

HERIBERT DIETER

Anti-Americanism and Regionalism in East Asia

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ABSTRACT

Asian countries are intensifying their efforts for regional co-operation ever since the Asian crisis struck in 1997. In some countries, these attempts have been accompanied by strong criticism of American economic and foreign policies. However, this does not equal Anti-Americanism. Rather, we are confronted with a puzzle: on the one hand, East Asian societies continue to follow American culture as well as maintain strong security ties with Washington. On the other, East Asian countries are very eagerly trying to reduce their dependence on institutions that are heavily influenced by the US, namely the International Monetary Fund (IMF). The paper argues that the declining influence of the US in East Asia is the combined effect of a number of factors: The decreasing attractiveness of the US as an economic power, the increasing importance of China as well as its clever diplomacy, the disastrous policies of the American-led IMF in the Asian crisis and the unfortunate foreign policy of George W. Bush.

CONTENTS

1. Introduction	7
2. The Lasting Legacy of the Asian Crisis	8
3. The Declining Attractiveness of the American Economy	10
4. The Rising Power: China as a hub for regionalism in East Asia	15
5. The Influence of George W. Bush's Non-Diplomacy on Asian Regionalism	16
6. Steps Towards Regionalism in Asia	18
6.1 Trade Integration	19
6.2 Monetary Regionalism	20
7. Conclusions: US policy is the key to understand Asian regionalism	22

1. Introduction

The past decade has been characterized by tremendous change in Asia in general and East Asia in particular. Probably no other phase since World War II has seen so many fundamental transformations in the region: the decline of Japan as the most dynamic economy in the region, the emergence of China as a leader and as an economic center of gravity and the unforeseen Asian crisis with its severe impact on both the economy and the political systems in the region. In recent years, a tendency towards closer economic integration in East Asia and an increasing unwillingness of Asian leaders to follow the leadership of the US could be observed. What is the relationship of these developments? Is East Asian regionalism driven by anti-Americanism or are other forces at work?

Firstly, we have to define the meaning of Anti-Americanism. What does that term stand for? anti-Americanism does not signify the universal rejection of values that are universal to Western societies including the United States. These are the importance of civil liberties, human rights, the acceptance of a capitalist mode of production as well as democracy as the only accepted form of organization of a political system. In East Asia, there certainly is no uniform position on those general issues. The Chinese government has a different approach than, say, the South Korean. However, there is no fundamental divergence of positions between East Asian governments and the US. There are different emphases, the US stresses individual liberties, whereas East Asian governments put greater stress on economic and social rights of citizens. But in some aspects, the gap between Europe on the one side and East Asia and America on the other is greater than between Asia and the West. The death penalty is the prime example: in the European Union, the death penalty is not applied any more, whilst countries like China and the US continue to use this archaic form of punishment. Out of those 80 countries that have officially abandoned the death penalty there is not a single East Asian country, but most European countries. Consequently, it seems fair to say that with regard to human rights one cannot identify a fundamental divergence between East Asia and the US.

The mode of production is similarly not fundamentally divergent in Asian and the US economy. By and large all of these economies are characterized by private ownership of the means of production. One could argue that this is not the case for some sectors of the Chinese and Vietnamese economies, but the rapid change in these countries brings them into convergence with the Organization for Economic Cooperation and Development (OECD)-world. Again, the differences between some countries of the West are as significant as between East Asia and the US. The influence of 'economic guidance' is greater in East Asia, but even there it is decreasing and these changes do not permit the establishment of a fundamental rift that results in Anti-American attitudes.

So what about cultural values and religion? Here, two things should be considered. First, in many East Asian countries religion does not play a prominent role in the political arena. Unlike the US, there is no significant religious force in any major East Asian country that displays a strong aspiration for influence. At the risk of generalization, religion in Asia appears to be much more of a private affair than in America, where the attendance of Sunday masses is far greater than in most other OECD countries. In the US, 44 percent of the population went to church at least once a week in the late 1990s. The Philippines—a former Spanish and subsequently American colony—shows greater church attendance, but other countries in the region show a much more limited influence of churches: Only three percent of the Japanese, nine percent of the Chinese and 14 percent of the South Korean population went to church at least once a month.¹ Religious beliefs can hardly be the source of Anti-American feelings in Asia.

¹ See a study of the University of Michigan, <http://www.umich.edu/~newsinfo/Releases/1997/Dec97/r121097a.html>.

Second, American culture continues to be popular throughout East Asia. Whether music or film, there is very limited rejection of these expressions of American culture. The two American icons of the food industry, McDonald's and Coca Cola, similarly continue to be popular throughout the region.

Having looked at the important issues of human rights, the economic regime as well as religion and culture, it appears difficult to identify an area in which anti-American feelings are fuelled in East Asia. At the same time, one cannot overlook a tendency of reduced attractiveness of the US as both an economic model as well as a coalition partner. But the source of these significantly more critical approaches to the US are not to be found in anti-American feelings. Rather, American foreign policy, including foreign economic policy, has been the cause of this development. The US has drifted away from its traditional allies in East Asia, not the other way round. American policies have caused great irritation and frustration in East Asia, and the reaction to these policies is driving regionalism. East Asia is looking to its own abilities and resources because American policy has forced them to do so. Regionalism in East Asia is externally induced, but the driving factors have been policies of the Clinton and Bush administration, not a general disdain for America.

The paper looks at the externally and internally induced drivers of Asian regionalism in turn. In the next section, the Asian crisis and its legacy will be examined. Another reason for Asian regionalism is the declining attractiveness of the American economy, which will be analyzed in section three, followed by the study of the new role of China for and in the region. In section five I will look at the unfortunate diplomacy of George W. Bush. The last section will contain a description of the steps taken towards regionalism in Asia, both with regard to trade and to finance.

2. The Lasting Legacy of the Asian Crisis

The Asian crisis was a turning point for regionalism in East Asia as well as for the relationship of individual crisis with the US. That crisis was not limited to one economy, but affected an entire region. Furthermore, there were virtually no warnings in advance. Both this inability to forecast and the dimension of the biggest economic crisis since World War II (Bill Clinton) have caused concern. For East Asian countries, the crisis was a sobering experience. They had witnessed the rapid and successful support for Mexico in 1995, only to realize that Washington was unwilling to provide a similar package when they were facing difficulties. Furthermore, policy makers and citizens alike woke-up to the fact that America had national interests and was pursuing them—a lesson that had not been learned before 1997 (Sakibara 2003: 233).² Also, Washington's unwillingness to permit any useful response at the international level has led to sobering attitudes towards America:

After the East Asian crisis of 1997-98, Asian countries strongly perceived the vulnerability of their region, which does not have any viable regional cooperative scheme. They recognized that there is no global lender of last resort, that international organizations like the IMF and the World Bank were not of much use in preventing or addressing the crisis, and that the United States did not infuse much in the way of resources into Asian countries when the crisis broke (Sakakibara 2003: 232f).

Considering the enormous influence of the IMF and its severe mistakes in the recent financial crises, it is that many observers are asking for a substantial improvement of the Fund's performance. Perhaps the most serious addition to the choir of IMF-critics is Joseph Stiglitz, who published vitriolic

² In a similar tune, Samuel Huntington has criticised America's self-interested approach to many areas of international relations (Huntington 1999).

attacks on the work of the Fund (Stiglitz 2002, 2001 and 2000).³ The main reasons for criticizing the Fund are:

- The economic consequences of the IMF's work are too frequently negative. In particular, during the Asian crisis the Fund has probably done more harm than good. Instead of helping to overcome the crisis, the IMF deepened it (see Dieter 1998; Stiglitz 2002). The insistence of the IMF on austerity measures, in particular the tightening of fiscal and monetary policy, was ill-designed for the affected Asian economies. The Fund simply used the recipes of the 1980s for the 1990s, and the results were intolerable. Indonesia, a country that had enjoyed remarkable economic growth since the early 1970s, is still suffering from the IMF-designed crisis management. The Fund's dogmatic condemnation of capital controls made an alternative crisis management impossible. Malaysia's strategy—using temporary capital controls—has worked remarkably well; by fixing the exchange rate and lowering inter rates, both investment and consumption levels in Malaysia quickly recovered (Kaplan and Rodrik 2000).
- Although the IMF has been criticizing governments in developing countries for the lack of transparency in their economies, the Fund itself has been characterized by an extreme lack of transparency. The IMF was a 'secretive institution' (Jeffrey Sachs). The agreements of the Fund with its member countries were not published. The decision making processes were obscure. Discussions in the executive board were not published.
- The interests of creditors dominated the work of the Fund. The main purpose of IMF programs was to insure repayment of loans and bonds (Stiglitz 2001: 14). The IMF has been a creditor cartel that did not give enough consideration to the needs of its weaker and less powerful member countries.
- The conditionality of the Fund's programs was excessive. The countries hit by a financial crisis had to implement too many and too detailed conditions. The former Managing Director of the IMF, Horst Köhler, has taken a very critical position on conditionality.⁴ Whether his successor will take a similar position remains to be seen.

Following some intensive debate after the Asian crisis, the discussion today is somewhat less polarized. Very few observers today ask for the closure of the Fund. Also the other extreme, the creation of some sort of a global central bank, is not often proposed any more. There has been significant progress with regard to the IMF's transparency; today both the Fund's programs as well as the internal discussions can be followed on its homepage. However, as the heated discussion following the publication of one Joseph Stiglitz' books shows, there are still enough issues that need further analysis and there is a lot of room for improvement in the work of the Fund.⁵

The legacy of the Asian crisis is not confined to the financial sphere. Anthony Milner has emphasized that in South Korea the crisis has been seen as the 'second national disgrace', the first

³ Martin Wolf, associate editor and chief economic commentator at the Financial Times, has supported some of the criticism in Stiglitz's latest book. Both the IMF standard policy to raise interest rates and the big bailouts orchestrated by the IMF also find Wolf's disagreement. He argues that the bottom line in the evaluation of the Fund's work is not the quality of the rhetoric of the IMF's officials, but the economic success. And there the record is not looking good (Financial Times, July 10, 2002, p. 19).

⁴ In a speech delivered to three parliamentary committees of the German Bundestag in April 2001, Köhler identified the reform of conditionality as one of the greatest challenges to the Fund.

⁵ The Chief Economist of the IMF, Kenneth Rogoff, chastised Stiglitz' bitterly for his book. In an open letter, Stiglitz was accused, amongst other things, for his criticism of the former Deputy Managing Director of the IMF, Stanley Fischer (www.imf.org/external/np/vc/2002/070202.htm).

being the colonization by Japan in 1910 (Milner 2003: 290). Within Korean society a different understanding of globalization—one that emphasized American guidance—gained support:

The 1997-98 crisis thus reinforced suspicions about globalization, including the view that globalization is best understood as a United States-driven process (Milner 2003: 290).

The events in 1997 and 1998 have contributed to the evolution of a new type of regionalism in Asia. The existing regional integration projects the Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA) and Asia-Pacific Economic Cooperation (APEC) have had a diminished role in this period. Indeed, the limits of ASEAN underlined the inability of conventional, trade-based integration systems to avoid the emergence of financial crises and to limit their intensity. Although ASEAN is one of the oldest regional integration projects, and was in operation for three decades, it had nothing to offer in 1997. Neither liquidity, nor even good advice, were provided. Instead, two ASEAN countries, Thailand and Indonesia, had to call the IMF for rescue. ASEAN emerged damaged from the crisis and its vision—the establishment of a free trade area and the continuation of its low key approach to regional integration—looked problematic. Although regional policy-makers would not state it, it seems (in many quarters) that the benefits from this type of intergovernmental regionalism are deemed too limited to warrant other than minimum effort. Successful exporters to world markets can expect very few advantages from the creation of a free trade area in their region.

If more effective crisis management were to be expected from APEC, such expectations were disappointing. The failure of APEC to provide any meaningful response to the biggest economic crisis in the Asia-Pacific region since 1945 made this project seem less important, if not irrelevant, for many Asian members. The two APEC Summits that could have proposed solutions to the crisis, the 1997 meeting in Vancouver and the 1998 meeting in Kuala Lumpur, were not able to provide the hint of an alternative rescue package for the affected countries.

The legacy of the Asian crisis for Asian countries therefore is threefold; firstly, Asian countries have no desire to return to the IMF in the event of a repetition of a financial crisis. This is mainly so because the Clinton administration forced the IMF to implement policies which were good for the American financial sector, but bad for Asian recipients. Secondly, the Asian crisis has shown that weak institutions have no role to play in the event of a crisis. Therefore, the search for improved co-operation is accompanied by the willingness to engage in a process which will require the partial loss of sovereignty. Before the crisis, Asian countries have learnt that non-cooperation can result in greater loss of sovereignty than co-operation. Finally, many Asian governments have lost confidence in their partnership with the US. Since Washington exploited the situation rather than provided help, Asian governments started to worry about their dependence on the US. In addition, the US is becoming less attractive with regard to its economic performance.

3. The Declining Attractiveness of the American Economy

In the 1990s, many observers were assuming that the American economy had finally returned to its earlier strengths and had once again become the world's leading economic power. This, however, has been a misreading of the economic development in the US. Although America did enjoy a remarkable economic boom, the important point is that the foundations of that economic miracle have been rather wobbly. At the beginning of the 21st century, the American economy is characterized by the aftermath of the greatest speculative bubble in the stock exchange, an equally unsustainable boom in the property market, high and rapidly rising foreign debt, high indebtedness of private households as

well as the government. These imbalances will have to be corrected at same stage, as Robert Gilpin pointed out:

... America's unprecedented good economic fortune will one day run out, and when it does, the United States must confront its low personal savings rate, deteriorating education system, and accumulated foreign debt, and it must adjust to a rapidly changing global economy characterized by intensifying competition, exclusive regional arrangements, and an unsustainable financial system (Gilpin 2000: 7).

For many observers the boom of the 1990s was quite a surprising development. In the early years of that decade, few Americans were as confident in their economy as they were towards the late 1990s. The memory of the stock exchange crash in 1987 was still quite alive, and the country slid into recession in 1991. Furthermore, many Americans were concerned about the lack of competitiveness of their companies. Both Japanese and European companies seemed to be so much better and more efficient producers. Some authors were concerned about the growing rift between rich and poor in Ronald Reagan's America of the 1980s (Davis 1986). America seemed to be destined to lose its hegemonial position in the international system (Kennedy 1989).

The event that changed the American perception was the first Gulf War, which began on 16th of January, 1991. That military operation was the largest since the Vietnam War, and this time it was a successful operation. Increasingly, Americans noted the economic difficulties of their competitors, in particular the inability of the Japanese to overcome their economic problems. The crisis of the Asian economies in 1997 swept away any remaining doubt on the supremacy of the American economic model.

Unfortunately, the boom of the 1990s was as much the result of psychological factors at play than it was the result of productivity improvements and other factors. Consequently, a hard landing continues to be a distinct possibility for America, with severe repercussions for the global economy.

Table 1
Macroeconomic development of the USA 1991 to 2004

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ^a
<i>Change of GDP (real, in %)</i>	-0.2	3.3	2.7	4.0	2.5	3.7	4.5	4.2	4.4	3.7	0.5	2.2	3.1	4.7
<i>Real private consumption (% from previous year)</i>	0.2	3.3	3.3	3.7	2.7	3.4	3.8	5.0	5.1	4.7	2.5	3.4	3.1	3.8
<i>Unemployment rates (% of labour force)</i>	6.8	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.8	5.8	6.0	5.5
<i>Consumer price indices</i>	4.2	3.0	3.0	2.6	2.8	2.9	2.3	1.5	2.2	3.4	2.8	1.6	2.3	2.3

^a Forecast of the OECD.

Source: OECD, Economic Outlook, No. 75 (June 2004).

The American economy slowed down significantly after 2000. This is not surprising after a long phase of high growth. What is remarkable, however, is that the current account deficit continued to

rise despite slower growth. Two factors are primarily responsible for that; firstly, the Bush administration turned budget surpluses into significant budget deficits. Secondly, the American consumer continued to indulge in a spending spree and thereby functioned as the global economy's consumer of last resort.

These two factors, combined with the extremely low savings rate in America, resulted in the need to import capital at a large scale. In addition, US benefited from financial crisis in Asia and Latin America; capital was searching for investment opportunities, and America seemed to be attractive (Altvater/Mahnkopf 2002: 227).

The United States encouraged these inflows with a specific tax policy; since 1984, foreigners do not have to pay taxes on interest earned in the US. The unequal treatment of American nationals, who pay tax on interest earned, is an unfair tax regime for the countries where the capital originates (see Williamson *et al.* 2003: 10). It encourages tax evasion in developing economies and it is an obstacle to the development of financial markets in these countries. This is not (potentially useful) tax competition either, because Americans are having to pay these taxes.⁶

But what caused these inflows of capital? Surprisingly, we do not have very well developed tools for analyzing the causalities in the balance of payments. The conventional assumption is that countries that generate a deficit in the current account, for instance by importing more than exporting, are subsequently importing capital in the form of private loans from foreigners, private foreign direct investment or by loans from foreign states. Unless there is no change in the foreign reserves of the central bank of a country, the deficit in the current account equals the surplus in the capital account, i.e. an inflow of capital from abroad. Conversely, a surplus in the current account equals a deficit in the capital account, i.e. an outflow of capital (Stützel 1958: 124).

The interesting question is: which side of the balance of payments drives it? Does the balance in the current account result in the need for importing or exporting capital? Or does the import of capital result in a need for subsequently importing goods? Surprisingly, economics does not provide a clear answer. It all depends. However, the dominant interpretation of the balance of payments considers the current account the driving factor and the capital account the result of a surplus or deficit in the current account. The origin of this interpretation of the balance of payments goes back to the old gold-based currencies when a balance in the current account resulted in an increase or decrease of gold holdings (Stützel 1958: 129). In today's world this interpretation, although still widely used, has to be contested. Surpluses or deficits in the current account can be driven by the import of capital. For instance, the inflow of capital prior to the Asian crisis most probably caused the deficits in the current account of the affected countries. In the absence of capital controls, countries affected by high inflows or outflows of capital have virtually no tools to influence those movements of capital. Even countries with high rates of savings and surpluses in the public budgets, like the countries affected by the Asian crisis, can be affected by capital inflows. In the event of an already overheated economy, central banks cannot do much. If a central bank would raise interest rates in such a situation, companies and banks could be even more induced to borrow abroad due to lower interest rates in international markets. Instead of reducing vulnerability, the central bank would increase it.

Why do these thoughts matter in the context of interpreting the American current account? First, it is important to understand that capital inflows, both foreign direct investment and portfolio inflows, can be the source of current account deficits. Second, whatever the cause, persistent inflows increase the vulnerability of an economy, because those holding claims will one day ask for a return on their capital, reduce their engagement and thereby force the capital-importing economy to adjust.

⁶ Other OECD-countries are applying a similar regime. However, no OECD-country has recorded capital inflows of the same magnitude.

The experience of many countries throughout the 20th century has shown that it is difficult to say what precise level of capital inflows is unsustainable, but as a rule of thumb inflows of around five percent of GDP cannot be sustained for longer periods of time without a financial crisis (Hesse 1990: 45f).

Today, America's ever increasing appetite for capital is threatening not only the well-being of the American economy, but also of the global economy. These fears are not only expressed by academic observers, but also by a former finance minister and current president of Harvard University. Larry Summers points out the rising risks:

Globalization has been a boon to the U.S. economy, but America's spending addiction now threatens to undermine that virtuous global economic circle. The country that is now more economically central than it has been in decades is borrowing more than any other country in the world. ... Unless it is brought under control, the U.S. savings crisis will soon be the world's problem (Summers 2004: 47).

The current account clearly demonstrates the change in the American balance of payments in the last decade or so. In 1991, the United States recorded for the last time a surplus in the current account. Even that was not a genuine surplus, but rather the result of high transfer payments by Germany, Japan and Saudi-Arabia to finance the cost of the first Gulf War.⁷ Ever since, the American current account deficit has been growing. It was relatively modest until 1997, but thereafter the import of capital grew exponentially.

Table 2
Current account balance and household saving rate in the US, 1991 to 2004

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ^a
<i>Current account balances in billions of \$</i>	3.7	-48.0	-82.0	-117.2	-105.2	-117.2	-127.7	-204.7	-290.8	-411.5	-393.7	-480.9	-548.6	-575.8
<i>Current account in % of GDP</i>	0.1	-0.8	-1.2	-1.7	-1.4	-1.5	-1.5	-2.3	-3.1	-4.2	-3.9	-4.6	-5.0	-5.0
<i>Household saving rate (% of disposable income)</i>	8.3	8.7	7.1	6.1	5.6	4.8	4.2	4.7	2.6	2.8	2.3	3.7	3.4	3.8

^a Forecast of the OECD.

Source: OECD, Economic Outlook, No. 75 (June 2004).

There is a correlation between the rising current account deficit and the declining savings rate in America. A current account deficit occurs when an economy spends more than it saves. The difference is the balance on capital account, i.e. an inflow of capital. A surplus of spending over saving can happen for a number of reasons: purchases of imports, investment in infrastructure or companies, but also because of a government deficit. The analysis of current account crises in other countries clearly shows that a decisive factor is the use of the capital that flows into an economy. If that capital inflow is used for investment in a factors that produces goods which are sold on world markets,

⁷ In 1991, Fred Bergsten stated that America has given the term 'collective leadership' a new meaning: The US leads, and the US collects.

current account deficits are less worrying. If, however, capital inflows are used to finance consumption or non-productive investment, for instance in real estate, a current account deficit is less acceptable.

In the US, both the composition of capital inflows and the type of investors has changed in the past few years. Up to the year 2001, foreign direct investment (FDI)—the least volatile type of capital inflows—dominated. However, due to relatively low real returns in the US, inflows for FDI shrank. Whereas in 2001 America recorded FDI inflows of USD 144 billion, one year later that figure dropped to a mere USD 30 billion. In 2002, Germany attracted more FDI than the US. Even the Netherlands—with USD 29 billion—attracted almost as much FDI as America.⁸ Since 2002, this trend has increased. Between July 2003 and June 2004 the balance of FDI was around USD 150 billion; Americans invested much more abroad than foreigners in the US. This is not surprising: the Economist has pointed out that FDI in America is not attractive. In the first quarter of 2004, FDI in America generated an average return of 5.5 percent, compared to a return of 11.7 percent for American FDI abroad.⁹

This leads to the question of the composition of capital inflows. Who lends to America? Since foreign direct investment has ceased to be an important source of capital inflows, portfolio inflows have replaced them. Today, Asian governments or their central banks are accumulating claims on America. Asian countries hold around USD 2,000 billion in foreign reserves, most of them in US-Dollars. In principle, the capital flows to America can be characterized as suppliers' credit: Japan and China buy American Treasury bonds, and American consumers use the borrowed money to buy Asian products.

This is surprising: A country that puts such a lot of efforts in being independent from other countries in security affairs needs the continuing goodwill of the Chinese and other Asian governments if it wants to avoid a sudden shock. It is odd to realize that the self-declared world's greatest power is also the world's greatest debtor. Countries that hold such large claims on America have quite a powerful tool in their accounts; they can wreck American financial markets at the click of a mouse. Surely, they have no obvious incentive to do so. But if they wanted, they could dump their holdings of American treasuries on financial markets, which would probably cause a crash in the markets; in the absence of buyers, interest rates would skyrocket. It is a new form of mutually assured destruction that has quietly emerged over the last few years (Summers 2004: 48).

Larry Summers has pointed out that Americans should be uncomfortable because foreign governments hold high claims on America. And it is not difficult to construct an unpleasant situation for Washington. Assume there would one day be a severe conflict between China and America over the Taiwan issue. The island's government could be tempted to formally declare independence, which would almost inevitably result in military action from the mainland Chinese. An American government intending to intervene could be blackmailed by Beijing; any help for Taiwan would result in the dumping of Chinese reserves. And China is not Japan: it neither has American troops on its territory nor does it have that specific, asymmetric relationship that has characterized American-Japanese relations since 1945. China needs no books to demonstrate that it can say no.¹⁰

Even in Japan, which has been a staunch ally of the US for many years, support for America is waning. Eisuke Sakakibara, former Deputy Minister of Finance in Japan, has argued that America's

⁸ Handelsblatt, September 5, 2003, p. 10.

⁹ *The Economist*, July 10, 2004, p. 66.

¹⁰ In 1989, Shintaro Ishihara together with Sony chairman Akio Morita published a book on "A Japan that can say no". Regrettably, when Japan had a chance to lead East Asia and could have provided an Asian Monetary Fund in 1997, the Japanese government once again accepted the decision taken in Washington: No AMF, please.

so-called war on terror symbolizes the decline of America, just as World War I signified the end of Pax Britannica (Sakakibara 2003: 228).

The bottom-line is clear: Asian policy makers have observed that the American economy is in decline. This makes America as a partner less attractive, whilst increasing the appeal of co-operation in the region. The key here is the remarkable return of China to the center stage.

4. The Rising Power: China as a hub for regionalism in East Asia

During the last decade, China has become much more attractive as a partner for its neighbors. In November 2004, ASEAN countries and China agreed on the establishment of a free trade agreement until 2010. This development would have been inconceivable before the Asian crisis, let alone in the 1980s or early 1990s. China today is no longer predominantly perceived as a threat, but rather as an opportunity by many of its neighboring countries.

China is providing the region with a vision of future in harmony and prosperity, a role traditionally played by America. But George W. Bush's fight against terror has resulted in the perception that future will not be bright and prosperous. Compare that with China; president Hu travels through the Asia-Pacific region and—what a contrast to the past—is giving press conferences that are characterized by charm and joy. Although the leadership in Beijing is too smart to challenge the US militarily, it does challenge America's leadership in the economic, political and psychological arena.

Whilst the US wanted to play the role as a hub for regionalism, China is the country that achieves this goal (see section 6). Apart from Singapore, the US has not yet successfully concluded a free trade agreement (FTA) with a major player in the region, whilst China already has an FTA with Thailand and the agreement with ASEAN. US Senator Max Baucus has publicly expressed concern about America's exclusion from integration processes in Asia and has termed the US trade policy *vis-à-vis* Asia as foolish (Baucus 2004).

In the early 21st century, China is returning to the center stage. Two hundred years earlier, China was contributing one third to global gross domestic product (GDP), a percentage that shrank to five percent in 1978. In 2002, calculated with purchasing-power-parities, China has become the world's second largest economy and has contributed 12 percent to global GDP.¹¹

Within the foreseeable future, i.e. the next 20 years, China will become the world's largest economy, overtaking Japan and perhaps the US. Needless to say that the continuation of the growth experience of the past two decades will be difficult. So far China has mastered quite a few difficult junctures, and there is no need to be overly pessimistic on China. The weak financial sector has to be seen in the context of extremely high foreign reserves of over USD 500 billion, and the trade policy is significantly more appealing to the neighboring countries than that of the competing regional power, Japan. In 2003, China imported for the first time more than Japan. Imports represent 30 percent of China's GDP, but only eight percent of Japan's. Whereas Japan has frequently been trying to portray itself as the region's leading country, it has not done much to increase its attractiveness. By contrast, China has been successfully creating a network of mutual dependencies. It imports from and exports to the region, and this creates increasingly robust political ties.

China's neighbors today are no longer hedging their bets against China, rather they are hedging with China. Although it is true to say that the actual economic might of China is still smaller than that of Japan, perception matters: China rises, Japan and America decline.

¹¹ Financial Times, September 22, 2003, p. 13.

5. The Influence of George W. Bush's Non-Diplomacy on Asian Regionalism

The post-war order was widely accepted as functionally necessary and ideologically legitimate, at least by the major allies of the US, also those in Asia, namely Japan, South Korea, Thailand and the Philippines. However, the events of the early 21st century have demonstrated that there are plainly limits to even the US's capacity to impose itself militarily and a preoccupation with material or strategic assets.

In recent years, the US diplomacy towards Asia has been unfortunate, to say the least. Washington has continued to emphasize bilateral security treaties with a range of countries in Asia, but this has not enabled them to solve problems such as the nuclear threat originating from North Korea, the tension between China and Taiwan or the Islamist terrorism in parts of Southeast Asia. The Bush administration has yet to present a coherent strategy to address several new developments in the region, some of which have been outlined in the previous sections.

After George W. Bush's first term in office, Washington is isolated in Asia in unprecedented ways, as Francis Fukuyama pointed out.¹² At the moment, the US has chosen to take an obstructionist role towards Asian regionalism, but that leads to both a loss of influence on the shape of regionalism in Asia as well as a strengthening of the supporters of regionalism in Asia. Again, there is no anti-Americanism at work, but rather opposition to American policies.

The administration of George Bush senior opposed the first attempt to create an Asian regional integration project, the 'East Asian Economic Caucus', suggested by then Malaysia's Prime Minister Mahathir Mohamad in 1990. America was successful in halting that initiative, as it was seven years later when Japan suggested the creation of an Asian Monetary Fund in September 1997. The trouble is that America was much less successful with constructing an integration process in East Asia that would give America a seat at the table.

The forum to consider is APEC. When it was started in 1989, APEC had the potential to create a community that included all important players of Southeast and East Asia as well as the US. But again, Washington preferred to obstruct the integration process by insisting on enlargement of APEC to include, which probably was the single biggest problem, the Russian Federation. By doing that, Washington achieved a short-term political goal—the hindrance of an Asian integration project—but paid a price for that. In the long-term, the integration will take place without America. Today, the message is nicely summed up by the Economist: 'Yankee stay home', but that is the consequence of bad American policies, not of hostility towards the American nation or values.¹³

To the contrary; it is not Asian nationalism that drives Asian regionalism, but it is the assessment by Asian policy makers that the US approach to foreign policy is undergoing a structural change. Nationalism is now a much stronger and little understood factor underwriting US policy in the contemporary era. It is so powerful that it actually competes with, indeed seems to over rule, the liberal reading of hegemony in US foreign policy. As Lieven noted:

Nationalism risks undermining precisely those American values that make America most admired in the world, and that in the end provide both a pillar for present American global power and the assurance that future ages will look back on America as a benign and positive leader of humanity (Lieven 2004).

The point made here is that the roots of contemporary American foreign policy are national. Indeed, the country's foreign policy has always been mediated by American domestic interests and

¹² International Herald Tribune, December 10, 2004, p. 8.

¹³ The Economist, December 11, 2004, p. 50.

priorities, rather than simply reflecting the logic of the international system itself. While it is important to acknowledge that scholars working in a traditional realist framework have some important insights to offer, especially given the current Bush administration's desire and willingness to employ its material assets in pursuit of unilaterally defined goals, this sort of analysis cannot capture the complexity of either the domestic influences on foreign policy, or the wider international environment within which it unfolds.

The policy of George W. Bush, characterized by his go-it-alone attitude, is worrying staunch allies of the US such as Japan and South Korea. Politicians in both countries claim that confidence has been severely damaged in recent years. Bush's policies are perceived as lacking consideration for the specific historic context in East Asia. For instance, Bush's undercutting of South Korea's 'sunshine policy' towards the North of the country is not well understood in Korea.¹⁴ The inability or unwillingness of Washington to explain the motives for its foreign policy cause resentment. After all, branding North Korea as a member of the 'axis of evil' is not helping South Korea, which finds itself once again in the frontline—this time not in the fight against communism, but against evil.

The policies of the Bush administration in the so-called war on terror also affect the perception of America in the region. Southeast Asia is home to some 260 million Muslims, almost half the region's population, most of them living in Indonesia and Malaysia. It is quite understandable that these people interpret the invasions of Afghanistan and Iraq as hostile acts against Muslims, and subsequently there is an increasing tendency to view America's foreign policy critically (Kadir 2004: 220). The perception is that American policy is anti-Muslim, and what matters is assessment, not necessarily hard facts.

Statements of the Indonesian government in early 2003 are clear evidence of the critical view that prevailed in Indonesia. Once fighting began in Iraq, the Indonesian government described US actions as acts of aggression and demanded the United Nations (UN) to take concrete steps to prevent further violence. In April 2003, Indonesian President Megawati praised Iraqis for the defense of their own country and called on Indonesians to oppose the war (Capie 2004: 229).

In Malaysia, the Bush administration failed to make use of the pro-American sentiment that prevailed after September 11. Prime Minister Mahathir—a staunch critique of American economic policies for many years—visited the American embassy in Kuala Lumpur to sign a book of condolences and thus showed a level of sympathy with America (Capie 2004: 230). Needless to say that the Bush administration failed to exploit the sympathy that America enjoyed world-wide after the attack on the World Trade Centre, but in two countries in Southeast Asia, Malaysia and Indonesia, this failure was particularly striking.

The invasions of Afghanistan and Iraq resulted in critical views expressed by policy makers, but also by religious groups. Islamic groups called for 'jihadist' volunteers to travel to Afghanistan. The opposition party Parti Islam Se Malaysia (PAS) criticized the US bluntly and warned that its supporters would retaliate if US aggression persisted (Capie 2004: 231). Although the Mahathir government stopped potential combatants from leaving the country, it nevertheless joined the choir of those that condemned US aggression.

It is important to realize that America has failed to explain its so-called war on terror in the Islamic world. The Bush administration may consider their policies legitimate self-defense, but this view is certainly not shared in Islamic countries. Frequently, observers in Malaysia and Indonesia see American policies as an expression of 'anti-Muslimism'. These assessments were strengthened when the Bush Administration released its new National Security Strategy which stated that America and its close ally Australia would engage in pre-emptive strikes—a misnomer for invasions of sovereign

¹⁴ International Herald Tribune, July 23, 2002, p. 1.

countries—in Southeast Asia. Needless to say that in Indonesia and Malaysia, which had been colonies for hundreds of years, but also in the Philippines, such an approach was seen as unjustified (Capie 2004: 231).

Malaysia was particularly sensitive to double standards that the US employed. Continuing American support for Israel's policies in the Middle East was singled out as the principal motivation behind Islamic radicalism and terrorism. In 2002, the then Deputy Prime Minister Abdullah Badawi, who has become Prime Minister of Malaysia, told an APEC conference in Kuala Lumpur:

Muslim anger is fuelled by the impunity with which Israel ignores and flouts UN resolutions and the protection it receives in the world body from friends that prevent any enforceable sanctions being imposed on Israel (quoted in Capie 2004: 231f).

Although Badawi was speaking to a domestic audience as much as he was addressing APEC leaders, the message was clear. The double standards that the American government employs result in anger and frustration in the Muslim world, and that resentment has nothing to do with anti-Americanism, but is a rejection of illegitimate policies.

This critique of American policies consequently has not led to the evolution of an anti-American coalition in Southeast Asia. Even Malaysia and Indonesia, despite the intensive criticism of American policies, have continued to cooperate with Washington, providing American forces with overflight rights as well as intelligence, defense and law enforcement cooperation (Capie 2004: 238). Policy makers in the region continue to value American security guarantees, but they reject the policing attitude of recent years.

6. Steps Towards Regionalism in Asia

Although East Asian states—particularly the smaller, less powerful ones in Southeast Asia—continue to cooperate with the United States, this does not mean that they are not exploring alternatives at the same time. Today, East Asia places a greater stress on multilateral and regional co-operation than at any other moment of history since World War II. Although here too there may be a marked disconnect between theory and rhetoric on the one hand and application and practice in the region on the other. We live in an era of the 'new regionalism' in East Asia that has progressed apace since the financial crises of the late 1990s. The key elements of the new regionalism have been enhanced regional economic dialogue and interaction both *amongst* the states of Northeast Asia (China, Japan and South Korea) and *between* these states and the states of Southeast Asia through the development of the ASEAN + Three (or APT) process. In 2003, trade between the Northeast Asian states grew by nearly one third. At USD 224.5 billion the region provided 15 percent of total world exports and 20 percent of global GDP.¹⁵ To be sure, and notwithstanding such growth, the regional cooperative dialogues remain rudimentary when contrasted with the level of integration to be found in Europe, but these dialogues have been spurred on in the last decade by the perceived limitations of the multilateral system and the changing relationships of the major regional actors to the US.

For example, the active dialogues on regional monetary cooperation, post the 2001 Chiang Mai agreement, developed out of a growing disillusion with the role of the IMF and US policy during, and since, the financial crises of the closing years of the 20th century (Dieter and Higgott 2003). The renewed interest in regional trade arrangements—especially the purposeful development of AFTA, the ASEAN-China FTA proposal and other FTA discussions (beyond the spate of bilaterals with the

¹⁵ *Financial Times*, February 11, 2004, p.7

US)—have been spurred on, in part at least, by the limitations of the World Trade Organization (WTO) (Dieter 2003).

6.1 Trade Integration

Asian countries are the most active players today with regard to the creation of bilateral and multilateral trade agreements, as Table 3 shows. In contrast to the 1990s, when very few countries from Asia engaged in bilateralism, in the 21st century Asia is seeking bilateral trade agreements.

Table 3
Trade agreements in the Asia-Pacific

<i>Partners</i>	<i>Status/In Force since</i>	<i>Type</i>
Bangkok Agreement	17.06.76	Preferential Arrangement
ASEAN Free Trade Area (AFTA)	28.01.92	FTA
Australia–Thailand	Signed 05.07.2004	FTA
Australia–China	Feasibility study completed	FTA
Australia–Japan	Feasibility studies	Closer co-operation
Australia–Malaysia	Feasibility studies	FTA
Australia–South Korea	Feasibility studies	FTA
Singapore–New Zealand	01.01.01	FTA
Singapore–EFTA	01.01.03	FTA
Singapore–Japan	30.11.02	FTA
Singapore–Australia	28.07.03	FTA
Singapore–USA	Signed 06.05.2003	FTA
Singapore–Jordan	Signed 16.05.2004	FTA
Singapore–Bahrain	Feasibility studies	FTA
Singapore–Canada	Negotiations	FTA
Singapore–Egypt	Feasibility studies	FTA
Singapore–India	Negotiations	Co-operation Agreement
Singapore–South Korea	Negotiations	FTA
Singapore–Mexico	Negotiations	FTA
Singapore–Chile + New Zealand	Negotiations	FTA
Singapore–Panama	Negotiations	FTA
Singapore–Peru	Negotiations	FTA
Singapore–Sri Lanka	Feasibility studies	FTA
Singapore–Chile	Feasibility studies	FTA
Singapore–Taiwan	Feasibility studies	FTA
New Zealand–Thailand	01.07.2005	FTA
New Zealand–China	Feasibility studies	FTA
New Zealand–Hong Kong	Negotiations	CEP
New Zealand–Malaysia	Feasibility studies	FTA
New Zealand–South Korea	Feasibility studies	FTA
Japan–Thailand	Negotiations	FTA
Japan–Philippines	Negotiations	EPA
Japan–Malaysia	Negotiations	EPA
Japan–Mexico	Signed 17.09.2004	EPA
Japan–South Korea	Negotiations	FTA
Japan–New Zealand	July 2003	Closer co-operation
Japan–Taiwan	Feasibility studies	FTA
Japan–Indonesia	Feasibility studies	FTA
Japan–India	Feasibility studies	FTA

Table 3 - continued
Trade agreements in the Asia-Pacific

<i>Partners</i>	<i>Status/In Force since</i>	<i>Type</i>
Chile–South Korea	01.04.04	FTA
Chile–New Zealand	Negotiations	FTA
Chile–Japan	Feasibility studies	FTA
Chile–China	Feasibility studies	FTA
China–Macao	Feasibility studies	FTA
China–Hong Kong	Feasibility studies	FTA
China–Philippines	Feasibility studies	FTA
Thailand–China	In force	FTA
Thailand–Bahrain	Negotiations	FTA
Thailand–India	In force	FTA
Thailand–USA	Feasibility studies	FTA
Thailand–Peru	Feasibility studies	FTA
South Korea–USA	Feasibility studies	FTA
South Korea–Mexico	Feasibility studies	FTA
South Korea–EFTA	Negotiations	FTA
USA–Malaysia	Feasibility studies	FTA
USA–Indonesia	Feasibility studies	FTA
USA–Philippines	Feasibility studies	FTA
ASEAN–China	Negotiations completed	FTA
ASEAN–Australia–New Zealand	Negotiations	FTA
ASEAN–Japan	Negotiations	FTA
ASEAN–Canada	01.06.82	Co-operation Agreement
ASEAN–India	Feasibility studies	FTA
ASEAN–USA	Feasibility studies	FTA
ASEAN–South Korea	Negotiations	FTA
ASEAN–EU	Feasibility studies	FTA

Again, there is no evidence that anti-Americanism is the driving force for those developments. Rather, the fear to be excluded in the event of a collapse of the global trade regime appears to be the most important factor.

6.2 Monetary Regionalism

By the end of 1999, when the worst impact of the Asian crisis was over, East Asian policy circles once again addressed the topic of more intensive regional monetary cooperation. The regular ASEAN Summits were expanded by the participation of Japan, China and South Korea, the new body being called ASEAN+Three (or APT). Since then, some steps in the search for a new monetary regionalism have been:

- In December 1997, the first ‘East Asian Summit’ (EAS) took place in Kuala Lumpur. Not surprisingly, monetary issues were discussed (Rüland 2000: 433).
- During the APT meeting in Manila in November 1999, the scope for regionalism in Southeast and East Asia was discussed. The summit chair, then Philippines President Joseph Estrada, told the news media the goals were a common market, monetary union and an East Asian Community.
- Increasing numbers of Japanese observers advocate monetary cooperation in Asia. Eisuke

Sakakibara, former state secretary of the Japanese finance ministry, spoke out for a cooperative monetary regime in East Asia.

- During the fourth ASEAN finance ministers' conference in March 2000, plans for setting up a regional liquidity system were discussed.
- In May 2000, Japan suggested a plan for a network of currency swaps, in effect a regional liquidity fund, to Asian finance ministers attending the annual meeting of the Asian Development Bank (ADB) in Thailand. The idea was that Asian countries should be able to borrow from each other via short-term swaps of currency reserves. The finance ministers of the ASEAN countries, China, Japan and South Korea reached an agreement in Chiang Mai. Major elements of the proposal still have to be finalized.
- In September 2000 Thailand's then Deputy Prime Minister and current WTO-Secretary General, Supachai Panichpakdi, underlined the need for an Asian Liquidity Fund. Taking US views on the future of the IMF into consideration, he argued that IMF resources would be insufficient to cope with future crises.
- During the 2000 APT-meeting in Singapore, the *Chiang Mai Initiative* was reaffirmed. At the same time, the Chinese Prime Minister Zhu Rongji made a proposal for a free trade area between China and ASEAN, excluding Japan.
- In January 2001, France and Japan tabled a joint paper during the meeting of The Asia-Europe Meeting (ASEM) finance minister in Kobe. The paper suggested that stable exchange rates and financial flows are attainable at a regional level.
- In May 2001, the *Chiang Mai Initiative* was clarified during the annual meeting of the ADB in Honolulu. The network of bilateral swap agreements was more precisely defined. Japan pledged to lend up to USD three billion to South Korea, up to USD two billion to Thailand and up to USD one billion to Malaysia. However, it was decided that only ten percent of these sums will be available automatically. For sums above the ten percent level the approval of the IMF will be required.
- In December 2001, Thailand and China agreed on a swap line of up to USD two billion.
- In March 2002, Japan and China agreed on a swap line of up to USD three billion.
- In June 2002, China and South Korea arranged a swap line of up to USD two billion.
- In 2004, the number of bilateral swap-agreements has risen to 16. The volumes have risen to USD 44 billion, although this continues to be little compared to the currency reserves of countries in the region.
- The president of the Asian Development Bank, Tadao Chino, at the occasion of the ASEAN+3 Finance Minister Conference in South Korea highlighted the three pillars of monetary regionalism in Asia; first, improved exchange of data; second, the pooling of currency reserves and third the development of an Asian bond market. Chino suggested to replace the bilateral swap-agreements with a regional liquidity pool within three to five years.¹⁶

These activities do not guarantee that monetary regionalism will be implemented successfully in the region. They do, however, demonstrate that the region is in search of greater independence, mainly from institutions and policies heavily influenced by the US.

¹⁶ Speech on May 15, 2004, http://www.adb.org/AnnualMeeting/2004/Speeches/chino_asean+3_statement.html.

7. Conclusions: US policy is the key to understand Asian regionalism

Anti-Americanism is not the driving force behind regionalism in Asia, as I have tried to demonstrate in this paper. Governments in Asia are increasingly disillusioned with American leadership, but that does not imply that they are distancing themselves from values and norms that are characteristic for America; democracy, the respect for human rights and the organization of the economy in a market-oriented manner are by and large shared by Asians.

Nevertheless, Asians have become significantly more critical of the US in recent years. The main factor has been the Asian crisis. Asians felt both put up and let down by America. They had followed American advice, and that cost them dearly. The IMF—heavily influenced by the American Treasury—abused the situation and forced Asian countries in so-called adjustment programs which were hardly disguised measures for permitting American companies to benefit from distress sales.

At the same time, three other factors have nurtured regionalism in East Asia: The decline of the American economy, the rise of China and the lack of diplomatic skills of the Bush Administration. These three factors are important on their own account, but in combination they are producing a potent cocktail which has reduced America's importance for the region in an unprecedented way.

The bottom line is quite simple: Asia has not changed as much as America has changed. The policies of the US have been a key factor in driving Asian regionalism, but the blame for that ought to stay in Washington. This development mirrors quite similar ones in other parts of the world, whether it is Western Europe, Latin America or even the next-door-neighbor Canada. Increasingly, people see the US as a potential problem, not a solution. Asia is not drifting away from the US, rather America is drifting away from the rest of the world.

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