7,012
Philippines	286	-766	-913	-1,832
Thailand	447	-579	-2,293	-5,446
China	2,693	24	-10,431	-29,494
NAFTA				
Canada	-6,064	-21,755	-7,707	-14,506
Mexico	2,565	-5,497	-1,878	1,348

**Sources:** Same as table 7.

Such an "aggressive unilateralism"<sup>21</sup> and "managed trade" policy, characterized by strong governmental interventions, has created negotiation advantages for U.S. exports in the region.

As long as the United States remains the largest export market for most East Asian economies, such a dual-policy approach—simultaneously utilizing import limitation and export expansion—has increased its exports to the region and narrowed its bilateral trade deficits in many cases (see table 8). However, it has also imposed economic and political risks on U.S. leadership. Economically, bilateral trade negotiations have gradually provoked resentment against the United States and brought about increasing sympathy among Asians for regional trading blocs such as the East

<sup>21</sup> See Jagdish Bhagwati and Hugh Patrick, eds., *Aggressive Unilateralism* (Ann Arbor: University of Michigan Press, 1990).

Asia Economic Caucus (EAEC) promoted by Malaysia Prime Minister Mahathir Mohamad. The formation of any regional or subregional trading blocs will limit the U.S. role in the region's economic development and possibly exclude the United States from sharing in the regional prosperity. In addition, such an approach to bilateral trading deals would contradict the multilateral market-opening strategy in which the United States insists on global multilateralism in the World Trade Organization (WTO).<sup>22</sup> Politically, bilateral trade negotiations could bring two trading partners into direct confrontation with each other. As a result, bilateral trade frictions would mount while bilateral political tensions would escalate. Thus, in the 1990s, in addition to continuing bilateral negotiations on important trade and investment issues with major trading partners, especially Japan and the PRC, the United States has tilted sharply toward a trade policy with a regional focus in the best interests of the U.S. economy and security.<sup>23</sup> Active participation in APEC is an initiative under this Asia-Pacific policy.

APEC (which was initiated by Australia prime minister Bob Hawke in 1989) originated from a ministerial meeting discussing ways of establishing economic cooperation at a governmental level. Although the United States was one of the twelve founding members,<sup>24</sup> it only began active participation in APEC after 1993. In addition to avoiding bilateral trade confrontations, a policy shift to active participation in APEC—a regional focus—has two implications for economic security. First, in building a New Pacific Community, U.S. economic strategy toward the region has included enlarging the shared stake that the latter has in sustaining growth.<sup>25</sup> Through a multilateral mechanism, rather than by unilateral ac-

<sup>22</sup>Thomas Duesterberg, "Trade, Investment, and Engagement in the U.S.-East Asian Relationship," *The Washington Quarterly* 17, no. 1 (1994): 84-85.

<sup>23</sup>Claude E. Barfield, "Trade, Investment, and Emerging U.S. Policies for Asia," in *Expanding U.S.-Asian Trade and Investment: New Challenges and Policy Options*, ed. Claude E. Barfield (Washington, D.C.: AEI Press, 1997), 39.

<sup>24</sup>The original membership of APEC included Australia, Brunei Darussalam, Canada, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and the United States.

<sup>25</sup>Anthony Lake, "The Enduring Importance of American Engagement in the Asia-Pacific Region" (Remarks to the Japan-America Society, Washington, D.C., October 23, 1996), *U.S. Department of State Dispatch* 7, no. 45 (November 4, 1996): 545-47.

tions, the United States has encouraged a sense of family and shared purpose among APEC member economies which will develop a community at the front ranks of economic growth, free from the threat of war. Thus, as it has explicitly outlined, the United States deems APEC to be about building a "community" of economies in the Asia-Pacific region; and about building shared security, shared prosperity, and a shared future for that community.<sup>26</sup>

Second, the recent development of de facto economic integration in East Asia indicates that economic growth has gained momentum on its own. The United States' role seems to be significant only in the realm of expanding transpacific economic ties. In order to ensure U.S. economic interests in the midst of such rapid regional economic interdependence, the United States must lead de jure regional economic cooperation so that its interests in the region can be well presented. Many of those who hope for a continuation of American leadership in Asia tend to see involvement in APEC as a kind of rear guard maneuver to maintain the United States' presence in Asia or prevent Asia from "running away from the United States."<sup>27</sup>

#### *U.S. Approaches to APEC*

In its short history, APEC has passed a number of milestones, each marking its growing significance.<sup>28</sup> In retrospect, several developments in APEC were initiated by the United States, whose approaches can be summarized from three primary domains. First, in terms of APEC's substance, trade and investment liberalization is the United States' primary pursuit. Second, in terms of approaches to economic integration, the United States

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<sup>26</sup>John S. Wolf, "The United States and APEC 1997" (Statement before the House International Relations Committee, Washington, D.C., November 6, 1997), at <http://www.state.gov/www/policy-remarks/971106-wolf-us-and-apec.html>.

<sup>27</sup>Jonathan Clarke, "APEC as a Semi-Solution," *Orbis* 40, no. 1 (Winter 1995): 81-95.

<sup>28</sup>Some instances in APEC's early development were as follows: In 1990, the ministers from twelve founding economies gathered in Singapore to reconfirm the spirit of cooperation reached from their first meeting in Canberra in 1989. At the 1991 Seoul meeting, the admittance of "three Chinas"—the PRC, Taiwan, and Hong Kong—brought the total membership to fifteen. The 1992 Bangkok meeting formalized the establishment of a small Secretariat, located in Singapore, and established the Eminent Persons Group of experts to assist in the formulation of a strategic vision for APEC.

prefers a legalistic approach, in contrast to the "Asian evolutionary approach," in building a formal institution. Third, the ultimate goal of active participation in APEC is to build a community with shared prosperity and security.

*Trade and investment liberalization:* Although there have been two pillars in APEC—trade and investment liberalization and facilitation (TILF), and economic and technology cooperation (ECOTECH)—the first has been more heavily emphasized when the United States has pursued its regional economic interests. The substantial opportunities offered by East Asian markets have naturally attracted Clintonites who advocate a mercantilist export-oriented trade policy. As trade with East Asian economies constitutes the main sources of the U.S. trade deficit, trade liberalization in the region will certainly be the primary goal for U.S. participation in APEC. The free flow of trade and investment will create jobs and opportunities for Americans, fuel Asia's high-octane economies, and unite nations across the Pacific in the common pursuit of prosperity.<sup>29</sup>

In fact, promoting worldwide trade liberalization has been the focus of discussions since APEC's inauguration. In 1991, APEC set the tone of open regionalism and a GATT-consistent basis as principles for regional trade liberalization.<sup>30</sup> However, trade liberalization only entered APEC's agenda after the first Leaders' Meeting hosted by the United States in 1993,<sup>31</sup> which symbolized U.S. active involvement and serious engagement in APEC in realizing its export expansion trade policy. At the same time, it signified APEC's importance in the political agendas of each individual leader. After the meeting, the Committee on Trade and Investment was created to keep the process of trade liberalization on track. In Bogor (1994), leaders agreed to the long-term goal of free and open trade and investment in the Asia-Pacific region and committed themselves to achieving

<sup>29</sup>See note 25 above.

<sup>30</sup>Joint Statements, APEC Ministerial Meeting, 1989-91, at <http://www.apecsec.org.sg/minismtg>.

<sup>31</sup>APEC Economic Leaders' Declaration of Common Resolve in Bogor, 1994; APEC Economic Leader's Declaration for Action in Osaka, 1995; APEC Economic Leaders' Declaration: From Vision to Action.

it no later than the year 2020.<sup>32</sup> In Osaka (1995), they further agreed on a "blueprint" of implementation, and the framework and fundamental principles<sup>33</sup> of proceeding toward the goal were concluded. In Subic (1996), they agreed on actions for reaching the goal, as economic leaders initiated individual and collective plans to fulfill their voluntary commitment to implement the Osaka Action Agenda.<sup>34</sup> In Vancouver (1997), member economies agreed on sectors for early voluntary sectoral liberalization.

*A legalistic approach to economic integration:* Economic integration refers to the elimination of obstacles to the free movement of goods, services, and ideas, as well as capital and labor, but not necessarily all of the above.<sup>35</sup> The first pillar in APEC (TILF) is actually a process toward regional economic integration. However, there has been debate among APEC member economies on approaches to this goal. Since the development of de facto economic interdependence in East Asia, the process of regional economic integration has been undertaken despite the lack of formal institution-building. As noted earlier, the United States' leading role in such de facto economic integration has been less important, and its economic interests have not been presented. When APEC refers to opening new markets in East Asia for the United States, it is in its interests to seek a more formal agreement ensuring that U.S. economic interests are integrated in regional economic development. In other words, a legalistic approach which aims at de jure economic integration would provide the United States with more economic security in controlling market access to the region.

However, in rejecting Western dominance in the economic integration process, Malaysia and the PRC, followed by most ASEAN member countries, have insisted on "Asian evolutionary approach." They assert

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<sup>32</sup>For developed economies, the goal should be achieved by 2010.

<sup>33</sup>General principles are comprehensiveness, WTO-consistency, comparability, non-discrimination, transparency, standstill, flexibility, and cooperation.

<sup>34</sup>The Manila Action Plan for APEC consists of three parts: the member economy individual action plans, collective action plans, and joint activities on economic and technical cooperation.

<sup>35</sup>Hugh Gorbet, "Why and How the APEC Process is Working," *Journal of Northeast Asian Studies* 14, no. 4 (Winter 1995): 12.

that the APEC forum should be no more than a loose-knit deliberative forum in which cooperation should proceed slowly and with due consideration for the diversity and disparities in the region. Such an Asian way of pushing for a flexible, non-binding approach to commitments on market access is clearly against U.S. interests in the region, as the latter's legalistic approach to a rule-based APEC has been deemed more effective in strengthening the forum's structure and functions.

In its early years, APEC ministerial meetings clearly stated that APEC is an informal consultative forum in which member economies exchange policy views and trade information. The mode of operation has been based on mutual benefits, a commitment to open dialogue, and consensus-building and cooperation through consultation. With U.S. active participation since 1993, the Leaders Meeting in Seattle began the process of converting APEC from a purely consultative body into a substantive international institution and a negotiating forum in which member economies bargain about their commitment to reaching the goal of regional economic integration. Despite continuous resentment from Asian member economies, the United States has maintained its efforts in pushing APEC toward such a forum in order to liberalize markets in favor of U.S. exports to the region.

*Linkage between regional economy and security:* In the post-Cold War era, threats from global military conflicts have been mitigated to the minimum level, but the possibility of regional military confrontation has never been ruled out in Asia.<sup>36</sup> Although Asia-Pacific economies have boomed over the past decade, economic growth at all stages of development has paradoxical implications: while growth itself is a destabilizing force, it requires stability to flourish. However, the high degree of certainty about future political stability that is taken for granted in North America and Western Europe simply does not exist in the Asia-Pacific region. By its conclusive principle of member participation, the APEC forum is the first international arrangement encompassing a number of Asian entities

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<sup>36</sup>Both longstanding security problems, such as those in the Korean Peninsula, across the Taiwan Strait, and in the South China Sea, and new problems engendered by prosperity may undermine the foundations of some governments in the region.

which are still involved in unresolved conflicts.<sup>37</sup> Therefore, considering the strategic implications as well as the economic character of the organization, it is important to recognize the role of regional stability in promoting economic growth and the promise of prosperity in enhancing regional security.

As the U.S. approach to APEC has been crafted as an extension of its overall economic security strategy toward the Asia-Pacific region, its attempt to link economic and security issues in APEC has been obvious. The uncertainty of future political stability for economic growth in the region and APEC's inevitable implications for regional security have further necessitated this U.S. initiative. On the one hand, APEC provides trade opportunities to strengthen the U.S. domestic economy; on the other hand, APEC gives the United States the opportunity to maintain its economic leverage by institution-building, and present its concept of economic security in the region.

In terms of APEC initiatives regarding the issue, the United States has urged member economies to build mechanisms for security cooperation through the APEC process of economic integration. In the 1993 Leaders' Declaration, leaders were committed to deepening the spirit of community based on the shared vision of achieving stability, security, and prosperity. The Leaders' Declaration of 1996 reaffirmed the close link between sustained economic growth and an environment of regional stability and security. Thus, although APEC does not place security on its formal agenda, its promise of further strengthening the Asia-Pacific economy and creating institutional linkages carries political implications of profound significance.

### **On U.S. Regional Leadership: Taking a Non-Hegemonic Form**

According to the U.S. Department of State, "For the United States,

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<sup>37</sup>For instance, APEC has been the first forum to include the PRC, Taiwan, and Hong Kong on an equal footing since 1992.



participation in APEC is a means to achieve a series of foreign policy goals: First and foremost, APEC helps anchor U.S. leadership in the Asia-Pacific region."<sup>38</sup> Although the Asian evolutionary approach (rather than the U.S. legalistic approach) currently rules APEC's operations, the content and substance of APEC have not deviated from the overall U.S. economic and security interests in the region. As concluded from the previous section, the development of APEC has been closely tied to the U.S. approaches to APEC, and despite the inherent difficulties in regional cooperation, the United States has effectively put its national interests on APEC's agenda. Some even argue that U.S. participation and leadership is necessary for the creation of meaningful institutions for regional economic cooperation; and that any multilateral or plurilateral organization can hardly act effectively without consistent and concerted U.S. leadership.<sup>39</sup>

#### *Toward a Non-Hegemonic Leadership*

During the Cold War, economic stability and prosperity in the Asia-Pacific region were primarily sustained by a liberal U.S. trade policy on the one hand, and the U.S. security commitment on the other. The free access to the U.S. domestic market for Asian economies adopting an export-oriented development strategy generated tremendous wealth for them, while the security umbrella provided by the United States maintained regional peace and stability so that Asians could concentrate on economic recovery and development. In short, the United States was able to exercise hegemonic leadership because it was powerful enough to set as well as maintain the essential rules governing interstate relations, and was willing to do so.

When U.S. trade deficits started to play a serious role in its domestic economic troubles in the 1980s, it retreated from its liberal trade policy and targeted Asian economies as unfair trading partners. In contrast to the relationship between trade and national security during the Cold War, "trade

<sup>38</sup>"Focus on APEC" (Prepared by the Bureau of East Asian and Pacific Affairs, U.S. Department of State, at <http://www.state.gov/www/regions/eap/asean/asean-trade-foapec.html>).

<sup>39</sup>Thomas J. Duesterberg, "U.S.-Northeast Asia Economic Strategy: A Five-Year View," *The Washington Quarterly* 20, no. 2 (Spring 1997): 183-99.

wars" in the late 1980s were independent from military confrontations and used economic measures to solve economic friction. Trade policy was no longer subject to political or strategic aims, and economics itself became central to international relations. These changes in the world political economy have prompted the United States to reconsider its role, especially as the Asian economy has turned inward and become less dependent on the United States.

The vision of a "New Pacific Community" set forth by the Clinton administration has initiated a new form of leadership in which support for APEC, a multilateral mechanism for open trade and investment on regional basis, indicates that the United States recognizes the decline of its regional economic leverage.<sup>40</sup> New institutional arrangements, in addition to bilateral negotiations, must be found to advance its economic interests. As new regional economic powers emerge, new forms of leadership other than hegemonic imposition must be taken to gain compliance from its regional trading partners. In other words, instead of acting alone to bring the Pacific community to life, the United States will build a regional architecture, supported by other major regional powers, that will sustain economic growth, promote integration, and assure stability over the longer term.

A non-hegemonic leadership is not derived from the power to direct or to command others' behaviors; rather, it is based on (1) the structural capability of a large state to make international initiatives, intentionally or unintentionally, and (2) multilateral cooperation from other major parties while the large state takes actions to induce willingness to follow.<sup>41</sup> The United States' leadership in the Asia-Pacific region through the dominance

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<sup>40</sup>Although the United States has attempted to realize its trade policy at a global level in the GATT/WTO, GATT, unlike APEC, is a rule-based multilateral institution which adopts U.S. legalistic approach toward multilateral trading regime. To some extent, active U.S. support of APEC indicates its willingness to compromise on its approach to institution-building. As for dealing with trade issues in Asia, the United States has not put them in a multilateral context. The active support of APEC should not be deemed as a substitute for its bilateral approach toward the region, but it indicates that the United States recognizes the need for new institutional arrangements, in addition to bilateral negotiations, to advance its economic interests.

<sup>41</sup>Discussions on the definitions and forms of leadership are synthesized and elaborated upon from Robert Keohane and Joseph Nye, *Power and Interdependence: World Politics in Transition* (Boston: Little, Brown, 1977), 229-36.

in APEC can be analyzed from these two aspects.

*Structural capability of international initiatives:* When a large state has the structural capability to make a unilateral international initiative, it will influence the behavior of other smaller states because of the direct unintended systemic effects of its size and importance to others. Unlike being an explicit hegemon, a large state may not be able or willing to police other states' behavior, but the unintended systemic effects derived from economic structural capability allow it to determine rules that govern situations of interdependence. In East Asia, the economic structure shaped by the flying-geese development pattern has allowed Japan to exercise structural capability and create unintended effects in Asia. However, few incidents indicate that Japan has had this intention. For example, when APEC was initiated in 1989, the impetus for APEC came from the Western Pacific, rather than from North America, but the United States was included upon Japan's insistence.<sup>42</sup> Second, when the EAEC was initiated by Malaysia to counterbalance the formation of trading blocs in Europe and North America, Japan was encouraged to take the lead, but did not do so with much enthusiasm. Third, during the recent Asian currency crisis, Japan has been reluctant to take any international initiatives to lead Asian economies in overcoming the crisis.<sup>43</sup>

Although the United States' leading role in East Asian economies is now shared by Japan and the NIEs, its structural power in relations with the region will continue to necessitate its pivotal position in the transpacific economy. As previously mentioned, the United States is the most important single destination for Asian exports. In addition, the strong U.S. dollar and U.S. leadership in technological innovation enhance its structural superiority. Any individual initiative for changing its trade policy, domestically or internationally, will have direct systemic effect on East Asian economies. The trend of globalization in the world economy has thus propelled

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<sup>42</sup>The Australian initiative did not encompass the United States and Canada.

<sup>43</sup>Crisis management is another area in which leadership can be examined. In the recent Asian financial turbulence, the United States has played a crucial role in rescue schemes, through the IMF and other measures. However, the scope of this paper is limited to institution-building and management in leadership studies. It by no means neglects the importance of the issue, however.

the United States to the front rank of Asian countries' economic growth.

*Multilateral cooperation needed:* In addition to making international initiatives, another base for effective non-hegemonic leadership is gaining support from other major players. Besides unilateral initiatives to manage interdependence, non-hegemonic leadership requires multilateral cooperation from all major parties. Such legitimacy and willingness to follow are particularly important, because the coercive element is diminished. When major parties all agree that they will also be the major beneficiaries from certain policy initiatives, they will be willing to forgo short-term gains in the bargaining process in order to secure their long-term interests.

APEC has taken an approach which creates international obligations by means of a spirit of community and a collective agreement to act voluntarily. Such an approach may still be far from the U.S. legalistic approach of institution-building, but moving APEC from a consultative body to a negotiating forum has been a big step toward a rule-based institution. A liberalization approach combining voluntary unilateral non-discrimination and sectional liberalization is unlikely to significantly increase either trade or economic growth for the United States in the short run. It may, however, encourage more transpacific economic activities and prevent further deterioration in trade relations between the United States and its Asian trading partners.

Some argue that the consensual decision-making feature in APEC will prevent the United States from imposing its interests on the agenda, and that the superiority of East Asian norms among the member economies will overshadow American norms in institution-building and economic integration.<sup>44</sup> However, it should be noted that U.S. leadership has been reflected in multiple forms, rather than hegemonic imposition. In order to induce Asia's willingness to follow, the United States' present task is to convince all the major parties that the U.S. pursuits in APEC are in their interests. The NIEs have supported U.S. initiatives regarding trade and investment liberalization and agree that in the long run, open regionalism will

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<sup>44</sup>Helen E.S. Nesadurai, "APEC: A Tool for U.S. Regional Domination," *The Pacific Review* 9, no. 1 (1996): 31.

also be consistent with their economic interests. Such support from major players has brought non-hegemonic U.S. leadership in the region to life.

In terms of the linkage between economy and security, as the Asia-Pacific region still falls under a unilateral American security network, and the inevitable security implications encourage more extensive cooperation among APEC member economies, Asians will welcome such a policy initiative. For Asians, APEC could curb American unilateral and bilateral proclivities, while preserving access to the U.S. market; equally important, the forum retains a significant American presence which offsets Japan's growing economic dominance. Japan's mercantilist international economic policy in the past has created an image of a non-benign hegemon, and East Asian economies would welcome the U.S. presence to balance Japan's overwhelming economic influence and deter its reemergence as a military aggressor.<sup>45</sup>

### Conclusion

Maintaining international leadership has been the goal of U.S. foreign policy for decades. However, a continuation of U.S. hegemonic dominance in the Asia-Pacific region in the 1990s would be inappropriate, as the rise of the Asia-Pacific economies has changed the focus of the U.S. foreign policy to economic security. The Asia-Pacific region's economic structure has resulted in a new balance of economic power, in which the United States shares its leading role with Japan and the NIEs. Japan, as the supply side of the region's growth pole, has the indispensable structural capability, but no intention to lead unilaterally. The NIEs are strong enough to have regional economic leverage, but are incapable of making international initiatives to manage economic interdependence. The United States has been willing and capable of leading when Japan and the NIEs share its vision of regional economic prosperity and security, as this serves its interests of sharing the burden.

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<sup>45</sup>A similar argument can be seen in Rapkin, "Leadership and Cooperative Institutions," 98.

Under a new economic power structure in East Asia, APEC, a regional mechanism for economic cooperation to realize U.S. economic security strategy, is a more justifiable policy choice than either unilateral leadership for free market access for East Asian exports or hegemonic impositions in bilateral negotiations for East Asian import liberalization. Voluntary compliance to evolutionary cooperation is the key to keeping the institution in operation. The United States has slowed down its pursuit of a formal agreement and accommodated APEC's current mode of operations so that trade and investment liberalization in the region—the substance and goal of U.S. economic strategy—will not be deterred by anti-American sentiments. The *de facto* economic integration in the Asia-Pacific region has emerged as a consequence of Asians' trading and investment patterns, regardless of any institutional arrangements. When the United States successfully induces Asians' incentives for economic cooperation across the Pacific, the U.S. economic interests are more likely to be integrated into the development of the Asia-Pacific economies. Thus, in addition to the commitment to continuing its military presence in Asia, the U.S. leading role in APEC enhances its leadership in the post-Cold War Asia-Pacific region.

