

Spinning a New Financial Web:
Power, Institutional Proliferation, and an Asian Monetary Fund

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ABSTRACT: East Asia is on the precipice of establishing its own monetary stabilization fund despite the fact that it would perform the same functions as the IMF. What explains this and other potential cases of redundant institutional proliferation? Contrary to functionalist approaches, this paper submits a power-oriented explanation of institutional proliferation. Institutions may serve some interests over or against others and may increase in bias over time if powerful members are endowed with and use go-it-alone power. Institutions operating as such 'structures of power' create negative feedback and thus incentives for disaffected actors to develop alternative, more palatable arrangements. Examining East Asia's attempts to create an Asian Monetary Fund, I contend the region's financial cooperation is less a collective effort to address economic concerns and more a consequence of the IMF acting as a structure of power coupled with a shifting balance of international economic power which together have moved Japan and China toward increasing their influence over regional finance; influence they want but lack due to their relatively weak positions within the IMF. Paradoxically, institutional proliferation may enhance the bargaining power of weaker actors (here ASEAN states) by endowing them with forum-shopping abilities.

Over the past decade, financial cooperation in East Asia has steadily and deliberately come together like the 'strands of a spider's web'.¹ Today, the region is on the precipice of establishing its own monetary stabilization fund despite the fact that such an institution would perform essentially the same functions as the International Monetary Fund (IMF). What explains this and other potential cases of seemingly redundant institutional proliferation? Much of the extant literature on international regimes predicts that such phenomena should be rare since institutions are said to grow increasingly valuable over time and are costly to create (see Keohane, 1982; Hasenclever *et al.*, 1996). From this perspective, the best answer is that new cooperative agreements will only emerge when the status quo institution is no longer able to fulfill its functional mandate in which case interested states come together to create a new institution that can meet their collective needs. To the contrary, I propose an alternative explanation of institutional proliferation within a given issue area. Rather than conceiving of institutions as necessarily Pareto-improving agreements created to perform specific functions, I assume institutions are first and foremost vehicles for policy control, serve some interests over or against others, and can increase in bias over time. Institutions operating as such 'structures of power' produce negative feedback and thus incentives for disaffected actors to

¹ Former Singaporean Deputy Finance Minister Lim Hng Kiang quoted in Rowley (2001: 47).

develop alternative, more palatable arrangements. Consequently, the emergence of redundant or alternative institutions should not be unexpected. Examining East Asia's attempts to create an Asian Monetary Fund (AMF) I contend the region's financial cooperation is less a collective effort to address economic concerns and more a consequence of the IMF acting as a structure of power coupled with a shifting balance of international economic power which together have moved Japan and China toward increasing their influence over regional finance; influence they desire but lack due to their relatively weak positions within the IMF. Paradoxically, institutional proliferation within a single issue area appears to enhance the bargaining power of weaker actors (here, ASEAN states) by endowing them with forum-shopping abilities.

This paper will be organized into two parts. In the first section, I will build a theoretical foundation for my argument. I propose a conception of institutions as *structures of power* as opposed to *structures of cooperation*, especially when they occupy a monopoly position within a given issue area (see Moe, 2006). I then explain why institutions as such generate an environment ripe for the creation of new alternative arrangements. Finally, I offer two complementary hypotheses of institutional proliferation. The second part of the paper applies my conception of institutions as structures of power to the creation and development of the IMF. Building on Lloyd Gruber's (2000; 2001) concept of 'go-it-alone power', I show that as a structure of power, the IMF created the incentive for subordinate actors to defect to alternative, more palatable institutional arrangements. Then, to test my hypotheses of institutional proliferation, I explain how this incentive coupled with the shifting balance of international economic power can best explain the emergence of the AMF idea as potential institutional rival to IMF.

I. THEORY

1.1: The Institutional View of International Institutions

Institutionalists argue that states have much to gain from cooperation with each other, especially within the present context of globalization (Keohane, 2001). However, given that anarchy causes states to mistrust each other, cooperation is difficult to achieve and sustain. How is this circle squared? Enter the institution: 'explicit arrangements, negotiated among international actors, that prescribe, proscribe, and/or authorize behavior' (Koremenos *et al*, 2001: 762). Institutions are cooperative solutions to collective-action problems created because collaborators anticipate they will provide particular benefits and solve particular problems (Keohane and Martin, 1995: 46).

Institutionalists argue that institutions promote cooperation because they facilitate mutual gains, address market failures by providing public goods, create focal points, reduce information asymmetries, and create more credible commitments by improving monitoring and enforcement capabilities.

Due to these aforementioned functions as well as informal patterns of interaction that evolve concomitantly with them, institutionalists believe cooperative regimes become increasingly valuable to collaborators over time. Often referred to as *positive feedback*, the idea is that 'each increment added to a particular line of activity yields larger rather than smaller benefits' (Pierson, 2004: 22). It follows from this line of logic that institutions persist 'because [they provide] more benefits to the relevant actors than alternate institutional forms' (Hall and Taylor, 1996: 13; see also Ikenberry, 1998/99: 46). It is assumed that if actors are cooperating, then they must value the regime instrumentally if not intrinsically as well. Accordingly, 'regimes tend to evolve rather than die' as cooperative actors have incentives to try and sustain them even when this requires the sacrificing of one's own myopic self interest (Keohane, 1984: 107). Institutionalists predict institutional continuity. New institutions ought only to emerge when conditions change such that old institutions are clearly inadaptable and can no longer adequately perform desired functions.

1.2: Whither Power?

Realists accuse institutionalists of overestimating the potential for cooperation and underestimating the role of power and politics. The institutionalist view, they claim, leaves out any concept of political struggle as “governments acquiesce in and act in accordance with the logic of global market forces... [and] there is an implied coincidence of interests between state actors’ (Nesadurai, 2002: 14). Central to the realist point of view is the belief that ‘states seek to influence markets to their own individual advantage’ and hence we must understand the role of power in creating and sustaining of market relations (Gilpin, 1987: 47). International institutions here are merely projections of power by dominant states. In contrast with the institutionalist view, institutions are not mutually beneficial, self-reinforcing arrangements but rather the ‘mobilization of bias’ (Schnattschneider, 1960). However, with such a bleak picture of institutions from this line of reasoning, a question necessarily follows: if institutions are good for the few but not-so-good for the rest, *why do we see so much cooperation?*

While I do not adopt a strict realist position here, it is my intention to put power and politics at the center of my analysis. A power-oriented explanation does not contend that cooperation is absent in the international arena—quite the contrary. However what distinguishes a power-based approach from an institutionalist one is that in the former ‘cooperation’ may veil a more ominous reality. Institutionalists argue that institutions are mutually beneficial arrangements—that they are Pareto-improving. Recently, this assumption has come under increasing scrutiny. Most notably, Gruber (2000; 2001) has argued that just because membership in a cooperative institution is voluntary does not imply that the institution actually benefits everyone. In some cases, states may join arrangements only because they have no other alternative. Gruber posits that some states have what he calls ‘go-it-alone power’: the ability for X to unilaterally alter the status quo by creating an arrangement that simultaneously (1) increases X’s utility regardless of Y’s participation and (2)

decreases Y's utility. While Y would prefer to stick with the status quo *ante*, this option is no longer available because of X's unilateral act. Y will seek accession to the new arrangement even if it finds it injurious so long as being left outside the institution altogether would be even worse. In other words, Y will seek to minimize its disutility by choosing the lesser of two evils. Cooperation is not a function of Pareto-optimality then, but rather the ability of one actor (the 'winner') to change and constrain the choice-set available to other actors (the 'losers') by presenting them with a *fait accompli*: accept the new conditions on our terms or be left out of the agreement altogether. The result yields absolute, not just relative, losers.

In the following section, I attempt to build on Gruber's logic by arguing that go-it-alone power is not unique to institutional creation, but is *also an important component of institutional development*. Because of this, institutions may become more unpalatable to some actors as they develop over time making potential institutional alternatives increasingly attractive to these newly minted 'losers'. In short, this creates an environment ripe for institutional proliferation.

1.3: A Power-Oriented Conception of Institutions

The following description is not meant to comport perfectly with reality. Rather, it represents an alternative to the more common view of institutions as cooperative solutions to shared problems where power dynamics play a secondary role. I suggest that institutions may also be conceptualized as *structures of power* where cooperative factors play a secondary role (see Moe, 2006: 32). This approach does not preclude functional-based cooperation from existing or mattering. However, it does seek to shift the emphasis from collective to individual interests. Foundational to these claims are the following assumptions.

1. *Institutions are created for the purpose of policy control—other functions are secondary.*

Political actors have distinct policy preferences. Because institutions shape and determine policy outcomes, ‘concerned parties will attempt to align governance structures with their interests’ (Khaler and Lake, 2003: 20).

2. *Institutions formalize, perpetuate, and intensify internal power imbalances over time.*

All political actors want institutional control since this leads to policy control. However, due to unequal power relations between cooperating agents, institutions tend to give privileged positions to powerful actors. Powerful collaborators will have a much greater say over institutional policy outcomes than weak actors. Furthermore, once formalized, these unequal positions within the institutional organization are unlikely to change. In fact, they may even intensify as entrenched powers are reluctant to cede the policy control they have amassed, regardless of exogenous changes that may shift real relative power positions, and are always interested in seizing even more (see Panebianco, 1988).²

3. *Policy outcomes will tend to serve the interests of the most powerful actors within the institution whether or not they serve or harm the interests of weak actors as dominant actors have the ability to continually go-it-alone within the institution by changing status quo policy outputs in order to further their interests.*

If institutions are primarily about policy control and if powerful actors have the bulk of this control, then we should expect policy outcomes to serve the interests of powerful actors.³ This is not to say weak actors cannot benefit as well, rather it simply claims that institutions at minimum will not work against the interests of the powerful (see Gilpin, 1981: 9) and that they remain malleable to the interests of powerful actors. It does suggest, though, that institutions are capable of creating new ‘winners’ and ‘losers’ as they develop over time.

Taken alone, these three assumptions are not particularly novel as they are consistent with most realist accounts of institutions. However, the application of go-it-alone power to institutional

² While addressing political parties, Panebianco describes a phenomenon characteristic of most organizations: ‘Power resources tend to accumulate...there is a tendency...toward the concentration of power in small groups’, 36.

³ In the words of Ilene Grabel (2003), ‘policies always serve some interests against others’, 41.

development has yet to be fully explored. Consequently, I predict unexplored theoretical consequences of institutions-as-such. My hypotheses present a direct challenge for those who argue that institutions tend not to be replaced but rather evolve as ‘the costs of switching from one alternative to another will...increase markedly over time’ (Pierson, 2000: 251). Indeed, if institutions discriminate in obvious ways against some parties in favor of others, disadvantaged actors would seem to have an incentive to defect to institutional alternatives. For these actors the cost of switching to an alternative actually *decreases* over time if the institution becomes increasingly biased against their interests. In other words, institutions-as-such produce *negative feedback*. This is a theoretical possibility that has yet to be considered seriously and has tremendous implications for predictions of institutional stability.

Does this not suggest that institutions as structures of power are inherently unstable and should hemorrhage defectors at the first sign of bias? Experience seems to contradict this as institutions often appear quite stable. Does this stability imply that institutions are consistently Pareto-improving? Not according to the logic of go-it-alone power. A prerequisite for defection is that an institutional alternative must exist. When a biased institution has a monopoly over a particular issue area, privileged actors have the ability to continually go-it-alone by altering status quo policy in accordance with their preferences and against the protest of weaker subordinates. Assuming there are no credible alternatives, losers are forced to bite their tongues and accept new institutional mandates even if they disapprove of them. Although the end result resembles a Nash equilibrium—where no participating actor has the incentive to defect from the agreement—the losers are left worse off in absolute terms. The subordinate actor may choose to ‘cooperate’, but she may also be worse off than before the new policies were imposed. In other words, she has been forced to accept an outcome contrary to her interests.

This is the very type of ‘cooperation’ institutionalism does not account for and therefore cannot anticipate negative feedback. If an institution becomes more biased over time, a greater number of actors will become increasingly unhappy with the terms. The institutionalist predicts that institutions become more valuable to collaborators; a power-oriented approach predicts that for some actors it is precisely the opposite. In short, over time more and more actors develop an incentive to defect to an alternative institutional arrangement that is more aligned with their policy interests. However, assuming no alternative exists, losers have little choice but to accept whatever the status quo institution (SQI) mandates until the balance of power shifts so one actor (or a group of actors) has the ability to set out on its own to provide a more palatable option.

1.4 Hypotheses of Institutional Proliferation

Thus far, I have introduced two important concepts for my argument. First, a power-oriented conception of institutions predicts biased policy outcomes that advantage dominant actors and may disadvantage their weak counterparts. Second, this provides disaffected collaborators with the incentive to defect from the SQI. Yet while necessary, these are not sufficient conditions to bring about new arrangements. Institutional proliferation is not just a consequence of an actor’s desire for an alternative arrangement, but also of an actor’s *ability* to create an alternative to the SQI. In order to explain institutional proliferation, I propose an approach that combines both incentive and ability. My first hypothesis can be summed up as follows:

Hypothesis 1: An institutional monopoly over a given issue area, once formed, stays formed so long as no political actor(s) with the *ability* to create some alternative has the *incentive* to do so. Equally, no actor(s) with the *incentive* to create some alternative has the *ability* to do so. The creation of new institutional alternatives will occur only when a political actor(s) has both the *ability* and the *incentive* to do so.⁴

Let me explain what I mean by each of these terms.

⁴ Adapted from Laver & Shepsle. 1996. *Making and Breaking Governments*. Cambridge University Press, 61; for more on institutions as ‘incentive compatible’ equilibria see Koremenos et. al 2001, 768.

1.4.1 - Ability

There are two fundamental components to ability. First, the actor(s) must have (1) *sufficient resources* to establish an alternative institution. In the case of an AMF, we would measure this in terms of the foreign exchange reserves of a country or group of colluders. The second component of ability is (2) *sufficient cooperation*. Institutions are by definition social arrangements. A single actor cannot be an institution unto herself, she needs collaborators. In many cases, having sufficient resources is contingent upon cooperation between states as a single actor is either unlikely to have adequate resources on its own or is unwilling to bear the risks of going it alone. Consequently, an actor's ability is to some degree contingent on the behavior of potential collaborators.

1.4.2 - Incentive

The initial component of the incentive to defect is (1) *sufficient dissatisfaction with the SQI*. Keeping in mind that institutions are vehicles for control over policy, no actor that already has significant policy control within the SQI will have an incentive to create an alternative. It follows that the first mover must be dissatisfied with both (a) its level of policy control within the SQI as well as (b) the type of policies emanating from it. The second component of incentive is a (2) *sufficient expected gross pay-off* from the new institution. This derives from the presumed policy control over subordinate collaborators the first-mover believes will be afforded it by the new arrangement. The first-mover acts opportunistically rather than altruistically, enticed by the notion of creating an institutional regime that promotes its policy interests. Additionally, the expected pay-off grows as the number of actors dissatisfied with the SQI increases and/or as the general level of dissatisfaction among this group increases.⁵ To put it another way, as the 'demand' for an institutional alternative increases, the potential first-mover has more of an incentive to 'supply' this as the expected pay-off is higher. The

⁵ Of course this requires information, specifically that the first mover is aware of the increasing dissatisfaction with the SQI.

final ingredient of incentive is (3) *insufficient expected costs* composed of both the expected start-up costs of a new arrangement as well as possible sanctions from the status quo ‘institutional guardians’ who wish to protect their monopoly. With respect to the issue of start-up costs, even if an actor expects potential long-term benefits by creating a new institutional arrangement, it must not see the transition as prohibitively costly and/or exceedingly risky. Secondly, challenging the SQI may appear ‘not “worth the effort,” given the negative sanctions that are to be expected from the [institutional] guardians’ (Offe, 2006: 22).⁶

1.4.3 – *Second Hypothesis*

This brings me to my second hypothesis which addresses the issue of cooperation and intends to explain how the first mover convinces potential collaborators to cooperate with the new regime:

Hypothesis 2: The first mover will engender cooperation from other political actors by making the new institutional arrangement the *most politically attractive option* vis-à-vis the SQI.

This represents the unintended consequence of institutional proliferation. While the first mover would prefer nothing more than the go-it-alone power possessed by the SQI guardians, this is impossible. Unlike the dominant actors within the SQI who may extract compliance through quasi-coercive means by unilaterally restricting actors’ choice sets, the first mover must elicit cooperation by making political concessions to potential collaborators. Due to the fact that the SQI exists, the first mover’s proposed institutional arrangement does not enjoy a monopoly. Just as in business where competition between firms leads to benefits for consumers (i.e. lower prices, higher quality products, etc.) the first mover has to make its product appear to be of a ‘higher quality’ or a ‘cheaper price’ if she wishes to be in business. Potential collaborators are expected to forum shop and accede to the most politically attractive institution. In short, when multiple institutions exist, each claiming

⁶ The ‘guardians’ are powerful actors who wish to maintain both their privileged position within the SQI as well as their institutional monopoly.

to perform the same functions, *none can possess go-it-alone power* since subordinate states will simply join the arrangement that offers the best deal (see Drezner, 2007). Weak actors' bargaining power is necessarily increased vis-à-vis the first mover. A paradox emerges where a selfish action by the first mover to increase its own power may lead to a more even distribution of power overall. The bargaining process here may begin to resemble the institutionalist ideal of Pareto-improving agreements where all participants are "winners" and power asymmetries only dictate what point on the Pareto-frontier is chosen. (Krasner, 1991).

Next I apply my hypotheses to an empirical case of redundant institutional proliferation. The apparent move by ASEAN+3 toward establishing an AMF as a rival to the IMF suggests the world of international finance is entering a period of proliferation where new arrangements are being created to rival existing ones. How can this be explained? Does the institutionalist or power-oriented approach offer a more convincing explanation? It will be my contention that the power-oriented approach I have offered here best explains this phenomenon.

II. EMPIRICS

2.1 A Brief Introduction to the Case

In late September 1997, amidst growing financial panic in East Asia, the IMF and World Bank held a joint meeting in Hong Kong. During the proceedings, Japan shocked the other G7 ministers by unveiling its plan for the creation of an independent Asian Monetary Fund (AMF) to be capitalized at \$100 billion. Though met with near unanimous approval in the region, the surprise proposal did not engender the same response from the West: Europe was 'alarmed', America was 'angered'⁷ and the IMF publicly worried such an arrangement would undermine its own functions (Coyle, 1997: 25;

⁷ All ASEAN countries were on board as well as South Korea. The notable exception was China. The cause and consequences of this will be discussed at length later. U.S. Treasury Secretary Robert Rubin was said to be 'furious' when he learned of the proposal (PBS, 2001: 8).

Rowley, 1997). In the face of Western intransigence, it was not long until Japan was backpedaling and by early November that same year, the proposal was dead. Yet, while Japan's grand plan for an Asian financial regime failed to materialize in 1997, the region has continued to move forward on issues of financial integration in an 'incremental and low-profile' fashion (Sohn, 2007: 7).

Not quite three years removed from the crisis and the miscarriage of Japan's proposal, finance ministers from the ten ASEAN countries along with Japan, China, and South Korea (hereafter, ASEAN+3) met in Chiang Mai, Thailand in May 2000 to establish a system of bilateral currency swap arrangements now known as the Chiang Mai Initiative (CMI). The system was designed to provide short-term liquidity support in the form of U.S. dollar swaps with the domestic currencies of the participating nations. The Bilateral Swap Arrangements (BSA), initially totaled \$40 billion, was doubled in 2005 nearing the \$100 billion bar set by the original AMF proposal. Then, in a May 2007 statement ASEAN+3 declared 'we unanimously agreed in principle that a self-managed reserve pooling arrangement governed by a *single contractual agreement* is an appropriate form of multilateralisation' (ASEAN+3, 2007; my italics). Since, the group has been working on finalizing key elements of the multilateralization process agreeing that the Plus Three economies would contribute 80 percent of the funds for the new institution while ASEAN members would provide the rest. In February 2009 it was decided that the total size of the multilateralized CMI would be increased to \$120 billion.

ASEAN+3 aims to create a regional monetary fund like the erstwhile 1997 Japanese proposal.⁸ Besides representing a challenge to the IMF, this is also a salient example institutional proliferation and redundancy. What explains the emergence of the original AMF proposal and the continued persistence in the region toward creating a multilateral financial institution? How does the region's interest relate to the status quo international financial architecture? Under what conditions

⁸ In the words of Park (2007), 'The reserve pooling system, when activated collectively and supported by a surveillance system, can function as a de facto regional monetary fund', 100.

do new institutions emerge to rival old arrangements? Before answering these questions, I first examine the preceding emergence and development of the IMF which I argue provides the necessary context for understanding the development of an AMF.

2.2 IMF as a Structure of Power

According to my hypotheses of institutional proliferation, the emergence of alternative financial institutional arrangements in East Asia must be explained in relation to the preexisting SQIs.

Institutions that are inherently biased to favor certain actors often at the expense of others are likely to engender opposition; in effect, they may bring about the conditions that eventually lead to the rise of potential competitors and hence their own erosion. This being the case, the empirical narrative told here must necessarily take a longitudinal approach to the appearance of an AMF.⁹

My first assumption about institutions as structures of power is that they are *created for the purpose of policy control*. America used its post-war hegemonic position to create institutional arrangements that would crystallize its preeminent position within the institutions providing it long-term policy influence over all collaborating states. By preserving its privileged position *within* the institutions, the U.S. would be able to fashion an international economic system that would preserve its dominant position from *without* as long as possible.¹⁰

⁹ The argument made here draws from Albert Hirschman's (1970) seminal work, *Exit, Voice and Loyalty*. In terms of the case reviewed here, the IMF as a structure of power formalizes unequal voice. Due to the internal bias of these institutions, weak actors effectively have little to no voice. We should expect then, as Hirschman does, that as voice fails, the exit option increases in attraction. However, as I have already mentioned, the IMF occupies something of a monopoly position as there exist no credible alternatives to which the potential defectors can exit to. Without a rival institution, there can be no exit threat. In light of Hirschman's observations, I argue that East Asia's interest in an AMF is a function of the states in the region attempting exit from the IMF as 'product quality' deteriorates and voice is stifled.

¹⁰ This did not go unnoticed by John Maynard Keynes (representing European borrower interests at the Bretton Woods Conference in 1944) who believed that 'a cooperative international agreement was being undone as Americans reworked the Bretton Woods institutions to guarantee American preponderance' (Frieden, 2006: 259). Also, historian Warren Kimball observes that Washington was 'remarkably willing and even eager' to use its postwar economic might to break the British Empire and 'obtain British compliance with [its] view of how the world's economy should be structured' (see Kimball 1994, 59-60).

This feeds directly into my second assumption that institutions *formalize, perpetuate, and intensify internal power imbalances over time*. Indeed, the Americans made sure their voice was the dominant one within the new international financial institution securing a voting system not based on just membership (i.e. ‘one country, one vote’) but one primarily based on financial contributions. A country’s vote share was a combination of *basic votes*, distributed irrespective of quota size, and *proportional votes* based on members’ quota contributions. Since the Americans had the largest quota, they also had the largest vote share—in fact, the U.S. vote share was (and is) large enough to give it veto power over all decisions that required a super majority of 85 percent (Kelkar *et al.*, 2005: 21, 31-32). In short, the United States succeeded in entrenching itself as the most powerful determinant of IMF policy and development.

The initial privileged position of the U.S. has not declined over time. In fact, relatively speaking, the institutions have become more biased internally as basic votes have declined in value corresponding with an increase in the importance of quota-based votes. This has resulted from the increasing membership in the IMF. In 1958, basic votes comprised 15.61 percent of total IMF votes; by 1995 this had fallen to 3.02 percent. Consequently, countries whose quotas shares are smaller-than-average have very little say in the governance of the Fund (*ibid*, 32; see also Leech and Leech, 2004). This development has occurred alongside dramatic economic growth in many regions outside of the West, especially in East Asia; growth that has not been met with a commensurate increase voice within the IMF. This has led to one of the most incongruous elements of the institutions. As late as 2004, Italy had more voting power within the IMF (3.26 percent) than China (2.94 percent).¹¹ In 2007, the combined voting power of Germany, France, and the United Kingdom equaled 15.6 percent while the trio of Japan, China, and South Korea measured 11 percent even though each

¹¹ This has since been changed where in 2007 Italy has 3.2 percent to China’s 3.66 percent. In real terms, this remains out of proportion.

bloc's combined GDP stood at \$8.6 trillion (IMF, 2007).¹² These are patent examples of the tendency for institutions to crystallize and perpetuate internal power imbalances over time.

My third and final assumption about institutions as structures of power is that *policy outcomes will tend to serve the interests of the most powerful actors within the institution whether or not they serve or harm the interests of weak actors as dominant actors have the ability to continually go-it-alone within the institution by changing status quo policy outputs in order to further their interests*. Initially, the IMF was not keen on constraining the policy space of debtor nations. For example, the Fund allowed and encouraged capital controls and U.S. Federal Reserve officials 'insisted that central banks be equipped with strong powers to promote the development of their national economies' (Helleiner, 2003: 61). Although the IMF served American interests first, it was not seen as working against the interests of dependent nations.

Yet as American preferences began to change, the policies emanating from the IMF followed in kind. The increasing U.S. fiscal deficit during the Reagan years had to be financed by foreign capital inflows. Foreign money allowed the U.S. an amazing degree of policy autonomy and the U.S. Treasury fast became an advocate of capital market liberalization (Helleiner, 1996: 147). Because 'the growth of financial markets made deficit financing much easier,' it was obviously in the United States' interest to pry open more national markets to fund its own budget (Frieden, 2006: 380). Accordingly, the IMF became an instrument of American power. The tool of choice became loan conditionality which gave the Fund the capability to directly affect economic policy in debtor nations.

This dramatic shift in policy prescriptions from the IMF is a useful example of go-it-alone power *within* an institution. The status quo was an international system that while multilateral in character permitted domestic economic intervention, so-called 'embedded liberalism' (Ruggie, 1982:

¹² When GDP is measured in PPP terms, the disparity becomes even greater with the three European powers combined GDP-PPP at \$5 trillion and the Asian trio at \$12.5 trillion; numbers based on 2007 GDP estimates acquired from *CLA: The World Factbook*, <<https://www.cia.gov/library/publications/the-world-factbook/index.html>> (November 12, 2007).

393). However, as Western interests changed, so too did institutional expectations. The embedded liberal model was removed from the choice set of collaborating states. If a country found itself needing to negotiate a loan, it had to accept the new institutional rules whether it found them injurious or not. While it may have preferred the preexisting status quo, this option was no longer on the table.

Another example of go-it-alone power within an institution is the emergence and increasing use of conditionality by the Fund. When the IMF was first formalized, the issue of conditionality was not addressed. In fact, there was no reference to conditionality in the original Articles of Agreement (Buria, 2003: 27). While the U.S. had always favored conditionality, European countries had strongly resisted its use during the first decade of the Fund's existence since as borrowers they would have been subject to such provisions. However, as Europe's economic position changed, so did their opinion on conditionality (Buria, 2005: 21). In 1952, the Executive Board began attaching conditions to loans (Buria, 2003: 27).¹³ The adoption of condition contingent loans was a *dynamic process* that saw a steady increase in the number, breadth, and depth of conditions over a forty year period.¹⁴

Like the shift in institutional preference from embedded liberalism to neoliberalism, the adoption and expansion of conditionality is indicative of institutions as structures of power. States with the ability to directly influence institutional mandates can intentionally align and *realign* a regime's policy norms with their own interests. In other words, go-it-alone power is not limited to institutional creation, but also a component of institutional development. 'Accepted' behavior is mainly a function of powerful actors' preferences and hence subject to change as these preferences change. Weak states may have had little to no voice in these institutional developments, yet exit is

¹³ It wasn't until 1969 when conditionality was officially incorporated into the Articles as part of the First Amendment. For more on the development of IMF conditionality see Dell (1981).

¹⁴ Interestingly, the expansion of conditionality peaked during the Asian crisis and has since been on the decline, although the number of provisions attached to loans remains quite high.

not an option as long as there is no institutional alternative to which they can defect. Because of their impuissant bargaining position, weak actors are forced to accept the *new* status quo irrespective of how damaging the conditions may be or how much they would prefer the status quo *ante*.

An institution functioning in such a biased manner is likely to produce a pool of estranged, potentially disloyal political actors. This negative feedback is not predicted by the institutionalist perspective. This is because the *incentive* to exit is not sufficient for institutional proliferation. Weaker actors might complain about the terms, but they continue to cooperate. The observed behavior suggests cooperation remains Pareto-improving, thus the institution is not in jeopardy. Indeed it is not in jeopardy so long as the dominant actors within the SQI maintain their go-it-alone power (and thus their institutional monopoly) since no subordinate has the ability to create an alternative. However, as the demand for an institutional alternative rises so too does the potential first-mover's expected pay-off and hence the incentive to meet this demand increases as well. As *Hypothesis 1* states, once an actor has both the *incentive* to defect and the *ability* to create a viable alternative, she should be expected to make such a proposal. This is precisely what I argue has occurred in East Asia over the past decade explaining the emergence of the AMF. First, I explore two common institutionalist explanations.

2.3 Two Institutional Accounts

Institutionalism ought to predict institutional continuity. Only when the SQI is clearly inadaptable and can no longer adequately perform a desired function should a new institution emerge. There are two common ways institutionalist scholars have explained institutional proliferation in East Asia. The first, which I will refer to as the 'open regionalism' model, asserts that regional projects like the AMF proposal are 'designed to enhance the participation of member countries in global market activity' (Nesadurai, 2002, 12; also see Grimes 2006). In other words, new regional agreements are

intended to be *supplemental* to the current institutional structures rather than serve as institutional alternatives (see Rana, 2002: 5). According to this logic, one would expect policy overlap between the SQI and the new regional framework. This explanation does not fit the case of an AMF. I will show that instead of espousing policy congruence with the IMF, those promoting the creation of an AMF have sought the direct opposite—policy independence. Indeed, this is a primary motivating factor behind the high level of regional support for such an institution. The emergence of an AMF cannot be ascribed to East Asia’s interest in reinforcing the status quo.

A second explanation, what I will call the ‘institutional failure’ model, follows a different logic: the IMF has been unable to adapt to the increasing volatility of international financial markets; regional proposals have emerged to address this institutional failure. It argues that the Asian financial crisis of 1997 made apparent the need for new institutional arrangements at the regional level in order to address the Fund’s shortcomings (see Moon *et al.*, 2000: 159). This explanation fits into the institutionalist view of how institutions emerge emphasizing the functions they perform. Having survived the crisis, the East Asian countries share a common fear: financial instability. Having lost their faith in the IMF’s ability and willingness to stem future financial meltdown, the region is now seeking a collective solution to a common problem. East Asian countries are ‘prepared to *set aside their differences and work together* to develop a self-help support mechanism, in an effort to prevent future crisis’ (Rana, 2002: 4; my italics; see also Downie 2007: 95, 99, 102; Kawai and Takagi, 2005: 108-9). From this vantage point, the fundamental problem with the SQI is that in its current form it is no longer capable of sufficiently living up to its functional mandate. Consequently, states will cooperate and fill the institutional vacuum.

While significantly more compelling than the ‘open regionalism’ model, the ‘institutional failure’ approach falls short for two reasons. First, after the crisis many countries in the region, besides doubting the Fund’s willingness to swiftly inject liquidity into credit starved markets, also

doubted its ability to provide emergency financing due to the restrictive quota system that both limited how much a country could borrow as well as the speed with which loans could be dispersed.¹⁵ However, the IMF showed it was willing to modify credit access in the event of a future crisis (see Lipsky, 2003: 96). An initial step toward this end came in 1998 with two major reforms that sought to address the problems relating to the speed and size of crisis loans (see Altbach, 1997). First, the Fund developed new mechanisms for capital access during crises called Contingent Credit Lines (CCL) which were designed to serve as ‘precautionary resources in the event of contagion from a crisis’ (Bird and Rajan, 2002: 6).¹⁶ The basic idea was that a country could approach the Fund before a crisis to negotiate conditionalities in return for the promise of financing from outside the IMF’s quota-based resources in the event of a financial crisis. This would allow for a swifter and more sizable injection of liquidity into an economy if and when financial panic hit. The second reform was to increase quotas by 45 percent (thereby increasing the amount countries could borrow) which was a direct response to the claim that pre-crisis quota’s were too small and did not reflect the real economic position of East Asia (IMF, 1997a).

The second reason the ‘institutional failure’ explanation falls short is that Japan’s proposal seems to contradict the institutionalist belief that institutions are valuable since ‘the expected utility of maintaining the present, suboptimal (albeit still beneficial) regime is greater than the utility of letting it die...and then trying to build a more satisfactory regime’ (Hasenclever *et al.*, 1996). If old institutions maintain their value and if new institutions are costly and risky to create, why would Japan have proposed an AMF just *two months* into the crisis rather than seek to modify the IMF? Especially since the evidence suggests the IMF was responding to criticism by implementing reforms

¹⁵ Even though liquidity injection wasn’t the initial policy response of the IMF, most Asian countries believed this would have been the correct course of action. Nonetheless, some were doubtful even if the IMF had wanted to pursue such a strategy, quota restrictions may have resulted in inadequate capital injection for many crisis hit countries.

¹⁶ Whether or not the CCL was seen as a sufficient economic solution to the perceived ‘credit crunch’, it clearly showed that the IMF was willing to negotiate its structure to accommodate for a changing capital market.

that would improve its capacity to curtail future crises. Japan's actions do not mesh with the institutionalist contention that 'regimes tend to evolve rather than die' (Keohane, 1984: 107). Why were the Japanese not willing to work from within to modify IMF capability? Why were they so quick on the trigger?

The reason Japan was so quick to propose an AMF was because its ministry of finance (MOF) had been scheming for some time about such a regional arrangement. According to Jennifer Amyx (2002: 4), by 1995 'a group of incumbent and former MOF officials met regularly in private forums to discuss the idea [of an AMF]...thus...*the idea for an AMF was brewing within the Japanese government long before the eruption of financial crisis*'.¹⁷ It seems Japan was waiting for the right time to unveil its plans and the financial crisis in 1997 provided the perfect opportunity. So while important, the crisis could not have been the initial impetus for a new financial arrangement in the region as the idea for an AMF predates it. Our explanation must lie somewhere else.

2.4 Bringing Politics Back In

These institutionalist approaches contend that Asian cooperation is a result of countries putting aside differences to solve a common economic problem; meanwhile the role of politics takes a backseat to functional imperatives. I contend *the cooperation we are witnessing in Asia is mainly a result of the shifting balance of global economic power coupled with negative feedback produced by the IMF operating as a structure of power*. This became especially pertinent in the wake of the Asian crisis when much of the region perceived the IMF response as protecting Western interests while undermining several Asian states' sovereignty which led to increased demand for an institutional alternative in the region. This demand was not based on the belief that the IMF was no longer a viable institution, but rather that it

¹⁷ My italics; Amyx also explains that the idea for an AMF had existed since the late 1960s, coinciding with the creation of the Asian Development Bank. The 1995 meetings were attested to during numerous interviews by Amyx w/ Japanese MOF officials.

was a biased regime promoting Western policy interests. Japan, which in 1997 possessed both the incentive and the ability to create an AMF, introduced its idea in the midst of the financial crisis because it was then that regional dissatisfaction with the IMF was highest. This provided the greatest likelihood of obtaining the sufficient cooperation to make the idea work. Thus, the crisis was not the catalyst for the proposal (since Japan had been considering such a regime for some time), but rather it provided Japan with the best chance for success; it was not the cause, but it does help us understand the *timing* of the proposal.

In the following section, I first explain how the IMF response to the crisis in 1997 increased the incentive for crisis-hit countries to exit to an alternative arrangement. However, none had the ability to create such an arrangement and so they were forced to accept the constrained choice-set presented to them by the IMF. Second, I will detail Japan's incentive to create an AMF. Third, I will clarify why the 1997 AMF proposal was withdrawn and how the region's integration strategy has adapted to avoid a similar fate. Finally, I will offer evidence that supports my second hypothesis which claims the first-mover (Japan in 1997; Plus Three recently) has engendered cooperation from potential collaborators by making the new arrangement the most politically attractive option vis-à-vis the SQI.

2.4.1 – Demand Side: The Crisis and its Discontents

With the collapse of the Thai baht in the summer of 1997 and the onset of financial crisis, East Asia looked to the IMF for help. However, there was a fundamental disagreement as to what caused the crisis and hence what policies were best suited to stem the crisis. The U.S. and Fund shared the belief that the crisis was 'homegrown' claiming the Asian state-managed economic structure undermined continued economic success (Wade, 2000). In return for emergency loans, the IMF expected austere and unpopular structural adjustments. The number of conditions attached to the

loans was staggering: Thailand's came with 73, Korea's with 94, and Indonesia's with a prodigious 140 (Buria, 2003: 9). Besides the sheer number of reforms expected, they were precisely the opposite of what the Asian economies felt was necessary to curtail the crisis. Unlike their American counterparts who saw the problem as one of governance, the Asians believed the crisis was mainly a consequence of unfettered markets that lead to herding behavior on the part of investors. Thus, a swift injection of liquidity was needed to restore investor confidence, not austerity measures—a sentiment that now seems to be confirmed in the wake of the current American subprime crisis.

This led to the perception in the region that the IMF was protecting Western interests at Asia's expense. For example, the U.S. Treasury had insisted from the start that its support for bail out loans was contingent on continued financial liberalization reflecting a long-time private sector desire for more financial openness in Asia (Higgott and Phillips, 1999: 21). Accordingly, 'conditionality attached to the bailout packages [allowed] international banks to make major inroads into the regions' banking sectors...[and] US firms to achieve unprecedented market access' (Higgott, 1998: 14). A Malaysian analyst summed up the region's sentiment this way: 'What the rich could not do through bilateral and multilateral pressures, they are now extracting by using the IMF loans as leverage' (Khor, 1998).

An institutionalist approach argues that the crisis explains the emergence of the AMF proposal because the region became collectively aware of the dangers of liberalized financial markets. The AMF, in this view, is a joint approach to prevent a future crisis. While I do agree these economic issues are relevant, I believe the crisis was more important in that it revealed the political bias of the Fund in terms never before realized in the region. While Asian countries always knew the IMF was dominated by Western interests, the financial system it presided over in the early 1990s had helped to bring about the region's rapid economic growth. Thus, the IMF was not perceived to be working counter to Asian interests during this time. Once the crisis erupted, however, the region felt

the Fund overtly acted in the interest of the Americans and Western banks at the expense of Asia. If other options were available, it is likely that none of the crisis hit countries would have accepted loans on the IMF's terms.¹⁸ However, since no alternative institutional arrangement existed, they were forced to negotiate with the Fund and accept the constrained choice set presented to them. On the surface, they were 'cooperating'; in reality, there was deep resistance, resentment and a growing incentive to defect to a more politically attractive institution—an institution that did not impose such unpopular measures. Now all that was needed was such an option.

2.4.2 – Supply Side: Japan's Incentive & Ability

Japan's AMF proposal in 1997 has often been depicted as a benevolent act by institutionalists. Out of its good will, Japan is said to have stepped in to fill the vacuum left by the disinterested Americans and an incapable IMF. Conversely, I argue that Japan reacted to the crisis opportunistically by seizing the opportunity to capitalize on growing regional dissatisfaction with the IMF. In truth, Japan had its own incentives stemming from a longstanding dissatisfaction with the status quo. As early as 1988 it began calling for more voice within the IMF claiming their quota and vote share did not adequately reflect their real economic strength (Reuters, 1988). This campaign continued until the Fund's ninth quota increase in 1992 (IMF, 1997a). Still, Japan was not fully satisfied with its voice within the institution. Japanese MOF officials began meeting to discuss a Japanese-led regional financial institution as early as 1995. At these meetings, the primary disagreement hinged on whether the Americans should be involved if and when any such institution was formed. Some officials were 'resentful of American domination of the IMF' and saw the U.S. as a competitor in the financial arena while others felt the Americans ought to be included in the

¹⁸ Indeed, Malaysia did refuse IMF aid for a prolonged period of time precisely because they were so strongly opposed to the conditions.

arrangement (Amyx, 2002: 4). However, by the time of the crisis, it was clear which side won as the initial AMF proposal was *not* to include the U.S. as a charter member.

The expected payoff of creating such an arrangement was (and remains) quite high for Japan. First, an AMF could give Japan significant influence over East Asian economic policy— influence that it lacked due to its relatively weak position within the IMF. An AMF could ensure East Asian financial policies more closely reflected Japanese interests. Second, since Japan was to be the primary provider of capital in the new institution (along with China and potentially Korea), the Japanese saw an AMF as an opportunity to make the yen a truly international currency; one that could rival the dollar and euro (see Lewis, 1999; Das, 2001: 39; Downie, 2007: 110).¹⁹ Third, due to the lack of a strong U.S. presence in the wake of the crisis, Japan saw the AMF proposal as a chance to show the regional leadership it had been reluctant to in the past. Finally, since institutions tend to freeze power imbalances an AMF would crystallize Japan's status as regional hegemon. Japan knew its bargaining position was likely to wane vis-à-vis China as time passed; the sooner an AMF could be created the more likely Japan would have a dominant role within it (Asia Pacific Bulletin, 2005).²⁰

In terms of Japan's ability to form such an arrangement, in 1997 Japan clearly possessed sufficient resources in the form of massive foreign-exchange reserves. In fact, it had such a sizable surplus during the crisis, Japan unilaterally extended a \$30 billion loan to Thailand.²¹ More importantly, the region as a whole was swollen with dollars: in 1996 the total foreign reserves of Japan, China, and Korea totaled \$715 billion (although by 1997, Korea was in no position to help capitalize a new fund as it needed capital). If Japan had garnered the cooperation of China, there

¹⁹ Interestingly, the current bilateral swap arrangement between China and Japan (as part of the CMI) stipulates that the swap will be denominated in yen and yuan. This agreement marks the first time the yen has been named the 'hard' currency in swap arrangement and is an apparent allusion to how Japan may benefit if an AMF is eventually formalized (Rowley, 2001).

²⁰ This fits with Barry Eichengreen's (2003: 2) assessment that as the Japanese economy has grown less dynamic, Tokyo has 'sought to supplement market-led regionalism with *policy-led* regionalism'.

²¹ This was known as the Miyazawa Initiative.

would have been more than enough money to capitalize the new institution at the proposed \$100 billion mark.

2.4.3 – 1997 Proposal Dies, but AMF Idea Lives

Despite its incentive and resources, in 1997 Japan faced two major roadblocks: one deflated its incentive; the other frustrated its ability. First, while the payoff seemed high, so too were the expected costs due to strong opposition and potential sanctions from the G7, IMF, and U.S. Treasury. Not wanting to alienate itself from its traditional allies, Japan acquiesced and withdrew the proposal. At this time, the costs of moving forward with the proposal outweighed the expected payoffs. The second major roadblock undermined Japan's ability to move forward with the arrangement: China's refusal to sign on to the project meant there was insufficient regional cooperation. Without the support of China, the AMF was hurt in two ways. First, it could not legitimately claim to be a truly 'regional' institution without Asia's second largest and fastest growing economy on board. Second, Japan was counting on China to pony up a portion of the fund's initial capital supply. China's opposition was a function of its fears that Japan would use the AMF to increase its clout in the region, but there are also indications that the U.S. lobbied China behind closed doors fueling fears of 'Japanese hegemony' in an attempt to undermine the proposal (Masaki, 2007; Lipsky, 2003: 96).

Yet, the AMF idea did not disappear in 1997. This is because both supply-side and demand-side interest and incentives remain high. East Asia has continued on a low profile path toward financial integration that for a time proceeded 'virtually unnoticed by the rest of the world' (Bergsten, 2000). The intent of the incremental approach is, at least in part, an attempt to avoid another U.S. veto thereby obviating the high start-up costs. The region's foreign-exchange reserve

pool has also increased considerably since the original proposal to nearly US \$4 trillion.²²

Furthermore, since 1999 China has been on board with the region's integration agenda meaning the region now has sufficient cooperation. Why did Japan's rival change its mind?

First, China like Japan is dissatisfied with its position within the IMF. This is a both a consequence of its strikingly small vote share within the institution and the fact that the U.S. has used the Fund as leverage against Chinese monetary distortion. For example, responding to U.S. and European pressure, the IMF recently set up a panel calling for the end of China's currency interventions (Weisman, 2007). Second, some analysts have suggested that if a multilateral financial scheme is established in Asia, China might actually attain greater control over the regime's management than Japan (Masaki, 2007). In other words, China's opinion has changed because it now believes the new institution is likely to be more aligned with its *own* interests than Japan's. Also, the mid- to late-1990s saw a change in China's grand strategy: it began implementing policies designed to reassure the region it was a cooperative and responsible neighbor (Goldstein, 2005). It did not want to be viewed as an obstructionist standing in the way of regional integration. Not to mention, if integration was going to move forward with or without China, its interests would best be served by having a seat at the table. Finally, irrespective of whether China becomes the single dominant voice within an AMF, there is no doubt it would have greater say over policy outputs than it currently does within the IMF.

In the years following the Asian crisis, Japan became more disillusioned with the prospect of gaining sufficient voice within the IMF. In 2000, Japan nominated its former Vice Minister of Finance for the Fund's Managing Director position, a nomination it shortly withdrew due to a lack of support (IMF, 2000a). In the withdrawal statement, Finance Minister Kiichi Miyazawa expressed

²² Although, this has fallen somewhat as the global economic crisis has forced a number of countries in the region to draw on their reserves. The annual current account surplus of the 'plus three' economies (China, Japan, Korea) in the decade after the crisis has averaged a whopping \$157 billion (Sussangkarn and Vichyanond 2007, 34).

his country's disappointment declaring, 'the IMF should be reformed so as to reflect the reality of the new global economy' (IMF, 2000b). ASEAN+3's mutual dissatisfaction with the institutional status quo has created an opportunistic convergence in East Asia around the AMF idea. Lender states stand to gain an institution that affords them regional policy influence and debtor states stand to gain an institution that ostensibly will not apply such strict conditions to emergency loans. This brings me to my final point: that Japan sold the AMF idea to the region on the basis of *policy independence* from the IMF. Thus, an AMF is not likely to be supplemental to the IMF but instead a competitor. Furthermore, regional cooperation is not a response to perceived institutional failure on the part of the IMF. Rather, the incentive for Japan and China's collaborators to cooperate is policy driven—the promise of fewer and less stringent conditions.

2.4.4 – Policy Independence: The Most Politically Attractive Option

If the 'open regionalism' view were correct, then Japan would have promoted the AMF idea as a tool to supplement IMF functions. Furthermore, we should see policy convergence between the emerging institutional framework and the SQI if the goal were symbiosis. I will show that in fact the opposite is true—that there is a process of policy *divergence* taking place as the financial web is being spun. On the other hand, if the 'institutional failure' approach were correct, then cooperating countries should be most interested in the proposed regime's functions (especially those functions that the SQI is no longer believed to provide). If this were true, then the IMF's willingness to address its own functional issues (i.e. sufficient liquidity and quota size) should have satiated Asia—especially since institutions tend to 'evolve rather than die.' However, as I have attempted to explain, institutions are valued for far more than their functions; they are also valued for policy. As an alternative to these two functional explanations, I will offer evidence that suggests Japan sold its AMF proposal to the region by promising that it would be *independent* of the IMF and accordingly

would not impose such harsh measures in the event of a future crisis. While the functions an AMF is likely to perform are relevant, it is this promise of fewer ‘string attached’ that represents the chief reason ASEAN states have remained interested in the idea. My analysis also reveals that the bargaining power of the Plus Three states in the institutional formation processes is weakened since ASEAN states could forum shop between the IMF and the proposed Asian successor.

From the start, it was clear that Japan’s idea was to create a multilateral monetary arrangement *independent* of IMF control. During the months prior to the public unveiling of the proposal at the Hong Kong meetings, Japan won support for the idea by explaining to its junior partners that an AMF would be more flexible than the IMF by providing a ‘less stringent set of required policy reforms as conditions for receiving help’ (Altbach, 1997). It was well known that the proposed institution would not impose IMF-style conditions; instead it would act according to the merits of each case (Mathews and Weiss, 1999: 106). This was an effective tactic as prior to the unveiling of the proposal in Hong Kong, *all* ASEAN members had voiced their support (Whai, 1997). Even the IMF and U.S. Treasury were aware that ‘the appeal of an AMF largely [appeared] to be a desire to avoid difficult reforms required by the IMF’ which explains their immediate resistance (Lewis, 1999). While publicly citing the threat of ‘moral hazard’, the U.S. also feared losing the policy influence in the region it enjoyed due to the IMF’s institutional monopoly (Higgott, 2000; Rowley 1998).²³ The chief reason the AMF proposal quickly gained regional backing was because potential collaborators believed that unlike the IMF, an AMF would not ‘impinge on the sovereignty of the Asian nations themselves’ (Mathews and Weiss, 1999). This is qualitatively different from institutionalist explanations that argue institutions gain cooperation because of the functions they perform. In this case, cooperation derives from policy promises—not expected institutional functions.

²³ Rowley reports Washington objected on the grounds an AMF would dilute IMF conditionality.

After the original proposal was withdrawn, ASEAN states continued to voice their interest in the idea of an AMF. In fact, as Japan was publicly kowtowing to U.S. pressure, Malaysia, Indonesia, Korea, and others kept the idea on life-support until regional discussions began again in 1999.²⁴ They were especially dissatisfied with the Manila Framework's cooperative financing arrangement because it was supplemental to IMF funding and consequently was subject to the same conditions. Even after the CMI was formalized in 2000, the most common gripe in the region was not in regard to the size of the arrangement (then \$40 billion), its surveillance capabilities or other functions, but rather the fact that only 10 percent of the financing available under the BSA were free of IMF conditions. In fact, in a speech in Kuala Lumpur in 2001, Japan's former Vice Minister of Finance, Eisuke Sakakibara—the originator of the AMF proposal—responded to the growing criticism of the IMF link saying, 'I well understand the criticism that IMF conditionality is too heavily involved. After all, *it was the desire to create a policy alternative to the IMF prescription that motivated the proposal to create the AMF*' (Sakakibara, 2001; my italics). At least rhetorically, policy concerns are an integral part of the demand for an AMF. But my claims do not rest on rhetoric alone. Recent developments confirm the validity of the calls for more policy independence. In 2005 the ASEAN+3 members agreed to both double the size of the arrangement to \$80 billion while also doubling the amount of emergency liquidity available *without* IMF conditions to 20 percent. Then, in early 2009 the group agreed to work towards the creation of a 'robust and credible' independent surveillance unit to 'promote objective economic monitoring' (ASEAN+3, 2009). Once this mechanism becomes fully effective, the IMF de-linked percentage is to be increased yet again.

For sake of argument, one might charge that if 80 percent of CMI financing is still tied to the IMF, how can one suggest it will develop into a rival of the Fund? Doesn't this imply the two are

²⁴ One example of this was South Korean Prime Minister Kim Jong-pil's public claim that his country would support the establishment of a \$300 billion Northeast Asian Monetary Fund stating: 'If Japan proposes this, South Korea is ready to back it up with a commensurate effort' (Dow Jones, 1998; see also Yong-bae, 1998).

working together? While presently valid, I would argue that the developmental trend suggests an eventual AMF will be largely independent of Western influence. Indeed, recently a Malaysian deputy finance minister stated the fund would be started without any IMF, World Bank, or Asian Development Bank (ADB) involvement (Yee, 2008). Besides, the CMI tie to the IMF was a conscious, strategic choice by the Plus Three countries they hoped would help them avoid another US veto. Maintaining ties to the Fund was mainly a peptic intended to treat in advance any potential Western indigestion that might arise from the move (Volz, 2008). The fact that ties continue to be trimmed suggests it was never intended to be a long-term strategy. Step-by-step, East Asia is adding distance between its own regional arrangements and the IMF (see Narine, 2002).

Now, I wish to address an emergent paradox of institutional proliferation. Because the AMF cannot occupy a monopoly position as international financial stabilizer, Japan and China have had to convince potential collaborators that they would not exercise the same degree of policy control over the region as the US during the 1997 crisis. Otherwise, why would the ASEAN states accede to a new arrangement? Better the devil you know. The existence of multiple institutions that claim to perform the same function (here, crisis financing and surveillance) enhances the leverage of weaker actors as their membership must be courted through incentives. Even though Japan's move in 1997 was a self-interested power-play, it was forced to be more considerate of its junior partners' interests than the US was during the Bretton Woods proceedings. Unlike the Americans in 1944, Japan and China cannot claim to run the only game in town today. Consequently, at first glance, it seems the AMF will likely fall closer to the institutionalist ideal of a Pareto-improving arrangement, even if Japan and China end up with the biggest slices of the pie. Does this not run counter to my claim that Japan and China believe an AMF will afford them influence over policy in the region?

Not necessarily. Just because Japan and China have preached less intervention does not imply that over time an AMF will always stick to this approach. Indeed, the institutional conception

presented here would predict that as an AMF develops, its rules and procedures ought to become more biased in favor of its dominant members, just as the IMF has entrenched American financial dominance. Recent statements out of Japan emphasizing that borrowers will be expected to use funds ‘responsibly’ and that an AMF will not be a mechanism to give out ‘easy money’ hint that a shift may already be underway (IHT, 2008). Still, Japan or China’s ability to alter the AMF after its inception will be somewhat limited as long as the IMF looms in the distance. An undeniable consequence of institutional proliferation within the same issue area is the ability for subordinate states to forum shop, thereby enhancing their leverage during the regime creation and development processes.

2.5 Conclusion

In this paper, I have submitted a power-oriented conceptualization of institutions accompanied with two complementary hypotheses of redundant institutional proliferation and cooperation. By conceptualizing of institutions as structures of power, I have argued that we can expect outcomes different from institutionalists who view them as fundamentally cooperative ventures. Instead of predicting positive feedback where institutions become more valuable to collaborators over time, I argue institutions may in some cases become *less* valuable to subordinate collaborators over time. This is because monopolistic institutions as structures of power are resistant to reforms and likely to increase in bias due to the go-it-alone power of the dominant states. This application of go-it-alone power to institutional development is novel and unexplored in the literature on institutions to date. The development of the IMF serves as a salient example of this as the power imbalances initially formalized in the institution have been preserved. Furthermore, as American and European interests have changed, so too have the policies emanating from the Fund. Because powerful states maintain their initial go-it-alone power, subordinate actors are essentially forced to accept the institution’s *new*

status quo, even if this makes them worse off in real terms. Consequently, institutions as such produce negative feedback as more actors have the incentive to defect to alternative arrangements. Yet, so long as the institutional monopoly is preserved and the institutional guardians can maintain their go-it-alone power, subordinates have little choice but to cooperate. However, if given the option they will defect to a more appealing substitute. This is precisely what I argue is happening in East Asia where the economic balance of power has shifted giving formerly subordinate actors the ability to create institutional alternatives.

Political motivations, rather than functional ones, are the primary causal factor explaining institutional proliferation in East Asia. The AMF idea emerged not as a consequence of the 1997 financial crisis but because Japan developed both the ability and the incentive to propose an alternative arrangement to the IMF. However, because Japan's proposal represented institutional duplication, its bargaining position relative to its collaborators was consequently weakened. This seems to be an unintended consequence of institutional proliferation within a single issue area as multiple arrangements empower subordinate states with forum shopping abilities. In the long run, if the world is moving toward greater pluralism in its institutions, this suggests that power may eventually become more evenly distributed. This also suggests that go-it-alone power may become a thing of the past, a relic of monopolistic institutional environments, perhaps making the institutionalist ontology increasingly applicable to pluralistic institutional settings.

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