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ASEAN Plus Three and Regionalism:
Exploring the Antecedents of the latest Regional Project in East Asia

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List of Acronyms

ABMI	Asian Bond Markets Initiative
ABF	Asian Bond Fund
ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
APEC	Asia Pacific Economic Cooperation
APT	ASEAN Plus Three
ASEAN	Association of Southeast Asian Nations
CARICOM	Caribbean Community
CMI	Chiang Mai Arrangement
EAEC	East Asian Economic Caucus
EAEG	East Asian Economic Grouping
EAVG	East Asian Vision Group
ECOWAS	Economic Community of West African States
EMEAP	Executives Meeting of East Asia Pacific Central Banks
EU	European Union
FDI	Foreign Direct Investment
FTAA	Free Trade of the Americas Agreement
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
IMF	International Monetary Fund
IFI	International Financial Institutions
MERCOSUR	Southern Common Market
NAFTA	North American Free Trade Agreement
PRC	People's Republic of China
SAARC	South Asian Association for Regional Cooperation
SADC	South African Development Community
SEA	Single European Act

Chapter 1 - Introduction

Southeast Asia has witnessed tremendous economic prosperity over the last five decades since the inception of the Bretton Woods regime that has been infamously encapsulated by academics and others alike as the East Asian Miracle. Not only did the miracle catapult an entire industry directed towards documenting the genesis and evolution of the triumph, it also led to an increased awareness amongst international policymakers to channel some of the magic conjured to regions that have been less fortunate as far as economic growth is concerned. The prolonged pontification in the early 1990s collided with an abrupt episode near the end of the decade that rocked the foundation upon which governance in the East Asian region had premised itself. The dramatic events that unfolded in the fall of 1997 following the devaluation of the Thai Baht questioned the legitimacy and efficacy of five decades of growth within the region. Within quick succession, the East Asian miracle had metamorphosed into the East Asian debacle.

The entry point for this research piece occurs at this interlude following one of the most harrowing financial crises of the 20th century. The tumultuous climate incited political elites across the region to commence reflecting on their future course as a region owing to the magnitude of havoc caused by the herd of the international investor community. This novel cognitive departure subsequently led to the creation of the ASEAN Plus three (APT), amalgamating the group of nations under the predecessor of the latest regional unit with the addition of their Northeast Asian counterparts; China, Japan and South Korea. Regionalism witnessed resurgence across the region as hitherto parochial nations jettisoned their conventional governance wisdom to marshal their forces and seek refuge from the vagaries of economic globalization.

This novel regional compact under the auspices of the APT was truly a departure since the region had hitherto kept projects of regional collaboration at arm's length, eschewing institutionalized legalistic integration in fear of surrendering their sovereign duties upon which their legitimacy rested. How can this regional watershed be effectively explained in theory and practice?

Within the academic lexicon, Constructivist theories have ascended explicating the rise of regional projects and also the manifestation being dealt with here. The influence of discourses plus the process of reflection encapsulated by collective cognitive processes have been given notable attention in elucidating the regional turn in International Relations theory. Currying favour with ideational elements, Constructivists have dispelled the impact of material interests and power dynamics emanating from overarching geopolitical constellations. Are the constructivists accurate in their pronouncement of regional integration and specifically within the East Asian context being scrutinized?

And in practice, how can this regional metamorphosis be elucidated in East Asia? Is it steered by materialist factors driven by rising economic interdependence causing domestic industries and corporate players across the

region to muscle their preferences onto the policy agenda? Are geostrategic exigencies influencing nations to integrate into regional units thereby consolidating their voice at a global level at par with other regions across the globe? Or is the latest incarnation of East Asian regionalism driven by ideational factors that are tacitly causing regional players to construct their community relying on the power of rhetoric and the presence of commonalities. At the core, this piece attempts to delineate the drivers ushering in this latest chapter of East Asian regionalism by utilizing a holistic framework inclusive of the material, ideational and geopolitical elements influencing the latest incarnation of Asian regionalism: *ASEAN Plus Three*.

This research piece puts forth the broad premise that the current tide ushering in regional collaboration in East Asia can be explained through the utilization of a holistic approach, one that takes into account the linkages between developments occurring at the international level with those taking place at the domestic context. Such an approach would enable us to gradually disentangle the complex interplay of factors inducing governments and political elites to concomitantly shift their regional inclinations. A more specific premise would advance the assertion that dynamic geopolitical elements unfolding at the international level in alliance with increased economic interdependence amongst domestic players at the regional level is creating a climate ripe for regional integration in East Asia that has been utilized as an ideational ploy in order to salvage public consensus.

When given the pulpit from a theoretical perspective, Constructivism is the least tenable school of thought to illuminate the events unfolding in the theatre of regionalism in East Asia. This piece is at best highly sceptical and at worst dismissive of ideational elements and their concomitant impact over the genesis of regional processes. And this fundamental assertion is supported by several salient factors that are examined in the analytical account within this piece. However, the utility of ideational elements are more important during the process of regional consolidation where ideas are invaluable. Therefore, a key argument being posited through this piece is that it is pivotal to regard ideas and ideational elements not as pre-requisites to regional integration but instead as discursive weapons that are pivotal in the process of regional legitimization. Attention needs to be duly directed towards the material and geostrategic implications in play to explicate the regional tide within International relations theory and this piece would assist in that effort.

Therefore as espoused, all three aforementioned elements; Geopolitical, Ideational and Material are in play but in diverging capacities; the material and geopolitical components are driving the impetus towards regional collaboration that have been seized upon to gain public consensus and confer legitimacy onto the budding project via ideational elements. Utilizing a holistic approach in order to capture the *raison d'être* of the latest regional project in East Asia is timely and advantageous since it allows us to examine the nature of multiple variables influencing the dynamics surrounding regionalism and their concomitant interaction in determining the course of regional integration. In reality, a wide array of concerns crop up the agenda of political elites influencing the menu of options available to them thereby the approach

undertaken to analyze that process must also mirror the depth and scope of the factors in play.

In order to illuminate the aforementioned premise, the organization of this research piece is as follows. The first chapter presents the contextual framework inclusive of an expansive rendition of East Asia, Regionalism, and East Asian Regionalism. Following the rendition and regional overview, the next chapter presents the theoretical elucidation, expositing the major theoretical underpinnings of regional integration vis-a-vis the three spheres being examined in the analytical section. After covering the theoretical component, an empirical account comprising of recent developments under the rubric of East Asian regionalism will be underscored. The empirical developments will be enclosed under a triumvirate framework inclusive of three spheres – Geopolitical, Material and Ideational. This chapter also includes an analytical synopsis that delineates the relationship between the three spheres once they have been covered in isolation.

East Asia's extraordinary economic triumph over the past five decades has also ushered in a complex set of challenges within the region that stand to be addressed. And regional alternatives are attaining a prominent position in the Asian policy arsenal that elites have increasingly turned towards following the East Asian Financial Crisis. The stakes at this stage are paramount. A dynamic brand of Asian regionalism hitherto untenable now possesses the propensity of generating prosperity for the region and the world. Sustained economic dynamism in Asia strengthened by regional cooperation puts the region as a force whose presence is imperative to power global economic growth. Therefore, exploring the precursors of the latest wave in East Asian regionalism is imperative since the implications are truly global in scope.

Chapter 2 - Mapping East Asia and Problematizing Regionalism

2.1 Mapping East Asia

Given that the rest of this piece will delve much deeper into the politico-economic structures and practices surrounding and contributing towards East Asian regionalism, it is imperative at the outset to provide an overview of the region. The term *East Asia* within this piece refers to set of nations in Northeast and Southeast Asia. The grouping is inclusive of Japan, South Korea, China, Taiwan, Hong Kong, Macao, Philippines, Thailand, Malaysia, Myanmar, Singapore, Vietnam, Laos, Cambodia, Indonesia, Brunei and Papua New Guinea. The ASEAN itself is home to ten¹ of those nations and the budding ASEAN Plus three is inclusive of an additional three – China, Japan and South Korea.

2.1.1 Population

The initial indicator that displays the diverse character of the region is the dimension of Population. Examining the figures below (2.1 & 2.2), we can infer that almost 65 % of the region's population is located in China with 1.3 billion people. Indonesia follows with 210 million and Japan, with 127 million. After the three largest nations, there exist a range of medium sized entities with populations hovering in the range of 50-75 million. After which, the population count tapers down dramatically with a set of countries with less than 10 million people.

¹ ASEAN 10 currently includes the aforementioned countries sans Hong Kong, Taiwan, and Macao.

Figure 2.1 North East Asia: Basic Data

	Population (millions, 2002 estimate)	GDP PPP (US\$ billions)	Per capita GDP (US\$, PPP)	Composition of GDP by sector (per cent) ¹
China	1,280.9	5,560	4,300	18, 49, 33
Hong Kong	7.3	180	25,000	0, 14, 86
Japan	126.9	3,450	27,300	2, 36, 62
Korea North	22.2	22	1,000	36, 64, 0
Korea South	48.3	865	18,000	5, 44, 51
Macao	0.5	8	17,600	1, 25, 74
Taiwan	22.5	386	17,200	2, 32, 66

Source: Breslin, Shaun. (2004). "Northeast Asia" in: Payne, Anthony (ed.) *The New Regional Politics of Development*, 89-117. London, UK: Palgrave MacMillan.

Figure 2.2 Southeast Asia: Basic Data

	Total population	Per capita GDP US\$	GDP per capita in PPP US\$	Percentage of GDP		
				Agriculture	Industry	Goods & services
Brunei	344,000	12,245	18,357	-	-	-
Cambodia	12,265,220	270	1,414	37	22	41
Indonesia	208,981,088	711	3,521	16	47	37
Lao PDR	5,403,170	329	1,573	51	23	26
Malaysia	23,802,360	3,696	8,614	9	49	42
Myanmar	48,320,440	142	1,269	-	-	-
Philippines	78,317,032	914	3,994	15	31	54
Singapore	4,131,000	20,847	25,990	0	32	68
Thailand	61,183,900	1,822	6,898	10	-	-
Vietnam	79,526,048	420	2,282	24	38	39

Source: Beeson, Mark. (2004). "Southeast Asia" in: Payne, Anthony (ed.) *The New Regional Politics of Development*, 118-144. London, UK: Palgrave MacMillan.

2.1.2 Economic Size

Continuing the discourse on disparities, the next indicator presented is Economic Size measured using GDP in U.S dollars. Japan reigns supreme here with the lion's share of the regions GDP as witnessed in the figures above (2.1 & 2.2), representing almost two-thirds of the regional GDP. China follows but is about a quarter of the economic size of its Northeast Asian counterpart accounting for 15 % of the region's output. South Korea ensues in line with an output that stands at about 6 % of the region's GDP. A string of other nations follow suit with a minimal impact on the region's macroeconomic standing.

2.1.3 Economic Affluence

Complementing the preceding indicator is the measure that depicts the economic affluence of the region or the GDP expressed along per capita lines. Reflecting a similar tale, the data from the figures above (2.1 & 2.2) confer the most affluent status towards Japan followed by a string of smaller states such as Hong Kong and also Singapore as the most affluent ASEAN nation. At the other end of the spectrum, there exist many nations that are extremely poor, some of which reside in the Indochinese neighbourhood of the region.

2.2 Problematizing Regionalism

One of the most important developments over the course of the international political system has been the genesis and evolution of regionally based modes of governance. Spurred by the success of the European Union, many subsequent efforts have risen attempting to channel some of the inspiration provided by the EU within their region. Concurrently, the study and practice of regionalism has grown leading to the emergence of regional arrangements such as the ASEAN, APEC, NAFTA, MERCOSUR, SADC, ECOWAS, etc.

Geopolitics played a key role underlying the impetus behind regional projects following the aftermath of World War II. The first generation of regional entities reflected the concerns of states to unite in light of security constraints. Broadly, scholars have termed this first generation as *Old Regionalism*, captured by its close association with the Westphalian state as the bedrock of regional efforts in the midst of a polarized geopolitical environment (Hveem 2000:70). Informed by the exigencies of the geopolitical climate, sub-regional security organizations were formed sans major integrationist and membership aspirations but committed in their effort to endow nations ensconced with security. And manifestations of this brand included the

ASEAN (1967), CARICOM (1973), ECOWAS (1975), GCC (1981), and SAARC (1985) (Marchand 1999:897).

Encapsulated under *New Regionalism*, regional projects in the post cold-war era reflect the rising interdependence of the global political economy (Fawcett 1995:24). Globalization has rendered existing spatial boundaries obsolete whilst ushering integration and cooperation across wide spectrum of issues involving actors residing within multiple spheres. And regional alternatives are looked upon as vehicles that can provide solace from the ubiquitous challenges accompanying increased economic interdependence. Consequently, policymakers have been paradoxically, globalizing and regionalizing in the current global system. In order to comprehend the crux of this global-regional interface, we need to take a step back and visit the definitional elements of regional integration.

At this juncture, the critical distinction that needs to be addressed is between the dual processes of regionalism and regionalization. According to Beeson (2007), *Regionalism* refers to the conscious actions of state entities to coordinate activities and arrangements within a region (Beeson 2007:5). It is an intentional development driven by actors through a collaborative political process. Regionalism transports us to the ideational realm where of pivotal importance are the ideas and ideologies championing that particular regional project. Therefore, it is at heart a political project that is underpinned by a policy or an initiative delineating objectives that can be achieved through the regional vehicle (Hveem 2000:72). In contrast, *Regionalization* refers to the outcome of such policies and activities; it signifies a less conscious ad-hoc process driven by a plethora of actors and is not spatially or socially restricted (Beeson 2007:5). Regionalization is therefore intricately tied to globalization and for some an integral component of the latter dynamic. Processes of regionalization can be initiated by states but need not necessarily be since the state is one amongst the myriad actors engaged in transnational processes (Marchand 1999:900).

2.3 Demystifying East Asian Regionalism

It is also imperative to set the table before we delve further into the constitution of the *ASEAN Plus Three (APT)* and this exercise entails elaborating the historical journey of East Asian regionalism through an economic and political lens. The main purpose of this sub-section is to grasp the evolution of East Asian regionalism delineating developments of the past five decades thereby providing us an adept orientation before marching into the more substantive component of the piece.

2.3.1 Regional Journey – Economic Lens

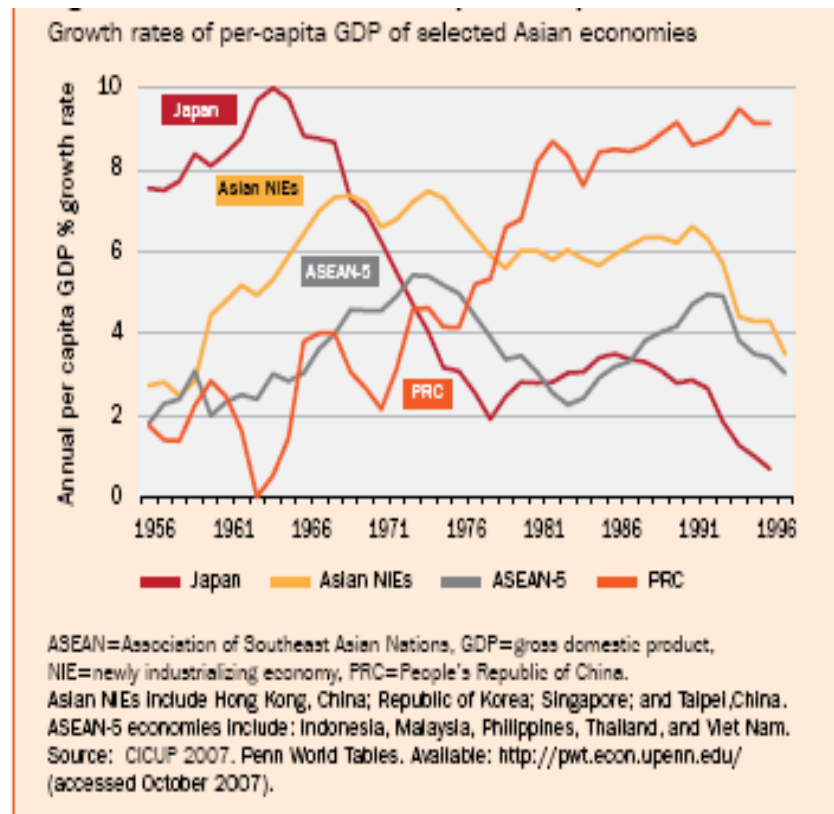
East Asian economic regionalism surfaced from decades of unprecedented economic growth and development. Of the ten economies that recorded average growth rates of 4.5 percent or above, eight emanated from

Southeast Asia. East Asian living standards grew at an average of 5 percent while the rest of the globe only averaged about 1.9 percent during the same time period (ADB 2008: 27). By all standards, such consistent economic performance for a sustained period was unparalleled in the annals of the International political economy. And these extraordinary results were accomplished by economies that varied in size, incomes, endowments, human resources, language, culture, history, and governance structures.

All the aforementioned achievements bring into light the model underpinning the regional economic surge. The East Asian development model revolved around leveraging the comparative advantages of domestic economies to create and facilitate export oriented sectors that can compete in and service global markets. Outward oriented policies were preferred from the outset instead of a large scale industrialization strategy that was prevalent in other parts of the globe. East Asian economies were well endowed in terms of an adequately educated population that could be mobilized with low wages and the economic elites adopted a policy that utilized accumulated savings and investment to gradually build export oriented labour-intensive industries. (ADB 2008:29)

The model is credited to the Japanese since it originated from the island following its defeat in World War II. Reconstruction and development under the American umbrella provided Japan the resources and more importantly the market to which it can target its exports. Open access to the American market resurrected and powered the Japanese economy. As Japan gradually shifted to focus on more sophisticated products, peripheral economies in the region – China, Republic of Korea, Singapore, Taiwan, took the mantle and filled the void in terms of labour-intensive exports. Cummings summed this process by invoking the “Flying Geese” model of economic development (Breslin 2004:108). Under this model, as the lead goose (Japan) industrialized, it imparted unprofitable and outdated industries to neighbouring economies that were themselves industrializing. The continued influx of investment and technology in turn caused these peripheral economies to transfer the same industries to other states that can perform the tasks more cost effectively. As a result, Japanese growth surpassed five percent in the 1950s followed by the NICs in the 1960s, the ASEAN nations the decade after and finally the Chinese making their mark in the late 1970s. This continual process of growth for all engaged in this cycle is depicted in the figure 2.3 below (ADB 2008:30).

Figure 2.3 – Waves of Rapid Development: Growth Rates of Select Asian Economies



Source - *Emerging Asian Regionalism* (2008). Manila: Asian Development Bank

During the 1980s and early 1990s, emerging Asian capitalism was bolstered by increasing intra-regional economic relations that was largely stagnant during the cold war. The institution of the Plaza Accord in 1985 generated a flood of investment flows from the more affluent to the growing economies in East Asia (Stubbs 2002:445). The advent of intricate investment patterns also generated spill-over effects, augmenting the hitherto established export sectors. The major difference following the Plaza Accord was a greater impetus towards exporting within Asia complementing the markets already present abroad.

Also during the same time frame, the emergence of the Chinese economy given its sheer size and potential provided erstwhile companies across the globe a boon for shifting production. And within quick succession, the Chinese economy accounted for 20 percent of Asian trade and 70 percent of the region's foreign direct investment flowing in at the same time providing a new market for the region's products and commodities (ADB 2008:30). Although the integration of China into the regional picture caused anxieties for Southeast Asian policymakers due to the difficulties in competing with a formidable entity, it also infused dynamism into Asian economic relations almost forty years since its revival following the aftermath of World War II.

The gradual development and specialization of East Asian economies was not matched institutionally through the development of proficient institutional mechanisms that can manage and sustain economic relations. In many countries, banks under the auspices of the state's economic agencies directed investment and financial resources for commercial purposes resulting in a system that functioned at the behest of governmental authorization (Radelet 1999:2). This enabled the flow of capital on grounds of intricate ties with governmental officials instead of a process that granted capital grounded on meritorious terms. Consequently, the intimate corporate-bank-state relationships escalated the corporate debt-equity ratio increasing the borrower's risk and rendering them vulnerable towards systemic shocks. (Wade 1998:9)

Meanwhile, Asian economies undertook financial deregulation, relinquishing controls on capital movements owing to pressures stemming from the IMF, OECD, Western governments, and investment firms stationed across the globe. While capital account liberalization promised long term benefits, in the short term it induced vulnerabilities. It complicated macroeconomic management within nations since it rendered devaluation too risky to opt for given the uncertainties accompanying the tenure of short term capital. Devaluation is often employed by states attempting to curb inflation and exchange rate overvaluation but when operating in an environment that is devoid of capital controls, the risk of speculative attacks occurring increase placing millions at peril. (ADB 2008:31)

Needless to say the tide did hit and massive unrest and chaos ensued. On 2 July 1997, Thailand abandoned its steadfast defence of the baht leading to its devaluation (Radelet 1999:1). The Thai currency could not sustain itself and plunged. Contagion swept across the region as attacks spread to Malaysia, Indonesia, Philippines, South Korea and Hong Kong. The macro-economic impact of the crisis was harsh leading to sharp depreciations in the values of currencies, stock prices and eventually a global liquidity shortfall. Many businesses closed shop and millions fell into poverty.

The voluminous amount of capital needed to resurrect the economies back to respectability meant that the region had to look to the West for respite since the regional architecture was ill-equipped to handle an event of this magnitude. But turning towards the west did possess repercussions, more so than was initially envisaged.

To many, the remedy prescribed by the IFIs under the auspices of the United States exacerbated the crisis. Instead of conferring to the orthodoxy when battling fiscal malaise that was tantamount to an expansionary policy mix designed to stimulate economic demand, the IMF instead prescribed an atypical deflationary policy agenda that called for monetary tightening, fiscal restraint and structural reforms of financial institutions (Stiglitz 2001:15). The credibility of the IMF's agenda suffered another jolt when Malaysia and China diverted and opted to weather the crisis employing divergent strategies. Capital controls installed by Mahathir succeeded in stemming the bleeding, after which more expansionary measures were implemented that effectively accelerated the Malaysian recovery (Rodrik 2001:3). And the Chinese benefitted from their policy of capital account inconvertibility that placed restrictions on the

movement of capital enabling them to avoid the financial chaos that engulfed other Asian countries. Beijing also resolutely desisted from devaluing the Renminbi and offset the prospective losses expected from exports with public investments that in turn sustained economic demand (Wang 2000:153).

The financial shock vividly exposed the deficiencies of the existing regional architecture and increased the urgency of fostering capable institutional mechanisms at the regional level. The crisis was also fortuitous in that it ushered an opportunity for reform and subsequent initiatives were devised including the namesake of this piece – the APT. However, before elaborating on the latter, it is imperative to consider some of the political predecessors to the embryonic regional entity. The politics of regionalism in East Asia delineating the institutional and political developments of the past five decades will be covered in the next segment below.

2.3.2 Regional Journey – Political Lens

Given the sheer diversity of the region in terms of multiple indicators, it is remarkable that the atmosphere has been conducive towards regional institutionalization. The ASEAN remains one of the most enduring regional institutional bodies and it has rejuvenated itself at different interludes over the course of the 20th century. Perhaps the most significant development to date has been the genesis of the ASEAN Plus three that is evolving as we speak into a formative regional accord capable of addressing salient regional issues. It is also important to view the regional journey from a political lens in order to grasp some of the earlier products of Asian regional cooperation. Consequently, I embark by shedding light on the two institutional precursors of the APT: ASEAN itself and the APEC.

2.3.2.1 Association of South East Asian Nations (ASEAN) - 1967

Geopolitics played an instrumental role underpinning early regional projects following the inception of the Bretton Woods regime. The cold war was peaking and security concerns reigned paramount driving nations to seek regional alternatives to preclude the residual effects of proxy conflicts being staged from permeating domestic shores (Fawcett 1995:16). The manifestation of this trend was also evident in Southeast Asia with the institution of the Association of South East Asian Nations (ASEAN) in 1967. The original ASEAN 5 – Indonesia, Malaysia, Singapore, Thailand and the Philippines integrated under the promulgation of the Bangkok Declaration that sought to “accelerate economic growth, social progress, and cultural development,” but the catalyst driving cooperation was security emanating from their mutual existence in a polarized geopolitical environment (Beeson 2004:129).

The obsession towards protecting domestic shores against foreign encroachment also spilled over to the institutional climate of the activated regional entity resulting in the culmination of a distinct organizational philosophy. The ASEAN Way or the *modus operandi* that governed regional relations between member nations was based on informality, discreteness,

consensus building, and a non-confrontational diplomatic style (Acharya 2001:64). The principle of non-interference that was at the heart of the ASEAN way tied the hands of the regional organization precluding it from impinging on national sovereignty regardless of the issue at hand. Although institutional limitations have constrained the ability of the regional unit to manage regional affairs, it would be hard to deny that the very existence of the ASEAN and the regularization of regional relations have bestowed stability to a region hitherto habituated to instability (Beeson 2004:133).

2.3.2.2 Asia Pacific Economic Cooperation (APEC) – 1989

If the ASEAN can be considered as the product of the geopolitical environment during the cold war, then it would be apt to classify the APEC as a product of an environment that ceded primacy to geo-economic concerns. The demise of the cold war asserted economic issues atop the foreign policy agendas of countries across the globe and the APEC arrived onto the scene as the establishment designed to abridge the economic divide between the eastern and western sides of the Pacific (Beeson 2007:223). The APEC reflected the shifting context that conditioned economic relations between different regions by espousing a form of *Open Regionalism* that refrained from discriminating against outsiders. And the advent of an organization that intended to facilitate trade relations between both sides of the Pacific seemed timely given the dissipation of geopolitical imperatives dominant in the cold war context.

However, the APEC was also plagued with some of the institutional frailties suffered by its Asian counterpart, the ASEAN. The multilateral body faced innumerable difficulties championing causes of trade liberalization due to an analogous institutional stipulation that rendered all agreements within APEC as voluntary thereby rendering difficult the process of compliance. The inability to force binding obligations on member countries complicated the process of engendering a free trade area across the seas that would benefit all willing to participate (Lincoln 2004: 135).

2.3.2.3 East Asian Economic Caucus (EAEC) – 1990

The most immediate precursor to the APT was the East Asian Economic Grouping (EAEG), put forth in 1990 by the Malaysian Prime Minister, Dr. Mahathir Mohammad. Owing to concerns that the effort represented the formation of a rival economic bloc, it was renamed as the East Asian Economic Caucus (EAEC) (Stubbs 2002:441). The change in the name did not prove auspicious for the proposed accord since it drew intense opposition from the United States and Australia. They feared that the envisaged entity would entail adversarial implications for the APEC and the budding Asia-Pacific idea. Consequently, these Pacific fears were transposed towards the region captured by Japanese apprehension towards the accord eventually placing it on the backburner (Stubbs 2002:441). However, the goal did not completely fade away and reappeared in the form of the APT.

2.3.2.4 ASEAN Plus Three (APT) - 1999

The APT grouping represents one of the most innovative political creations designed to incubate, expedite and augment initiatives of East Asian

regionalism. Despite its infant status, it is widely being touted as a regional accord that can transform the nature of regional cooperation in East Asia. But this sense of optimism is also infused with pragmatism realizing that requisite political and diplomatic support needs to be marshalled in order to elevate its status from the other entities ensconced within the regional architecture. At the core, the APT embodies the emergence of a nascent alliance that carries immense responsibilities; of not only advancing and championing regional cooperation grounded on mutual interests but also as the force credited with the task of developing vehicles to address salient regional issues.

The chief proponents of the APT have been national leaders, namely Malaysian President Mahathir Mohammed² and earlier President Kim Dae-Jung of South Korea (Evans 2005:197). As such, the APT was also largely driven by governmental officials largely insulated and extricated from expert groups³. There is an umbilical chord that exists in reality between the ASEAN and the APT given that latter emanated from an ASEAN led effort to create a process for Asian consultation as well as the fact that all APT summits have been held in conjunction with regular ASEAN summits. The APT also does not yet possess a permanent institutionalized centre or secretariat but has utilized the ASEAN Secretariat to coordinate policy issues (Evans 2005:200).

Current interpretations of the nascent regional unit vary in nature. Paul Evans describes the APT as a “consultative process” constituting of the ASEAN 10 plus the three Northeast Asian states⁴ – Japan, China and South Korea (Evans 2005:201). The grouping itself currently functions as a series of intergovernmental meetings at three different levels. The first one engages the heads of government of the states involved in discussions that take place annually. The second involves meetings at the ministerial level but only inclusive of ministers with portfolios in finance and economics. The final series unites senior bureaucrats from ministries and agencies together to discuss regional concerns. In addition, the APT also commissions the assistance of various intergovernmental study groups such as the East Asian Vision Group (EAVG) whose mandate included prescribing new avenues of regional collaboration for member nations (Evans 2005:201).

Peter Drysdale prefers to regard the APT as an “Institutional Framework” that can marshal all the divergent regional initiatives being negotiated and envisaged under a common umbrella (Beeson 2007:232). Several key initiatives have been launched, such as the ASEAN Surveillance Process under the Manila Agreement, Chiang Mai Initiative (CMI), Asian Bond Markets Initiative (ABMI), and the Asian Bond Fund (ABF). And we now take them up in succession.

² The APT is essentially the reincarnation of Mahathir’s EAEC initiative and contains all the original countries envisaged in that proposal.

³ Unlike the APEC institution process that was characterized by an inordinate amount of Track II organizations and expert groups that Mark Beeson claims constituted an Epistemic Community (Beeson 2007)

⁴ With Taiwan excluded for political reasons (Evans 2005)

The ASEAN Surveillance process was established as a part of the Manila Framework initiative conjured up by regional central bankers and financial ministers following the financial crisis. The *raison d'être* of the initiative was to act as a complementary surveillance mechanism to the IMF to ensure macroeconomic and financial stability within the region (Beeson 2007:231). The most ambitious venture to emanate from the APT framework is the Chiang Mai Initiative (CMI). It includes a series of bilateral currency swap arrangements⁵ between central banks from the ASEAN 10 plus the three northern counterparts. As Beeson denotes, the CMI is essentially a reincarnation of the aborted AMF proposal. The refurbished plan envisaged the existence of a regional fund pooling the international reserves held by the countries of the APT grouping (Beeson 2007:231). Although the CMI pertained exclusively to the bilateral swap arrangements, the agenda agreed upon at the venue was more expansive and included regional surveillance, capital flow monitoring, information sharing and the development of human resources to undertake these complex tasks (ADB 2008:184). The APT's Asian Bond Markets Initiative (ABMI) aims to develop regional bond markets and increase the quality of high quality currency bonds within domestic and regional markets. The Asian Bond Fund (ABF) advances the development of national and regional bond markets by creating bond funds that can assist in the advent of deeper liquid bond markets within the region (ADB 2008:134).

The promise being accorded to the embryonic regional grouping is also countered with a large dose of pessimism dished out by several academics that recite some of the more formative obstacles that could potentially impede progress. At the outset, the sheer diversity of the region now depicted in terms of culture, political and economic structures, economic development, religion, is unprecedented. There are no commitments towards bolstering the democratic credentials within the region, with some nations perhaps on the verge of reverting towards authoritarian tendencies⁶. The dramatic disparity between the economic clout of Northeast and Southeast Asian nations contributes to the enormous discrepancies in administrative, technocratic and intellectual resources amongst the member states. The simultaneous push by several nations within the region to resort towards bilateral trading agreements also serves to undermine the budding regional consensus. Given the pervasive historical influence of the United States over Southeast Asia, many suggest that antagonism emanating from Washington would undeniably derail the nascent regional grouping. And prevailing historical grievances between dominant regional powers that are intermittently rekindled could also act as disruptive elements (Stubbs 2002:451-4).

Given the vulnerability of the entire region to the vagaries of international politics and the innate resistance towards surrendering national

⁵ A Currency Swap is an agreement to exchange one currency for another and to reverse that particular transaction at a later agreed upon date. (Institute of International Economics: East Asian Financial Corporation Chapter 3, pp 16)

⁶ Emanating from a talk given by Dr. Garry Rodan at the Liu Institute for Global Issues at the University of British Columbia on July 29,2008

powers, the development of nominal initiatives being nurtured at the regional level represent a significant achievement in East Asia. What elements are heralding this paradigmatic shift in East Asian regionalism? Prior to comprehending the drivers underlying this regional shift leading to the APT in East Asia, it is imperative to visit the theoretical underpinnings of regional integration. It is to that we now turn.

Chapter 3 – Theoretical Elucidation of Regionalism

Since this research piece is organized utilizing an analytical triumvirate focusing on the geopolitical, material and ideational spheres of East Asian regionalism; the theoretical component will also employ a similar approach delineating the relationship of each theory vis-a-vis a respective sphere. In short, this theoretical section will embark by shedding light on the impact of structural elements over regional integration before moving onto considering the influence of the Constructivist school. And the final component dissects a novel theoretical school that integrates facets of both structural and constructivist theories that also impels us to take into account, historical and class elements whilst comprehending regional integration.

3.1 Structural Theories

Exploring the regional turn in international relations initially compels us to underscore the structural rudiments under which regional projects are ensconced. Structural theories confer precedence towards the politico-economic structures and exogenous pressures impacting the region as a whole thereby fuelling processes of regional integration. While doing so, the underlying row between the Neorealists and Liberal Institutionalists will be revealed before moving to explicating the rising resolve displayed by Constructivists, attempting to construct a bridge between the aforementioned duo.

3.1.1 Geopolitical Sphere

Neo-Realism or Structural Realism⁷ represents a school of thought that delves deeper into the constraints and challenges imposed by the international system over sovereign entities that in turn drive them to adapt and adjust accordingly. According to Waltz, the ordering principle of the international system is anarchy, and the structure of the system is defined by the distribution of power within it. The focal point of Waltz's analysis and that of subsequent structural realists is on the international sources of political outcomes unlike the precedence given to the domestic interests under the realist school. (Waltz 1979)

Neo-Realism focuses on the external configurations of power and the concomitant dynamics of power-politics to explicate the regional turn in

⁷ The school owes its origins to the work of Kenneth D. Waltz who reformulated Realism in his seminal piece, *Theory of International Politics* in 1979.

International Relations. Of paramount importance to the neo-realist is the fact that demarcated geographical entities are not immune from external pressures and are equally susceptible to the currents of the international political system. At its core, regionalism amounts to the reaction of several sovereign entities to external geo-political and geo-economic challenges that impinge states to take action (Hurrell 1995:47). Two facets are explored below under exogenous pressures – Hegemonic Impact and Power politics/Neo-mercantilist competition.

The presence of a hegemonic power can play a key role in determining the process of regionalism either as an obstacle, as a response, or as a prospect. If regional agreements are formulated and designed to counteract and subsequently diminish the impact of existing superpowers then there is greater chance of the agreement being encroached upon (Hurrell 1995:49). Regional units also arise and subsequently develop as a response to hegemonic decline within a region. In turn, this reaction is motivated by a sense of equating the level at which regional relations are organized attempting to improve the balance of power vis-a-vis a regional or global power (Hurrell 1995:50). The final strand between regionalism and hegemony being examined here deals with the ability of the hegemon to adopt the mantle and direct efforts towards developing and consolidating regional initiatives (Hurrell 1995:52). Proponents of hegemonic stability would espouse that the creation and institutionalization of regionally based modes of governance will definitively impinge on the active stewardship of a regional power that can induce neighbouring nations to cooperate over salient issues.

Under the neo-realist wing, power politics also gains precedence elevating dynamics of neo-mercantilist economic competition atop the agenda. Regionalism is viewed as a vehicle that enhances the bargaining ability of regions at the apexes of international economic governance thereby determining the shape of the international economic order (Hurrell 1995:47). Or regional initiatives can also be employed as a vehicle to preclude foreign encroachment thereby reducing the scope of major powers from exercising their influence arbitrarily within the region.

3.1.2 Material Sphere

As aforementioned, the neo-realist approach opts to illuminate regional efforts utilizing an approach revolving around the exogenous constraints of the international political system. Critics have chided the Neo-realist school for being overly simplistic in their conception of the international system deeming it as a static entity ignoring the competitive dynamics that facilitate the system to evolve over critical junctures. Specifically as critics espouse, the school fails to adequately reflect that the international system itself is not immune from gyrations ushering in novel modes of representation and organization.

Critique of this kind emanated from the work of academics such as Joseph Nye and Robert Keohane, responsible for shepherding Liberal Institutionalism into IR literature. Although they share a commitment to rationalism and the rational state, both schools differ on their conceptions of

the international system with Institutionalists according greater credit towards international institutions and economic growth over securitization (Grieco 1993:118). They aimed to shed light on the rising interdependence between nation-states stemming from globalization. As Keohane posits,

“Facing dilemmas of coordination and collaboration under conditions of interdependence, governments demand international institutions to enable them to achieve their interests through limited action.” (Keohane 1993:274)

And they advocate for treating this rising interdependence as a structural phenomena that is inducing nation-states to pursue mechanisms to manage this interconnectedness. Therefore contemporary developments of regional integration should also be viewed vis-a-vis globalization and deeper interdependence (Nye 1989:251).

Interdependence has also intensified patterns of mercantilist competition accelerating the need to formalize regional economic relations. Inhabitation within an informational economy powered by global markets and global systems of production has profoundly impacted governments and their ability to respond and survive at a global level. Existence within such an environment has amplified the importance of instituting attractive economic policies that can entice foreign investment and technology aiding states to compete effectively in the global arena. And the nature and dynamics of global competition drives regional formation due to the political and efficiency gains that stand to be incurred from presenting a united front (Hurrell 1995:57).

Regionalization also creates policy externalities that warrant regulation and collective management thus increasing the salience of regional institutions. Therefore the need for political solutions to manage increasing levels of economic interdependence has also risen. And as Peter Petri infers this scenario is reflective of the East Asian regional effort,

“From an Analytical perspective, these initiatives can be seen as attempts to reduce transaction costs in regional trade, manage intraregional trade frictions and marshal regional economic forces against external economic challenges.” (Petri 1993:43)

3.1.3 Ideational Sphere

Structural theories such as Neo-realism and Liberal Institutionalism are oblivious towards the role of ideas and their contribution towards regional integration. They share a commitment towards rational choice approaches that shed light on the process through which agents are able to attain outcomes and regard ideational elements as exogenously given and present within the structure. As Hurrell identifies on Neo-realism,

“It talks a great deal about states as self interested actors competing in an anarchical world but leaves the identity of self and the nature of interests unexplained, or simply assumed.” (Hurrell 1995:53)

At its core, Rational choice thinking conveys a behaviouralist conception of processes and institutions denoting that the former can alter behaviour but

not identities and interests that are deemed to be static and already presupposed (Keohane 2000:125).

3.2 Social Constructivism

The prevailing row between the neo-realists and liberal institutionalists has intensified with both camps attempting to etch their imprint within International Relations theory. The debate at its core deals with the extent to which actions of nation-states are influenced by structures (power politics) against process (interactive communication and learning) and institutions (Wendt 1992:391). At odds with preceding theorists that accord primacy towards structural elements as determining factors of nation-state behaviour, the constructivist school aims to prescribe the view that ideational elements are perhaps more pivotal in the aforementioned context.

Emanating from the pioneering work of Alexander Wendt in his *Social Theory of International Politics*, a middle ground or as Wendt states a 'bridge' is delineated to espouse a novel approach branched equidistantly from Neo-realist and Institutional theory. Wendt advances the claim that social theories that can adequately reflect and explain the importance of identities and interests exist in the form of Social Constructivism (Wendt 1992:393). And we now tread along that route.

3.2.1 Ideational sphere

A constructivist analysis would focus on how the behaviour of states contributes towards the formulation of identities and interests that subsequently shape political outcomes. Constructivists desist from showering emphasis on material and rational incentives that theorists from diverging schools of regionalism place, they highlight the importance of inter-subjectivity and the process of construction and evolution of interests and identities as time progresses leading towards instituting collaboration within a community. The process of building regional institutions is one that is characterized by a process of internalization and learning of self and the other and of acquiring new identities and roles (Wendt 1992:417). Over a longue duree, the process of regional integration is akin to a process of reconstruction of interests and commitments to commonly shared norms and values. In sum, a constructivist's view of regional collaboration is at the core cognitive and not behavioural since it tenders primacy towards inter-subjectivity that ultimately defines the nature of identities and interests underpinning the game. As Wendt succinctly posits,

“Constructivists are interested in the construction of identities and interests, and as such, take a more sociological than economic approach to systemic theory. On this basis, they have argued that states are not structurally or exogenously given but are constructed by historically contingent interactions.” (Hurrell 1995:66)

3.2.2 Geopolitical Sphere

Constructivists emphasize the consequences of social interaction and their concomitant influence on the construction of identities and interests whilst explicating political outcomes. They would dismiss the notion that structural elements and existence within an anarchical environment itself governs the actions of nation-states but instead delineate that the process through which states prioritize and make decisions is itself a product of interaction between other actors (Wendt 1992:393). Emanating from such interactions are interests and ideas that subsequently possess a bearing over the conduct of states. Wendt repudiates the realist conception of anarchy and espouses that,

“Anarchy is what states make of it.” (Wendt 1992:395)

Transposing the issue onto regional cooperation, constructivists would emphasize that regions are formed following periods of iterative interaction between states that would enable to garner greater understanding of each other thereby creating an environment more conducive towards regional integration. In addition, they would also infer that the dramatic resurgence and proliferation of regional entities across the globe owing to geopolitical imperatives would in itself represent a social construction that spurs emulation elsewhere. Therefore regardless of the documented evidence that can affirm the incentives of regional integration, the idea or the social construction that uniting and formalizing relations at a regional level is advantageous possesses equal potential in driving regional efforts as rational and material constraints (Hay 2002:202). Therefore, the social construction of regionalism may have an effect on the ensuing politico-economic dynamics independent of the empirical realities pivoting regional integration.

3.2.3 Material Sphere

As Colin Hay espouses, we must be cognizant of the reality that Constructivism itself represents a broad church inclusive of diverse array of perspectives. At one side are the ‘thick’ constructivists that are preoccupied with purely ideas and at the other end there are ‘thin’ constructivists that are aware of the material constraints driving ideational elements and constructions (Hay 2002:208).

Denoting attention to the material sphere using a constructivist line of analysis would be tantamount towards expressing the solidarity and understanding that emerges from rising economic interdependence between different actors resulting in an environment more conducive towards regional initiatives. One of the early academics to denote this phenomenon was Carl Deutsch, who examined the process of regional formation employing a constructivist lens. Under the rubric of Transactionalism, Deutsch denotes the process through which regional efforts surface attributing their emergence to the existence of congruent values and principles (e.g. capitalism and liberalism) that in turn propel a network of transactions between societal actors (Hurrell 1995:65).

A constructivist analysis would espouse that rising economic interdependence is shaping or redefining interests and identities due to the emergence of intersubjective understandings of each other engendering a climate more favourable for regional integration. Material incentives and ideational elements are infused in a dialectic relationship that complicates the ability to cede primacy to one or the other. An appropriate method of comprehending this interplay would acknowledge the importance of both: thereby political outcomes can be regarded as plans that are formulated to achieve interests within a context that favours certain strategies over others and does so regardless of the interests held by key actors (Hay 2002:208).

3.3 Critical International Political Economy (IPE)

This novel theoretical paradigm integrates facets of structuralism and constructivism while marshalling its intellectual ideas onto the mainstream academic scene. Another crucial component of Critical approaches is the precedence given towards power relations within any societal plane that results in the arbitrariness of social conduct aligned towards the interests of entities bestowed with greater resources.

The Critical IPE School's contribution within International Relations theory and regional integration can be surmised from an analysis that is inclusive of three elements. A regional project gains currency through a process characterized by the emergence of a transnational class, itself driven by functional, material or geopolitical factors pivoted around a common ideological paradigm that garners legitimacy through public consent obtained through the tacit propagation of dominant ideas pertaining to the orthodoxy.

Embarking on explicating the Critical IPE approach entails disclosing elements packaged within a method underscoring the importance of historical structures, material capabilities, and the subtle role of ideas (Gamble 1996:7). These three elements contribute towards determining the actions of nation-states through the creation of opportunities and the imposition of constraints inducing self-governing entities to constantly adjust and adapt to the vicissitudes of the international political system.

3.3.1 Material Sphere

Mainstream rational choice theories utilize positivistic methods to denote and explain human nature whereas the Critical school undertakes a departure and postulates that human nature is fundamentally determined by the historically contingent context of social relations.

Whilst applying this towards IR theory and regional integration, the premise that gets elevated is that processes of regionalism are embedded and reflective of the dynamics within the capitalist mode of production over the *longue duree* (Appledorn et al 2003:33). In other words, the phenomena underlying regional integration is essentially an expression emanating from the evolution and consolidation of a capitalist international political economy. What is the nature of this beast?

Over the course of the twentieth century we have to come to witness an international capitalist economy that has evolved in character leading to the current neoliberal epoch. The genesis of the neoliberal epoch in the late 1970s represented a revival to Economic Liberalism of the 19th century, combined with the clash of the dual critiques of Keynesianism emanating from the doctrine of monetarism and Social democracy emanating from Hayek and the Austrian School (Gamble 2001:128). These ideas resurrected Neo-classical economic tenets saluting the primacy and efficiency of self regulating markets. In addition, they also represented the rising sentiment within the apexes of power governing the international political economy of the need to divorce politics and markets.

By the end of the cold war, the neoliberal cabal had firmly entrenched itself and redrawn the contours of the international economic policymaking. Along the way, decaying industrial economies and their welfare components were gradually dismantled and emphasis was given towards outward oriented trade strategies, deregulation of financial and trade regimes, privatization and fiscal austerity signifying an apparent consolidation of disciplinary neoliberalism (Gamble 2001:129). Consequently, this evolution engendered dramatic transformations in the realms of production, trade and finance by internationalizing their constitutive nature.

Regional projects are therefore embedded and reflective of the dynamics within the capitalist mode of production over the *longue duree* (Gill 2003:54). Such modes of production often evolve in tandem with a capitalist economy denoting that processes of capitalism are dynamic and their impact over institutional conduct would vary pertaining to their course of development. Therefore a common spatial area that is closely knit together through economic networks and production cycles would be more conducive towards engendering a regional accord due to the material implications attached to the continual functioning of these economic systems.

Gill further posits that the subordination of state forms to international capital and the consequent emphasis given towards primitive accumulation also represent additional historical factors that govern the politics of regional integration (Gill 2003:55). This entails the reconfiguration of patterns of accumulation and regulation giving precedence towards the interests of transnational capital heralding this monumental shift. And as a result, the formation of the social relations of production is now constituted at a transnational level intersticing the national, regional and international realms.

A historical materialist approach enables us to behold the impetus towards processes of regional collaboration using firstly, a material lens rendering critical the process through which human beings formulate and organize the social relations of production. And secondly, a historical lens that enables us to comprehend projects of regional integration as an expression emanating from a backdrop of a global paradigmatic shift associated with the consolidation of the neoliberal epoch.

3.3.2 Geopolitical Sphere

As aforementioned, the historical element constitutes a pivotal cog underpinning theorization within the Critical IPE approach. Grasping the impact of historical structures over institutional and human conduct incites us to shed light on Gramsci's conception of the *historical bloc* and its influence over the emergence of institutional configurations across the globe. Stephen Gill frames historical blocs as being formed through,

“a series of compromises or forces of arms and is not simply the creation of leaders, since it also allows the collective will of groups to be realized as they seek to forge their own personality” (Gill:2003 61).

At the core, these historical blocs depict the impact of geopolitical implications on the development of political and economic communities and that process will be covered below.

Following the inception of the Bretton Woods regime, a post-war international bloc arose constitutive of a struggle between American globalism and Soviet communism (Gill 2003:61). This bloc symbolized an overarching global American presence to ensure the safe reconstruction of the global world order and preclude the communist menace from encroaching borders. Liberty, modernity, welfare and affluence were championed to denounce and the communist cabal. And economically, precedence was given towards fordist accumulation and production strategies combined with a modicum of organized labour (Gill 2003:62).

Globalization and the arrival of an era that accords primacy towards geo-economics have ushered in a novel transnational historical bloc (Gill 2003:62). Within this bloc, precedence is accorded towards sectors in the international investment, capital, trade, production, and finance as well as the explicit marginalization of organized labour. At the same time, the concurrent neoliberalization of the globe has resulted in the marketization of social life that is inexorably aligned with the ensuring the interests of the elites are facilitated.

Efforts of regional collaboration are viewed and produced within this context and they represent and epitomize the regional manifestations of such historical blocs at various interludes. Therefore, regional entities during the cold war were emblematic of the geopolitical struggles of that era and post cold war regional projects are emblematic of the novel American led transnational bloc constructed to champion and advance the interests of transnational capital and facilitate novel forms of accumulation all representative of disciplinary neoliberalism. And this process is reconfiguring the shape and modus operandi of institutional forms arising across the globe.

3.3.3 Ideational Sphere

Contemporary Materialists have also become more accommodating of ideas and its impact over political outcomes and most of this group belong to the upcoming Critical schools within the academic literature. Unlike rational-choice theorists and realists that are perhaps excessively behavioralist in nature

ceding primacy towards material and real factors, Critical theorists are more tempered towards ideational elements (Hay 2002:207). They posit that ideas that underpin the policies and political outcomes are configured by and reflective of material interests thereby signifying a complex interplay at work between ideational and material elements. Ultimately, the ideas that resonate within the political realm leading to political outcomes are reflective and constitutive of material elements (Hay 2002:208).

Critical IPE theorists have also ambitiously integrated Antonio Gramsci's ideational order into the international relations community to denote the accession of ideas onto IR theory. The insertion of this ideational strand proves to be a departure from mainstream theories of IPE that have historically been fixated with materialist notions of power. Gramsci argued that the legitimacy and strength of the ruling elites is not anchored exclusively on the coercive apparatus of the state but is also diffused and situated within the plethora of institutions and relationships ensconced within civil society. In other words, hegemony is not only exercised through coercive means but also obtained via consent (Appledorn et al 2003:36).

The Gramscian approach is valuable since it highlights the presence of the agencical element whilst analyzing the extent to which dominant ideas come to be accepted as the orthodoxy in the process placating groups and communities within society. In Cox's words, these ideological and moral elements play a critical role in consolidating the dominant economic structure through a set of productive forces and organic intellectuals that disseminate and transmit these ideas thereby tacitly acquiring the consent of the public conscience through the power of rhetoric (Appledorn et al 2003:37). The consolidation of the neoliberal bloc is achieved through the propagation of these ideas within society that facilitates the political fate of the neoliberal epoch.

Chapter 4 – Analyzing Dimensions of East Asian Regionalism

4.1 Ideational Sphere

Conferring importance to the ideational sphere as far as regionalism is concerned is tantamount to addressing issues of regional identity and awareness, and also the ability of prevailing politico-economic ideas and discourses to affect policymaking circles, which could ostensibly influence the transition towards regional integration. Emanating primarily from the notable work by constructivists such as Andrew Hurrell, Helge Hveem, Louise Fawcett et al, ideational factors have gradually gained currency whilst considering the sustainability and potency of regional structures. But are they instrumental in driving regional processes?

Are the ideational elements aligned engendering a resurgence of East Asian regionalism captured by its latest manifestation – APT? How significant are issues of identity whilst exploring the institution of regional entities? Is developing a sense of a regional identity a pre-requisite to determine the success of a regional project? This sub-section will attempt to provide responses to the queries herewith stated above. In order to determine the role and the impact of ideas towards the recent chapter of East Asian regionalism, the focal point for analysis returns us to the 1997 East Asian financial crisis.

4.1.1 East Asian Financial Crisis and Regionalism – Ideational Impact

In contrast to the emphasis given towards power dynamics and material interests as precursors to regional efforts, there do exist academics (Terada 2003) that confer precedence towards ideational and identity elements to explicate regional integration. And specifically pertaining to the more recent efforts under East Asian regionalism and the institution of the APT, a line of analysis has risen according precedence to the East Asian Financial crisis and the ensuing backlash. They claim that subsequent developments emanating from the regional architecture that are still in motion in various capacities lend credence to the notion that East Asian nations are willing to jettison bilateral and regional grievances and adopt an “East Asian” way of thinking to tackle salient issues that concern citizens at a regional level.

And Constructivists posit that the recent shift towards regional integration under the rubric of the APT does validate this claim. Terada (2003) states that the impetus towards the APT emanates from the emergence of a ‘clearer regional consciousness,’ within East Asia that is being invoked to drive collective efforts (Terada 2003:255). And the impact of this nascent regional identity couched in ‘East Asian’ terms over regional processes is illustrated through two regional events: the doomed EAEC proposal and the Asian Financial Crisis.

Pertaining to Mahathir’s EAEC proposal launched in 1990, Terada claims that due to the lack of a clear regional ‘East Asian’ concept, there was

not sufficient political capital to mobilize the regional accord. And he contrasts this scenario with the successive passage of the APT signifying that the latter triumphed due to the presence of an 'East Asian' consciousness that was able to sustain the commitment to regional cooperation (Terada 2003:255). The critical intangible that distinguishes the success of the APT and the failure of the EAEC is the presence of a 'regional consciousnesses' derived through a process of inter-subjective interaction between nations that in turn defines their nature and constitution.

Secondly, Terada expands on the impact of the Financial Crisis and posits that the backlash engendered following the traumatic event also contributed towards establishing a regional consensus amongst East Asian nations (Terada 2003:256). The inability of the APEC to effectively respond to the crisis sowed the seeds of resentment amongst political elites within the region. Given that the APEC turned to IMF to address the crisis instead of mobilizing an internal campaign to deal with the aftermath proved to be a colossal blunder since the actions of the Fund have widely been discredited stemming from the policies they implemented that ostensibly exacerbated the growing crisis. It also elevated the need to develop regional mechanisms that can shield nations from events of such magnitude. The ineptness of the APEC illustrated through the crisis in tandem with the conscious motive to exclude the Anglo-Saxon community from the APT is giving impetus towards the formation of an "East Asian" Identity that trumps the prevailing "Asia-Pacific" Identity. Ultimately, the key notion to comprehend through this constructivist line of analysis is that having experienced a traumatic event collectively has raised a regional awareness within East Asia that has been harnessed to develop regional initiatives and agreements.

4.1.2 Ideational Scepticism

Are ideas capable of driving regional efforts across the globe and are they efficacious in acting as pre-requisites to regional projects? It would be highly improbable to attribute the precursors of regional integration towards the role of ideas due to a few important caveats.

The first concern is that such a process of social construction aided through reflection is a journey that cannot be delineated and if the process ensues it does so at a nebulous level not easily amenable towards detection or observation. Another corollary is that such a process is inherently iterative and slow in nature whereas realistic appraisals of regional processes⁸ would defend the assertion that the impetus towards regional projects often unfolds expediently owing to the material and geopolitical stakes at hand. Exploring

⁸ Alluding to New Regionalism Theory and its manifestations, Please see Marchand, Marianne et al (1999) "The Political Economy of New Regionalisms." *Third World Quarterly*. 20(5), 897-910.

the pace under which processes of regional integration evolve, the impact of ideational elements is further undermined. Initial efforts underpinning regionalism transpired on defensive grounds with nations utilizing the regionalism card to shield themselves from the bipolar stand-off during the cold war. Contemporary regional projects have developed in stark contrast to their preceding counterparts by employing a more offensive method to consolidate and institutionalize regional advantages thereby elevating the impact of the interests underpinning the surge.

The New Regionalism embraces the global political economy and is a vehicle capable of securing competitive access to markets and trade hitherto restricted. Ideational elements and issues evolve at a sluggish rate whereas the strength of material interests in driving and championing political causes more conducive to their growth exudes momentum towards achieving political goals. Thereby the process of cognitively constructing regions through a reflective approach rekindling commonalities and norms would be difficult to reckon due to the complexities involved.

Exploring further the case of the APT and the two events that are explicated in the preceding component, it is apparent that material and geopolitical stakes trump the ideational process of regional consciousness. Mahathir's EAEC did not materialize due to the inability in conjuring a regional consciousness but stems in large part due to American opposition that eventually derailed the planned proposal. And Washington was more lukewarm to the denomination that ultimately represented the APT giving way to its inception (Beeson 2007:222). Michael Wesley affirms that the Bush regime is now more 'relaxed' about the re-emergence of an Asian regional creature that eventually contributed to its materialization (Beeson 2007:229).

Whilst employing a material lens, regionalization processes and intra-regional economic links were not as intimate as witnessed during the period leading up to the APT. The EAEC was unveiled at a period where intra-regional relations were on the rise owing to the institution of the Plaza accord but were not mature enough to merit formalization through regional agreements. In contrast, the dramatic changes in the realms of production and finance following the inculcation of liberal tenets during the 1990s accentuated intra-regional economic relations impelling policymakers to devise regional solutions to manage the rising interdependence.

The Financial Crisis at this juncture attains relevance not as an event that lends to the construction of a novel regional consciousness but as an event that is being utilized to justify and legitimize regional processes on the ground. The catalytic event is being used as a discursive cog to generate the requisite public consensus that was untenable during preceding regional efforts – most notably the EAEC proposal. Under situations of policy failure or crises, ideas experience rejuvenation where they are accorded greater political coverage. Crises are frequently recognized as fortuitous moments in that it elevates a political atmosphere more conducive towards policy alternatives hitherto sidelined due to their political deficiencies. At such opportune times, governments will be more susceptible towards considering novel and innovative ideas in order to redress the ramifications incurred. Therefore, ideas are constructed and employed to engender consensus to legitimize and garner

credibility towards a regional accord and this is reflective of the situation in East Asia as well. And I now elaborate on this process of ideational legitimization pertaining to the APT.

4.1.3 Ideational Legitimization

“The ASEAN +3 forum is an idea whose time has come.” (Alatas 2001:1). Former Indonesian Foreign Minister, Dr Ali Alatas uttered these famous words following the institutionalization of the APT in 2001. And this sentiment has also been shared more broadly by notable East Asian Academic Peter Katzenstein who observes that “Asian regionalism is an idea whose time has come.” (Stubbs 2002:446) And Richard Stubbs firms these arguments by bringing into light those ideational elements aligned across certain regional commonalities that have been utilized to drive Asian regionalism and specifically the APT forward. The fundamental distinction to be made between Terada (2003), Hurrell (1995) that vouch that regional entities can be cognitively germinated is that these ideational elements are more instrumental and important during the process of legitimization once the entity is in an embryonic form but not as definitive progenitors due to several caveats exposed in the preceding section.

Dr. Alatas embarks on highlighting certain regional facets that have been instrumental discursive weapons to justify integration and specifically pertaining to the APT. Regionalization and economic interdependence amongst Asian economies that have attained maturity over the past two decades since the institution of the Plaza Accord and gradual Chinese integration have made regional integration imperative. Alatas further opines, “ASEAN +3 Framework can enhance that process by providing the institutional framework” (Alatas 2002:3). Politically, Alatas affirms that there is a greater will amongst Asian policymakers to firm regional cooperation owing to the precedence set by Dr. Mahathir’s EAEC proposal that has been reincarnated in the form of the APT. And finally the traumatic event of 97 has been evoked to justify closer regional cooperation in order to better manage the adversarial effects of globalization (Alatas 2002:3).

Complementing Alatas, Stubbs posits the existence of several additional commonalities that have been employed to propel Asian regionalism forward (Stubbs 2002:446). These facets possess the propensity to unite divergent sovereign entities into a common region since they stand to galvanize and infuse a sense of awareness amongst citizens thereby enabling the political climate to become more conducive towards consolidating regional integration.

Historically, one can delineate common strands towards the region’s historical experiences that can duplicate as a binding force; mainly the economic and political shifts following the second world war, the standpoint of being major subalterns in a polarized geopolitical climate during the cold war characterized by the manipulative jockeying of dual superpowers, and the recent misfortune of being enveloped into one of the most indelible economic calamities to strike a region. On a cultural note, the inculcation of common values and traits distinguish the East Asian region from its counterparts across

the west. Importance is given towards nurturing and consolidating certain deeply respected ideals associated with family, community, emphasis on duty and responsibility, acceptance on hierarchy and respect for authority. The endurance of these “Asian values” ostensibly strikes a political chord whilst attempting to muscle through efforts of institutionalized regional integration. Thirdly, most of the nations under the East Asian umbrella have gained notoriety globally for their distinct character of politico-economic governance producing the model of the Developmental state⁹. The capacity of this divergent approach was legitimized in the eyes of the global polity following the record levels of economic prosperity ushered into the region over the decades ensuing Bretton Woods. And economically, the developmental state model also represented a divergent brand of Asian capitalism captured by a powerful state-business nexus emphasizing production not consumption, and results not rhetoric. (Stubbs 2002:443-45)

The pivotal piece of this puzzle concerns the efficacy of ideational elements and their ability to drive regional initiatives in East Asia. This piece is highly sceptical and perhaps even dismissive of the notion that ideational elements are regional pre-requisites signifying their culpability in coercing policymakers to embark on thinking regionally. However, ideas are nonetheless important during the process of regional consolidation and are fundamental in generating the requisite political consensus to translate rhetoric into reality. Policymakers and political elites subsequently pounce on salient commonalities uniting nations ensconced within that area to carve out an identity that can aid in facilitating the politics of regional integration.

The potency and vigour displayed by processes of regionalization in tandem with the arbitrary evolution of dynamic geopolitical imperatives are definitely more pivotal in the context of driving regional processes. And we subsequently take upon these elements in more detail in the two spheres below.

⁹ *Developmental State* is one that extensively invests in the economic reconstruction of the state through the inception of an activist industrial policy that prefers the cultivation of competitive export-oriented global industries and the establishment of a set of autonomous agencies armed with a powerful mandate to implement economic policies (Jayasuriya 2000:316).

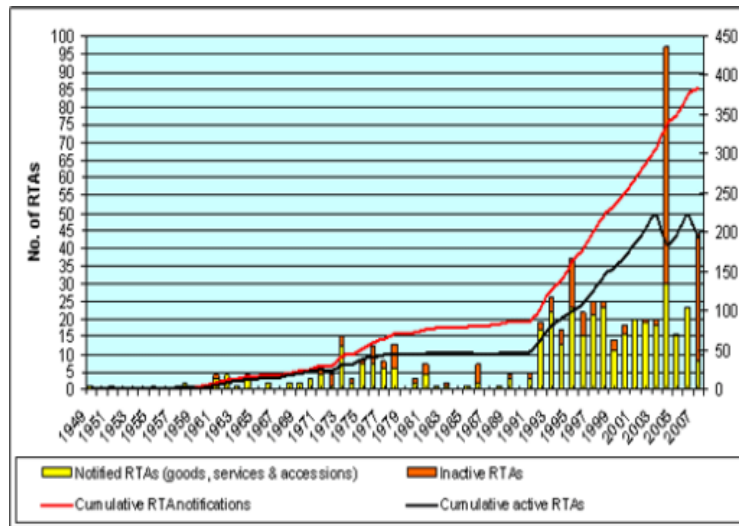
4.2 Geopolitical Sphere

Shifting to the geopolitical sphere, we now shed light on concerns associated with the geostrategic implications leading to the institution of the APT. Shifts in power relativities at the global level can incite a quest towards unearthing novel vehicles of regional collaboration in order to safeguard and advance collective interests, for containing the strength of a rising power within the region or due to the intransigence of a major regional power averting from their defined role. And these implications are illuminated through the assistance of several key global events that have transpired over the recent decade in East Asia.

4.2.1 Contagion Effect

Embarking on elucidating the geopolitical realm impels us to focus on the impact of regional projects emerging across the globe and its concomitant effect on geographical areas that have been less fortunate. In other words, regionalism in one part of the globe is spurring the emergence of comparable efforts of regional collaboration signifying a *Contagion effect*¹⁰. (Ravenhill 2001:14). The data in the figure given below illustrates the rapid proliferation of regional mechanisms over the last two decades since the end of the cold war.

Figure 4.1 – Regional Agreements since Bretton Woods: 1945



¹⁰ Ravenhill states that competing regional entities surface due to two primary factors. Firstly, the presence of a precedent enables political elites to reflect and adapt the preceding experience on home turf. And secondly, as a defensive ploy, nations are undertaking the regional experiment in order to safeguard regional interests that are confronted with challenges emanating from external forces. (Ravenhill 2001:15)

Source: Ravenhill, John (2001) *APEC and the Constitution of Pacific Rim Regionalism*. Cambridge: Cambridge University Press.

Reverting back to our issue and region at hand, does the current tide of regionalism in East Asia possess shades of power politics ensconced under the motivations driving regional integration? Some academics¹¹ infer that the latest chapter of East Asian regionalism is partly driven by the intensifying climate surrounding regionalism across the globe resulting in the proliferation of regional units. And they attribute the growth of regional vehicles such as the EU (SEA 1992), NAFTA and prospective arrangements such as the FTAA as contributing to the renewed interest in resurrecting East Asian regionalism.

The *raison d'être* underpinning contemporary regional developments in East Asia are due to dual concerns that are addressed utilizing an offensive and a defensive approach. Offensively, regional efforts including the consensus leading to the APT pertain towards the need to possess a lucid voice at the apexes of international economic governance in order to effectively advance and safeguard regional interests. The economic scale of the ASEAN is not sufficient enough to compete with the other regional economic blocs. And the inclusion of South Korea, Japan, and China plus the ASEAN grouping would represent a different beast, one that amounts to appear at a global level as a regional bloc capable of confronting and contending with the EU and NAFTA (Mingqi 2003:2). And defensively, Asia's emerging regionalism is directed towards fortifying increasing economic relations and interdependence within the region due to the emergence of rival economic blocs across the world that simultaneously increases the risk of protectionism and trade diversion effects.

4.2.2 East Asian Financial Crisis

4.2.2.1 American Intransigence

As Wade and Veneroso explain, the crisis had been a blessing for the policymakers in Washington in that it presented them the prospect of coupling financial aid with governance and structural reforms that were more akin to aligning Asian economies with western models and conditioning them to be more amenable towards sustaining Western presence within the region. (Wade 1998:19) The high profile role played by the United States in this effort through the IFIs sowed the seeds of resentment within the region giving way to the quest for prospective mechanisms offering greater insulation from the apexes of international economic governance (Higgott 1999:270). As Beeson denotes, the most important consequence of the financial shock and the subsequent American led intervention may have been the impetus generated

¹¹ Mingqi (2003), Beeson (2007), Ravenhill (2001)

towards conceiving a form of East Asian regionalism that attempts to intentionally exclude “outsiders” offering greater regional autonomy vis-a-vis the rest of the world. (Beeson 2004:8)

The antagonistic attitude of the Western contingent extorted the resentment of many within East Asia. And collective efforts gained steam in that it granted the political elites the vehicle of regionalism as a defence mechanism to shield their mode of economic governance from exogenous entities. The genesis of Asia’s post crisis regionalism gains currency when posited as a reaction to the arbitrary insular conduct of the United States and the IFIS to instill tenets of the neoliberal orthodoxy within a region that had successfully subverted it for half a century.

4.2.2.2 Japanese Leadership

The reverberations of the financial shock also permeated towards the Northeast, engendering a climate more conducive to embark on developing regional alternatives to weather the rough tides of economic globalization. Given Japan’s scepticism at developing East Asian alternatives derived from their reservations to Mahathir’s EAEC, policy overtures made from Tokyo regarding the APT truly represented a departure as far as East Asian regionalism was concerned. As Takashi Terada highlights one of the key developments in this regard was

“Japan’s realization that a consensus had developed that the time was ripe to create an East Asian regionalism solely to tackle regional problems.” (Terada 2003:268)

From the ill-fated effort to create an Asian Monetary Fund to other important regional monetary initiatives, Japan has displayed a leadership role within the APT framework signifying the arrival of a novel approach to manage regional relations. The simultaneous presence of the APEC provided a cushion and allayed some of the fears since the latter could sustain trading relations across the Pacific giving way towards strengthening regional relations at an exclusively Asian level (Terada 2003:268). And the accommodating attitude of Washington towards Japan’s involvement within the APT also dispelled prevalent fears that Tokyo possessed in lieu of balancing American and Asian interests (Beeson 2007:229).

4.2.2.3 Chinese Apprehension

Although China escaped some of the more painful consequences of the East Asian financial crisis that its regional counterparts experienced, it was not completely immune from some of the more indirect effects of the calamity. The Crisis presented Chinese policymakers with both challenges as well as opportunities and we take them up in that order.

As aforementioned, China had thwarted the immediate effects¹² of the crisis but the consequent regional recession in Southeast Asia had highlighted the economic importance of the region for the PRC since they acutely felt the residual impact of the crisis. Reduced foreign direct investment, severe economic competition and a dwindling export market following the aftermath contributed towards curbing the mammoth rise the Chinese economy was experiencing.

As Hongying Wang expounds, the crisis had touched the shores of China leaving a marginal but lasting impact that can be illustrated through the downward spiral the nation faced economically following the crisis. (Wang 2000:152) China's export growth had descended in the latter half of 1997. After experiencing a 21 percent hike in exports the year before, the export market had only rise by 0.58 percent the following year and fell another 0.2 percent in 1999. The rate of FDI influx dropped from 8.4 percent in 1997 to a meagre 0.7 percent in 1998. Consequently, the rate of economic growth in China fell from 9.7 percent in 1996 to 8.8 percent in 1997 and 7.8 percent in 1998. Compounding this descent in growth rate was a concurrent rise in unemployment that had reached about 8-9 percent in the urban areas (Wang 2000:154).

Foreign trade that had hitherto driven the core of China's economic ascension cascaded into a nebulous realm causing alarm for Chinese policymakers and businesses dependent on overseas markets. The declining demand for imports in countries directly and indirectly affected by the crisis across the region equalled a dwindling international market for Chinese exports. The dramatic devaluation of several Asian currencies generated increased competition for Chinese exports not only in neighbouring but also international markets thereby placing Chinese and East Asian economies at odds against each other creating tensions for millions of producers that had relied on the same export markets for decades (Wang 2000:154).

In sum, although China had been sheltered from some of the more adverse effects of the crisis, the reverberations unleashed following the devaluation of the Thai baht did reach Chinese soil. In turn, it instilled the economic importance and stability of the East Asian region in Beijing and that their own economic fortunes were intricately and inevitably tied to the region hence warranting closer collaboration with their regional counterparts. The crisis had in turn enmeshed China and ASEAN nations in a political relationship complementing the economic one.

¹² China was able to successfully guard itself from the adversarial effects of the financial crisis thanks to its capital account inconvertibility that effectively managed the flow of foreign investment coming into the country. Arbitrary investor behaviour was constrained due to this policy which had caused the financial crisis leading to devastation in other Southeast Asian countries. (Wang 2000:152)

4.2.3 9/11 and War on Terror

4.2.3.1 Securitization of Economics

The eleventh of September will go down as one of the more infamous events in the history of the modern world. It is not just the world that has changed, so too has the conception, formulation, and application of American foreign policy for the foreseeable future, if not forever. Most of the important institutions that possess a hand in American foreign policy have been at the heart of that transformation implemented under the George W. Bush administration. A dramatic shift has been engineered in American foreign policy that underlines a greater interventionist and internationalist role for the United States to ensure global peace and protect national security (Daalder et al 2003:13).

Parcelled with this paradigmatic shift was the securitization of economic globalization and we can witness the application of this shift more directly within East Asia. As Richard Higgott posits, economic globalization is now seen more expansively not restricted to purely economic terms but also as a tool to advance the national security agenda of the United States. (Higgott 2006: 47) Specifically, economic globalization is not seen purely in instrumental terms but also as an instrument in the toolkit to employ when shoring up security concerns that have risen in the post 9/11 era. This shift also entailed the concurrent disenchantment towards other regions and bodies unless they could be utilized as instruments to assist in the global effort to eradicate terrorism. The United States has coupled its economic and foreign policy interests into one dominant agenda that possesses a high degree of parochialism ensconced under it.

Pivotal in this context of securitization is the cog being utilized in East Asia, marking a departure from its enshrined mandate, the APEC. As aforementioned, the Asian elites have historically viewed the organization suspiciously and as an extension de facto subordinated to advance American foreign policy and the developments following 9/11 have basically affirmed this premonition.

Consequently the mandate of APEC metamorphosed from that of an agent championing trade liberalization to one that advanced liberalization couched under securitization. This is illustrated through the ensuing annual meetings following 9/11 (Shanghai 2001, Mexico 2002, Bangkok 2003) where the agenda overwhelmingly revolved around terrorism and security (Higgott 2004:11). The Bush administration had consciously undertaken the decision to securitize economics and promote the body as a vehicle advocating dual goals: free trade and counter-terrorism. The Washington regime has transformed the multilateral structure that can contribute towards America's security and commercial interests at the expense of a body originally envisaged as an Asia-Pacific partnership to promote mutually coherent values (Higgott 2004:16).

The outcome of this policy shift was that it set in motion resolute efforts aimed at creating and consolidating regional efforts capable of focusing on and addressing the economic concerns of the East Asian region. Disenchanted by the nature of American intransigence, Asian policy elites summoned the courage to establish dialogue between the Northeast and

Southeast blocs resulting in the creation of the APT. Given the existence of an umbilical chord between the United States and the East Asian region from the inception of the Bretton Woods regime, the recent paradigmatic shift within American foreign policy couched in parochial terms is ushering in a novel chapter in East Asian regionalism. The episode is highlighted by the shift within the contours of American foreign policy shepherding in a novel approach to safeguard national interests at the expense of their hitherto status as the guarantor of regional public goods.

4.2.3.2 Neoconservatives and China

The consequences of September 11 and specifically the gradual metamorphosis in Washington connoted by the arrival of the Bush regime¹³ and the contemptuous lens through which they witness the rise of China has also had residual impact of East Asian regionalism. The omnipresent existence of terror provides the impetus and justification towards the establishment of American geopolitical primacy over other parts of the globe. And when analyzing at a Southeast Asian level, the singular threat to American primacy exists in the form of China. It is this very development that the American administration has been wary of: the formation of a regional bloc under the stewardship of China in East Asia.

The conciliatory attitude eastward exhibited by elites in Beijing reflects a novel pragmatic strategy in play and one that is more accommodating towards regionalism. As Breslin elaborates, Beijing's policies are indicative of China's attempt to build a counterweight towards American hegemony that is arguably on the cusp of imploding in the face of economic struggles and militaristic debacles (Robison 2006:19). The opportunity to provide a bulwark against the power of a hegemon that has hitherto dominated the regional geopolitical realm is an opportunity that Beijing stands to capitalize upon. And this effort is further enhanced if the power of the Asian community is harnessed within a regional unit that has the ability to promote norms alternative of those of the hegemon (Breslin 2006:319).

Member nations of the ASEAN do view Chinese ascendancy with apprehension and this sentiment is jointly shared by members of the Bush administration in Washington. The Chinese elites have been gradually building their political capital within the region in order to placate the hegemonic fears of their ASEAN counterparts. They have resorted towards mending bridges across the region as exhibited through the developments at the 2003 Bo'ao Forum for Asia meeting where the "Peaceful Rise of China" idea was disseminated (Breslin 2006:319). Beijing has been consciously reiterating to regional players of its benevolent intentions and that closer relations with it are

¹³ Alluding to the neoconservative cabal composed of hawkish foreign policy individuals who subscribe to an ontological approach that depicts human and social existence in a constant perilous environment that can only be counteracted by the exertion of American power on the global stage (Daalder 2003:37).

the best option to not only usher regional prosperity but also gradually reduce the degree of dependence on the United States.

4.2.4 Rise of China

Lee Kuan Yew recently observed, “It has become the norm in Southeast Asia for China to take the lead and Japan to tag along. Since Japan is unable to recover its economy, it has no choice but to allow China to take the initiative” (Terada 2006:6). The validity of this assertion is open to debate but an undeniable fact given recent developments has been the power struggles between the Northeast Asian rivals and its ensuing effect on the shift within Japan’s East Asia policy. The rise of China has unsettled policymakers in Tokyo intensifying the jockeying for the regional hegemonic post in East Asia and the battleground for this matchup has been the plateau under which an East Asian community is being formed. And despite the power struggles, it would be apt to infer that the rivalry between both powers is fostering the growth of East Asian regionalism.

Increased attention from Beijing towards the ASEAN can be captured by several initiatives, most notably the negotiations leading to an ASEAN-China FTA, Chinese affirmation of the Treaty of Amity and Cooperation and various developments pertaining to the institutionalization of the APT. All these events have signified the re-engagement of China with the ASEAN and also subsequently spurred Japanese action along the same lines. Takashi Terada has termed this pattern of behaviour as *Directional Leadership*, a leadership style that is grounded on the ability to direct the behaviour of other nations to advance collective interests (Terada 2004:65).

Tokyo has become more regionally conscious, in turn driving and supporting collective East Asian causes partly due to the fear of being relegated economically and politically within a region they had nurtured for the past five decades. Stubbs highlights that Japan’s reluctance to commit to the APT was eventually subsumed following Chinese overtures to connect at the regional level.

‘Although Japan was still reluctant to get involved, the Chinese government’s agreement to take up ASEAN’s invitation essentially forced Tokyo’s hand. Beijing was interested in building on the economic ties that were developing with Southeast Asia and the Japanese government could not afford to let China gain an uncontested leadership position in the region.’ (Stubbs 2002: 443)

Witnessing their economic influence and dependence wane, Tokyo seems to have shifted their approach by attempting to bolster their regional position politically hence fuelling East Asian regionalism.

4.3 Material Sphere

Transformations in the International Political Economy have ushered in material changes in the realms of trade, production and finance. And they have also gradually revitalized transnational corporate entities that have increasingly extended their operational capacities across different economies. And East Asia has been a pivotal cog driving the internationalization of production and capital owing to the nature and capacity of their economies that has been elucidated above in Chapter 2. But have these developments subsequently influenced the politics of regional integration in East Asia? Can the renewed impetus towards regionalism in East Asia be effectively captured using a materialist lens? Does the politics of production permeate into the domain of discourse surrounding regionalism? This section will shed light on the material sphere and the developments unfolding in the regional and domestic context within Southeast Asia and assess their impact over the ASEAN Plus three grouping.

The overarching argument being posited under this subsection is that regionalization and increasing economic interdependence quantified in divergent measures denotes a key factor driving recent regional efforts in East Asia. Interdependence does not inevitably produce regional outcomes but it does create the demand for intergovernmental cooperation and institutionalization of some sort due to a couple of factors. Interdependence increases the transaction costs associated with the lack of policy harmonization within a community that possesses intense economic connections. Thereby policy coordination stimulated at a regional level reduces the level of transaction costs associated with increased interdependence and synchronizes the concerns experienced regionally in a more efficient manner. Secondly, as was painfully experienced in 1997, interdependence renders domestic economies more susceptible to financial uncertainties and systemic shocks due to the plethora of actors engaged in economic activity. The volatility posed by financial and capital markets to the economic well-being of nations merits a level of management and regulation to allay the fears of the citizenry (Ravenhill 2001:12).

Economic Interdependence itself is inherently multi-dimensional in nature that is inclusive of divergent measures that are officially and unofficially recognized. We now turn to illuminate certain facets of this interdependence at a quantifiable level with empirical examples and their impact on spurring greater regional action. At the outset, we consider some of the common measures of regional integration – trade relations, before moving towards incorporating other measures such as capital inflows, production networks, and macroeconomic links.

4.3.1 Trade Interdependence

Within international circles, the primary incentive drive powering regional integration has been the ability of most economies to open up to the outside world. And as exhibited through the data figure enclosed below, the intra-regional trade interdependence index within East Asia has increased from 22.35 percent in 1985 to 45.37 percent in 1999, the year of the institution of the APT signifying a dramatic surge in intra-regional relations across East Asia (Mingqi 2003:4).

Figure 4.2: Trade Dependency Levels among East Asian economies from 1980-99

Table 2 Index of trade dependency among East Asian 14 economies, 1980-99

	1980	1985	1990	1995	1996	1997	1998	1999
Brunei Darussalam	17.03	27.20	33.63	59.88	62.05	62.41	33.93	36.47
Myanmar	4.43	2.19	2.20	2.24	1.76	1.40	0.89	0.84
Cambodia			5.47	53.53	48.67	38.96	41.91	52.67
Indonesia	7.64	5.96	9.91	11.41	12.02	13.70	27.12	23.41
Lao PDR		1.89	18.28	31.26	34.82	24.42	43.31	45.13
Malaysia	26.78	30.36	49.72	62.36	61.05	62.42	70.72	78.53
Philippines	6.92	8.55	11.03	16.73	15.93	22.59	29.11	29.99
Singapore	140.24	107.65	112.06	130.61	125.91	124.86	112.95	122.74
Thailand	11.62	11.31	15.76	21.80	20.36	24.01	26.06	29.71
Vietnam		0.98	23.03	37.98	45.79	43.46	38.00	38.76
Taiwan, China	12.81	10.77	14.71	24.14	23.50	24.96	23.75	25.55
Hong Kong, China	47.40	71.24	106.56	138.20	130.86	123.69	117.09	121.72
South Korea	6.11	7.23	6.84	12.66	13.57	15.77	18.80	17.63
China	3.36	5.23	14.73	14.26	12.36	13.33	11.73	12.06
Average	25.85	22.35	30.28	44.08	43.47	42.57	42.49	45.37

Source: IMF direction of trade statistics, World Bank Database; also see Goto (2002).

Source: Mingqi, Xi (2003) "East Asian Economic Integration: China's Perspective and Policy." *Trade Working Papers*, 403. East Asian Bureau of Economic Research.

Rising Intra-regional trade has also been anchored on the incremental inclusion of the Chinese economy into the global economy following the nation's accession to the WTO. As Shaun Breslin astutely observes,

“China’s re-engagement with the global economy has created new economic relations in East Asia that have created new patterns of linkages between regional economies.” (Breslin 2006:311)

Abiding by the tenets of the global trade regime has not only generated tremendous revenue and growth for the Chinese but also for several East Asian economies that have widened their economic relationship with the rising power. China is playing a seminal role in accelerating the latest wave of East Asian regionalism, the manifestation of which is visibly present in the economic sphere.

4.3.2 Capital Inflows (FDI)

Parallel to rising intra-regional trade, capital inflows are experiencing a similar trajectory in East Asia. Increasing FDI has also been driving substantial intra-industry and intra-regional trade growth thereby fostering greater regional economic integration. Again extracting statistics from multiple sources, expounds the story behind the capital influx into the East Asian region. In 1990 China attracted 53 per cent of its total FDI from Japan, Hong Kong, Taiwan and Singapore whilst compared with 58 per cent in 1996 and 61 per cent in 1999. Japan contributed 712 billion Yuan in FDI to Asian countries pertaining to 28 per cent of total Japanese FDI outflow in 1990. In 1996, Japan’s FDI in Asia increased to 1300 billion Yuan amounting to 53 per cent of its total FDI outflow. During the 1990s, South Korean FDI outflow to Asian countries was more than 43 per cent of its total FDI; in contrast, its FDI to North America dropped from 34.6 per cent in the early 1990s to 24.6 per cent in the late 1990s (Mingqi 2003:6).

4.3.3 Politics of Production

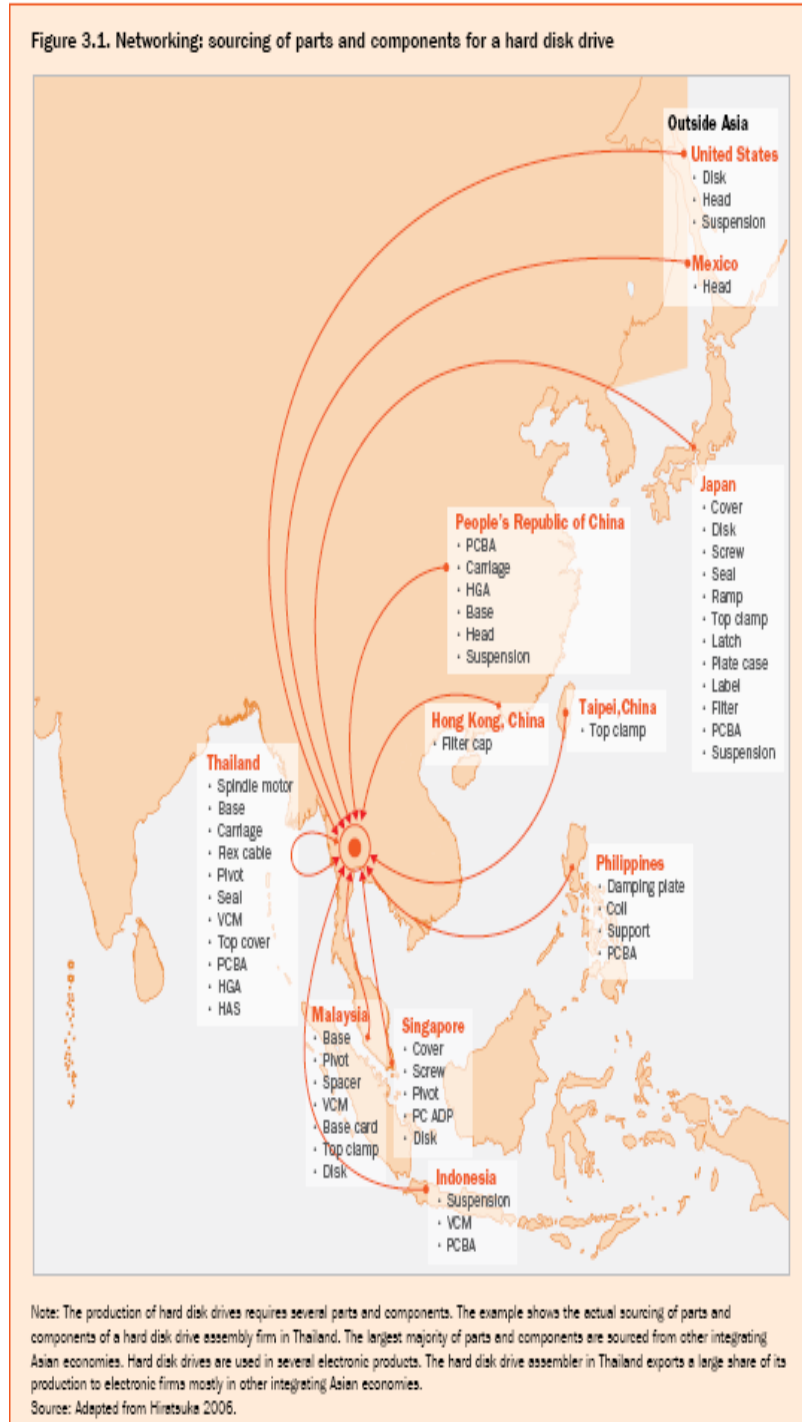
Analyzing the influx of rising intra-regional capital flows and intra-regional trade enables us to comprehend the politics of production underpinning the shift towards the quest for collective vehicles at the regional level. East Asia’s comparative advantage in global manufacturing is now grounded through the establishment of regional production chains where each stage of production is intricately tied together to produce goods for regional and overseas markets. The era where goods and services were produced and consumed within one country have dramatically receded. Increasingly, the global production sphere is fragmented along Global Value Chains that dispense production activities among firms in geographically dispersed locations (Abonyi 2008). For example, more sophisticated firms (within the chain) in Japan and South Korea will focus on tasks such as product design and marketing whereas their ASEAN subsidiaries will specialize in discharging labour intensive responsibilities at the production level. (As shown in the illustration below) And the dramatic innovations within the information technology realm have served to augment the functioning of these regional production networks (ADB 2008:62).

The demarcation of economic processes based on factors of production has been rechristened by Athukorala (2003) as International Product Fragmentation and East Asia has been one of the more manifest cases. And the incorporation of China following its accession to the WTO has served to accelerate and augment the importance of East Asian regional production networks that not only facilitates intra-regional but also inter-regional opportunities and interests (Athukorala 2003).

In his recent study, Athukorala examines the growing importance of this development to regional integration in East Asia. He asserts that intra-regional trade was 48.3 percent when compared to 52.3 percent of total trade. In 2000, over 60 percent of East Asian exports were targeted to nations outside the region, notably Europe and North America which is up from 55 percent in 1992 (Drysdale 2005). The increased fragmentation and specialization of trade and production serves to promote the activities of MNC's operating in East Asia presenting them tremendous opportunities to become integrated into international production chains and markets. Such a development will also dramatically improve the productivity, output and quality of the products emanating from East Asia as well as preparing them to constantly adapt in light of external competition.

In order to institutionalize and consolidate such a structure at the regional level, transaction costs and trade barriers need to be reduced and an attractive business climate needs to be promoted and inculcated. Regional collaboration becomes pivotal in this context for domestic entities to capitalize and develop their capacities. Therefore, regional solutions are increasingly sought after in order to facilitate and sustain such production structures (Kwan and Qiu 2002). It would be accurate to infer that the evolution of the global economy as well as the economic growth, restructuring and integration of East Asia is largely reflective of the internalization of business and the globalization of production that have powered intra and inter regional economic relations

Figure 4.3 Hard Disk Production Network in East Asia: An Illustration



4.3.4 Monetary Regionalism

The trials and tribulations stemming from the financial crisis have elevated the importance of monetary stability within the region. Closer monetary integration engendered through initiatives such as coordinating macroeconomic policies, augmenting information dissemination and strengthening mutual surveillance pose immense implications towards safeguarding economic stability in East Asia. (Mingqi 2003:14) As painfully experienced by the crisis, Asian economies have inseparable economic ties that places them at peril given the lack of a mechanism that can contribute towards financial and monetary stability.

As aforementioned, there has been tremendous progress ushering in novel initiatives under the rubric of Monetary Regionalism such as the Chiang Mai Arrangement, Manila Agreement, ill-fated Asian Monetary Fund, inclusion of financial stipulations within trade agreements and also the formation of the APT grouping. At this stage, what needs explication is the impetus given towards devising regional mechanisms that are devoted to financial and monetary stability.

At the outset, the developments ushering in ‘Monetary Regionalism’ in East Asia can be comprehended by the shift in the focus of the regional economic policy arena whereby greater attention has been accorded to the monetary sphere at the expense of trade. This development emanates from twin factors. Firstly, the establishment of a regional manufacturing network that produces and services global sectors renders monetary stability critical in order to ensure the continual functioning of such a structure. Secondly, the effects of the financial crisis have effectively dispelled the merits of regional integration grounded on trade. The inability of the APEC and ASEAN to mitigate and manage the crisis has contributed to the evolution of a novel type of regionalism in East Asia, one that is situated along monetary lines (Higgott et al 2003:432).

Regional monetary management would also allow the Asian economies to reduce their substantial reliance on the US Dollar and offer a modicum of insurance if the American economic juggernaut encounters monetary and financial troubles. Amid geo-economic uncertainties and emerging economic interdependence, regional alternatives offer a cushion for Asian economies especially at perilous moments (ADB 2008:170). Also in play was the resentment emanating from the AMF incident¹⁴ that instilled the importance of possessing greater financial independence and not having to habitually resort to Washington during financial duress.

At the heart of the APT and perhaps the most significant accomplishment from the nascent regional accord is the Chiang Mai Initiative.

¹⁴ Where the establishment of the Asian Monetary Fund stewarded by Japan and other nations were thwarted by Washington owing to fears of marginalization of the IMF as the lender of last resort to global economies.

The CMI acts as a liquidity fund that countries can turn towards whilst battling fiscal malaise. Although a similar swap process did exist under the ASEAN, the underlying motive to expand the initiative within the APT is obviously evident – it included the addition of China’s and Japan’s foreign reserves into the arena that amounted to an astounding \$ 1000 billion in 2001 (Dieter 2003:444). In addition, financial initiatives such as ABMI, ABF that support the establishment of complementary bond markets and funds also contribute towards mitigating some of the pressures of the capital markets as the main source of funding for entrepreneurs and producers (ADB 2008:134).

4.4 Analytical Synopsis: Interplay between three spheres

Although the aforementioned three spheres delineating developments ushering in the latest chapter in East Asian regionalism have been accorded isolated attention within this piece, the reality is that the three spheres are engaged in a complex interplay driving regional processes on the ground. However, they are being accorded isolated attention within this piece due to heuristic reasons. This analytical synopsis will elaborate on the dynamics between the three spheres and how their inter-linkages are heralding a new era in East Asian regionalism. This component does not intend to embark on introducing novel ideas at this juncture but it will offer a more precise elucidation on the dynamics between the three spheres that is reflective of the empirical developments explicated in the preceding sections. The interplay will be presented below following the ordering upon which the central argument is premised.

4.4.1 Geopolitical – Material - Ideational

Regional integration is nested under broader geopolitical and geo-economic frameworks at the global level and therefore policy shifts within national and regional arenas can be attributed as reflecting gyrations at the global level. And the evolution of East Asian Regionalism over the course of the 20th century has been contingent on the vicissitudes of global politics.

During the cold war when geopolitical considerations were paramount, regional initiatives such as the ASEAN and even the EU were immensely influenced and reflective of the polarized geopolitical environment resulting in efforts that were dedicated towards preventing the residual effects of proxy conflicts staged under the auspices of the superpowers from permeating their shores. Following the demise of the bipolar stand-off and the subsequent dissipation of geopolitical imperatives, the advocacy of geo-economic interests under the stewardship of the United States and IFIs ensued and regional efforts in Asia mirrored this shift as integration spurred to remain competitive in an evolving international political economy. And the concomitant impetus towards internalizing outward oriented economic policies has fuelled regionalization ushering in material transformations in the realms of trade, production, and finance.

Regionalization has attained a level of maturity and importance in East Asia warranting the need for requisite political developments to formalize it. Regionalization has surged far ahead of regionalism and more so in East Asia where it is epitomized by inordinate amounts of capital and investment flows, trade and production connections. And in order to compete effectively within such an environment, corporate entities constituting regionalization processes forge alliances with each other. These transnational entities are therefore attempting to reinforce their global position through the regional market. And catering to these 'regionalized' entities would then be tantamount towards mobilizing regional pacts that are designed to enhance the ability of the private sector to operate regionally and globally. Regionalization is dictating the politics of regional integration.

Globalization does not represent a completely benign enterprise, accompanying the phenomena are uncertainties and fears that are occasionally expressed in the form of global events such as economic shocks and crises. Such adversarial effects accompanying economic globalization are often manifested at the regional levels which subsequently increase the demand to pursue collective mechanisms that can not only manage and regulate economic relations but also function as an effective shield in perilous times. Certain imprudent policies that were internalized by various Asian economies during the 1990s exposed their vulnerability in global markets endangering their material and social foundations within society. And subsequent collective efforts under the APT umbrella within the region encapsulated by efforts such as the CMI, ABF, ABMI, EMEAP all drive home the importance of sustaining the regional economic dynamism exuded by these economies as well as possessing mechanisms that can safeguard and ensure stability in times of economic duress.

Prevailing geopolitical exigencies and material implications incite global powers to resort towards parochial measures designed to prolong their influence over certain regions. The residual impact of such insular policies engenders resentment that if channelled prudently could spark regional processes. Such regional initiatives would represent vehicles to shield states and attain a modicum of insularity from external powers that exercise undue influence over their region. And recent developments undertaken within East Asia to limit the influence of the United States emanating from the resentment incurred during post-crisis management efforts affirms this notion. The antagonistic attitude exhibited by the IFIs under the auspices of the United States in attempting to forcefully shovel neoliberal tenets following the crisis engendered a regional renaissance and the quest to unearth mechanisms at the regional level to defend and resolve collective concerns. And the integration of China within the region has been received as an effective bulwark against American hegemony that has had an overarching impact over East Asia since the inception of the Bretton Woods regime. Beijing also widely believes that it could effectively withstand and counter American pressures provided it can spearhead a united regional front in East Asia.

Economic interdependence is also altering the contours of regional and global geopolitical constellations that are concomitantly affecting the impetus towards regional processes and the politics of regionalism in East Asia.

Chinese ascendancy and importance to the region has amplified following the linkages along production networks that have also augmented economic relations in terms of capital, investment, and trade. Consequently, the importance of Japan to ASEAN economies has waned over the recent past at the expense of the Chinese giant. In turn, this shift has been retorted by Tokyo with a renewed approach by stewarding regional relations in order to restore their waning decline. The United States is also not very diligent in its intent to promote Asia-Pacific Cooperation owing to 9/11 and war on terror that has shifted its national interests and priorities. The decline and impotence of the Asia-Pacific agenda has subsequently caused Asian elites to pursue narrowly conceived regional alternatives to fortify Asian economic linkages.

States also realize that they could better manage economic globalization and its effects if they are able to mobilize and form a united regional front at the global governance realm. The existence of competing regional entities such as the European Union and NAFTA elevate the importance of possessing a cohesive regional front to express and defend salient regional concerns. And regionalization and economic interdependence is also augmenting the economic prowess of the nations ensconced thereby increasing the stakes of presenting a united front at the upper echelons of the global governance realm.

And if regions do possess the potential of emerging as global players on the world stage outlasting their geographical demarcations, it would depend on the development of a discursive component that is inclusive of ideational elements. And regional elites are cognizant of the idea that devoid a manufactured identity, the prospects of developing and cementing regional collaboration politically is improbable. However, the establishment of this discursive cog couched in ideational terms is in itself driven by and reflective of dynamic geopolitical and material interests in play. Since the respective fates of regional communities are contested and sealed at the political arena, the construction of ideas are crucial in order to justify and cement integration at the regional level. This process of legitimization is ultimately driven by actors currently engaged in the processes of regionalization and regionalism within the common spatial community who invoke commonalities in order to overcome dissent and placate resistance stemming from antagonistic corners.

Chapter 5 – Conclusion

Regionalism has assumed a different shape within East Asia, one that is distinct from other regional varieties manifested across the globe. Differences can be underscored in terms of nature, constitution, organization, diversity, and institutionalization and perhaps across many more facets. However, certain commonalities can also be derived from the drivers underlying regional integration whilst comparing East Asia to other regional entities. By enclosing empirical developments under an analytical triumvirate, this piece has highlighted the inherently complex nature of regional collaboration. Subsequently, utilizing that triumvirate, it has illustrated that regional integration in East Asia and concretely, the ASEAN Plus Three emanates from the complex interplay of geopolitical imperatives at the international level and material considerations at the regional context that have been espoused through ideational elements to garner political consensus.

Dominant accounts explicating regional integration in East Asia have accorded importance to three overarching realms that can be classified as material, geopolitical and ideational. The first pertains to the rising economic interdependence and the sheer dynamism exhibited by buoyant economies that will eventually impel political elites to manage and regulate this phenomenon by articulating policy. The second denotes the need to possess a more lucid voice and presence at the global level to voice regional concerns. Also pivotal in this context is to achieve a level of extrication and reduce the degree of dependence from global powers and entities. The final strand connotes the significance being accorded towards ideational elements that are captured through the presence of salient commonalities and values within the region. Regional unification is thus acquired through a process of perception and reflection that engenders a collective consciousness.

This piece has acknowledged and expounded the factors pertaining to the triumvirate expressed above and their concomitant influence over the latest manifestation of Asian Regionalism. This piece has also ventured further, and expressed the linkages and relationships within the three realms and their impact leading to the nascent APT framework. In short, three positions can be advanced. Firstly, processes of regionalization and regionalism are nested in overarching global frameworks that influence the contours and content of regional projects. Secondly, regionalization and economic interdependence are altering the dynamics of regional and global geopolitical constellations that are contributing towards the development of regional frameworks and initiatives. The overarching impact of extra-regional and regional powers, all jockeying to retain a degree of influence over the region has catalyzed recent regional processes on the ground. Finally, these regional entities are legitimized via the utilization of ideas that are themselves reflective of the dominant geopolitical and material interests at stake. Ideas attain importance as legitimizing tools and not as pre-requisites.

At the theoretical level, given the intricate complexities and diversities assembled to comprehend regional integration, a number of different

theoretical models come into light due to their relevance and applicability within the context and content being scrutinized.

At the geopolitical context, Structural theories such as Neo-realism connote the importance of exogenous geo-strategic configurations and the concomitant dynamics of power politics that in turn impel spatially demarcated geographical entities to integrate. Other structural theories direct us to perceive structures as entities that are not monolithic and are themselves not immune from transformation. In a novel era where geo-economic concerns are accorded primacy, global institutions and major powers are engaged in a constant campaign to ensure nations across the globe internalize tenets of liberalization that has propelled not only globalization but also regionalization processes. Consequently, inculcating these tenets have produced dramatic material changes in the realms of trade, finance and production that are inducing nation-states to pursue mechanisms to manage this interconnectedness hence the shift towards regionalism.

The applicability and relevance of Social Constructivism is questionable whilst comprehending the drivers of the latest incarnation of East Asian regionalism given the dynamism exuded by regionalization processes within East Asia. However, such regionalization processes and increased economic links in alliance with geopolitical imperatives are being utilized to engender an 'East Asian' identity to facilitate the political passage of regional initiatives under the APT. The critical distinction to be made of ideational elements is of their role as a pre-requisite and as a discursive weapon for regional legitimization and due precedence towards the latter.

And finally, the arrival of the Critical approaches within IPE literature has underscored the importance of comprehending regional integration utilizing a historical and class conscious lens. The evolution of global capitalism captured by the internationalization of capital and the globalization of production has in simultaneity contributed towards producing regional projects designed to ensure the interests of those heralding that shift are met. The process of formalizing regional links can be seen as consolidating the manifest expressions of an international political economy more geared towards facilitating and shoring the processes of capital accumulation at the regional level.

The 'Asian Age', 'Asian Renaissance', 'Asian Century'. The list goes on. Pundits have long been prophesising on the future of the global geopolitical marketplace where now much interest and attention is now being accorded to the East and the Asian hemisphere. The veracity of these prophecies are of course open to scrutiny but one certainty emanating out of the literature is that the region is poised to attain a level of geopolitical and economic importance hitherto reserved exclusively for powers ensconced in the West. And this shift can be partly attributed to the momentum stemming from collective efforts being formulated by a region that has historically desisted from bequeathing much significance towards regional pacts.

East Asian regionalism over the past decade has displayed the resolve to transcend historical grievances, security squabbles, governance patterns, and inherent diversities that have exemplified its character for decades. The promising new developments ensconced under the APT framework also

confer hope towards tackling salient regional concerns albeit incrementally. Such a development would amount to the rise of a united Asia, a prospective entity that stands to transform the nature and dynamics of the global geopolitical marketplace. It would also represent a development that global powers should ignore at their own peril.

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