

## Regional and multi-level governance: East Asian leadership after the global financial crisis

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**Abstract** Although the economies of East Asia emerged from the global financial crisis of 2008 in comparatively strong positions, they remain structurally embedded within global markets. The degree of regional integration that has occurred within East Asia is thus predicated on the on-going interdependence with the economies of Europe and North America. Moves to advance East Asian regional cooperation in the wake of the crisis reflect this global interdependence, as well as intra-regional differences in interests and a lack of strong leadership within the region. Modest cooperation on an East Asian basis has continued since 2008 but the region is very far from realising a substantive regional governance model on economic and financial issues and does not appear to be pursuing a distinctive governance agenda. This article examines recent developments in East Asian regional cooperation, with a view to assessing the significance of current achievements and explaining the mixed and sometimes contradictory nature of initiatives for regional governance in East Asia.

### Introduction

The financial crisis of 2008 centred on the USA and the UK. Its effects were not been contained in these two economies, however, and the on-going European sovereign debt crisis suggests that its most severe and far-reaching consequences are still unfolding. Economic contractions in the USA and Europe produced a sharp fall in global trade, affecting the export-dependent economies of East Asia. Clearly, those who detected signs that Asia was ‘decoupling’ from the developed markets of Europe and the USA were, at best, premature in their estimates. Despite increasing intra-regional interdependence, East Asia remains embedded in a global economy and significantly dependent on

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its traditional extra-regional trade partners. In this context, what are the prospects for either a fundamental re-ordering of the global financial system or a shift in power towards Asia? If we do see significant reform or rebalancing, will East Asian regional governance mechanisms play a role in driving these outcomes?

Conventionally, regional governance has meant intergovernmental arrangements for coordination, standard setting and cooperation among a group of countries that constitute a geographic region. Regional governance, in this view, can be measured and assessed on the basis of the extent and functional effectiveness of international agreements and institutions at the regional level. On such measures, East Asia since the global financial crisis of 2008 has exhibited mixed inclinations to pursue regional governance arrangements. Although the region has taken some steps towards greater regional cooperation, other actions tend to undermine distinctively regional approaches. Regional governance may also be delivered through other means. Particular forms of governance can become embedded directly in domestic institutions, altering both the substance of particular policies and the processes surrounding policymaking, implementation and accountability (Hameiri 2009). However, just as it is hard to discern a distinctively East Asian presence or voice in formal international governance arrangements, it is difficult to argue that the diffusion of governance standards in East Asia represents distinctively East Asian ideas or agendas.

This article first reviews developments in formal intergovernmental regional cooperation, with particular attention to initiatives governing finance. The second section reflects on cooperation outcomes in light of the goals that East Asian players appear to espouse on issues of financial governance, and argues that the limited progress on regional cooperation reflects a lack of demand for a more ambitious agenda. The third section places this apparent preference for the status quo in the context of the structural position of East Asian countries in the global economy. The final section concludes with a discussion of alternative modalities for regional governance.

### **Regional governance through regional cooperation**

Since the 2008 financial crisis, the states of East Asia have taken a few steps towards developing the regional intergovernmental cooperation agenda. However, cooperation on both an Association of Southeast Asian Nations (ASEAN) and an East Asian basis remains cautious and curiously lacking in substance, despite the proliferation of meetings and announcements. Competition among putative regional governance institutions, already apparent before 2008, has increased further, with most indicators pointing to diminishing prospects for cooperation on an East Asian basis and a proliferation of broader institutions with overlapping mandates. Bilateralism, rather than any form of multilateral governance at the regional level, appears to be the dominant mode of cooperation.

By design and at the insistence of ASEAN members, ASEAN remains the institutional core of most regional cooperation initiatives (Ba 2009). This in itself sets significant limits to regional cooperation. ASEAN members are inherently limited in their collective capacity to address many of the transnational governance

problems confronting them. On many issues of trade, finance and security, the actors whose involvement is critical to managing the problems are not ASEAN members. Recognition of this limitation provided the impetus for the variety of ‘ASEAN Plus’ groupings, which are effectively constituted as add-ons to the ASEAN vehicle. Thus the ASEAN Regional Forum (ARF), the East Asia Summit (EAS) and Asia Pacific Economic Cooperation (APEC) groupings, as well as the ‘ASEAN Plus Three’ (APT or ASEAN +3) forum, either formally or informally place ASEAN in the driving seat and defer to ASEAN norms and procedures (Foot 2011). The most recent EAS leaders meeting, in November 2011, continued to reiterate ASEAN’s role as the driver of the Summit and the commitment to employing ASEAN modalities in the EAS (ASEAN 2011). Since ASEAN continues, for the most part, to be a consensus-seeking organisation that eschews formal, binding commitments and prioritises Westphalian notions of non-interference and state sovereignty (Acharya 2009), this places ‘ASEAN Plus’ cooperation on a loose and weak institutional footing. ASEAN, as argued by Webber (2010), provides no more than a ‘soft core’ for East Asian regionalism.

As discussed below, there are parts of the regional cooperation agenda that do not entirely conform to this model of process-based—as opposed to problem solving—regionalism. Countries have made some formal cooperative commitments and introduced elements of peer surveillance that are potentially at odds with ASEAN’s traditional interpretation of ‘non-interference’ as the avoidance of any formal scrutiny of its members’ internal practices. With a few exceptions, however, these commitments tend to undermine the notion of ASEAN or East Asian-based cooperation. As John Ravenhill notes, ‘Most ASEAN states are now members of the WTO, and many have entered legally binding FTA commitments with industrialised economies. There is more than a little irony when they are willingly sign on to these agreements with extra-regional actors but maintain a reluctance to commit themselves to similar agreements within ASEAN itself—thereby undermining the much-vaunted ‘ASEAN First’ principle.’ Of the many preferential trade agreements completed or in process in the broader East Asian region (over 40 being implemented with almost as many under study or under negotiation), the majority have been signed with partners outside the region (Ravenhill 2009: 228, 232–233).

It would be untrue to say that ASEAN has made no progress on economic cooperation since it launched the ASEAN Free Trade Area in 1992 and committed itself to achieving an ‘ASEAN Economic Community’ (AEC) by a target date of 2020, as announced in Bali in 2003. To reflect the commitment, in 2007, the target date for the AEC was brought forward to 2015 and ASEAN meetings since then have continued to affirm the goals of the AEC and develop proposals for facilitating the process.<sup>1</sup> But it remains that many of the original commitments have not been met and that there are no clear sanctions for non-compliance. On the trade front, the array of PTAs signed within and across the region are highly selective, offering protection to favoured domestic interests rather than a coherent region-wide trade agreement. There has been no major retreat from trade openness, even though some crisis-hit

<sup>1</sup> On ASEAN trade policies and the AEC, see Hew 2005; Plummer and Chia 2009; Ravenhill 2008; Sally and Sen 2011.

countries in East Asia (as well as elsewhere, including the USA, Russia and Europe) have introduced new ‘murky’ protectionist policies that create barriers to trade while declaring continued adherence to international trade rules (Aggarwal 2010).

In terms of functional issue areas that have gained a place on the regional cooperation agenda, there has been both an expansion and an intensification of inter-state meetings and dialogues. Even before the 2008 crisis, ‘at the end of 2007 the APT process embraced 48 mechanisms for cooperation across 16 areas including economic, financial and monetary affairs, political and security issues, tourism, agriculture, environment, energy and information technology.’ (Ravenhill 2009: 219). Since 2008, the already crowded regional agenda in terms of meetings at the officials’, ministerial and summit levels across the plethora of regional groupings has, if anything, become even more crowded.

What it all adds up to is not immediately apparent. There continue to be far more anodyne declarations of intent than concrete agreements at the regional level. Most agreements are vague, with many loopholes, opt-out provisions and reluctance to accord regional partners with concessions that go beyond commitments made elsewhere. The intensified regional cooperation agenda looks like a case of ‘cooperation without integration’ (Webber 2010). The duplication of regional institutions with overlapping membership and mandates—exacerbated by the decision to expand the East Asia Summit still further, to include the USA and Russia from 2011—underlines the lack of substance to the actions of these groups. If they were effective in providing problem-solving governance in the many functional areas on which they declare an interest, the redundancy of competing institutions would presumably be too evident to ignore. This does not mean that formal regional governance institutions are entirely irrelevant. First, in the area of financial cooperation, small but concrete steps have been taken since 2008. Second, as discussed in a later section, the bundle of bilateral, minilateral and regional cooperation initiatives—along with the regional role of multilateral institutions—contribute to remaking governance in diffuse and piecemeal ways.

### Regional financial cooperation

East Asian countries re-committed to intra-regional financial cooperation in response to global financial instability, marking a continuation of the regional cooperation agenda that developed mostly after 1998. Many commentators have seen this unfolding regional cooperation agenda as something that holds out the promise of a more independent and capable regional financial management system, one that will also raise East Asia’s influence at the global level. For example, one writer sees the process of increasing regional financial cooperation as one that will, albeit in a non-confrontational way, influence the international monetary order, as East Asian countries pursue ‘counter-weight’ strategies that will ‘allow them to avoid overdependence even as they maintain cooperative relations with the G7-centred global financial institutions’ such as the International Monetary Fund (IMF; Sohn 2006: 2).<sup>2</sup> One might think that a financial crisis which manifested primarily in the USA and Europe would add to East Asia’s

<sup>2</sup> For an earlier interpretation of Japan’s regional cooperation agenda as part of a ‘counter-weight’ strategy, see Katada (2004).

incentives and ability to develop regional governance and pursue as such a counter-weight strategy at the global level. For a variety of reasons, however, this does not appear to be the most likely outcome of the 2008 crisis (Beeson 2011; Katada 2011).

Substantive initiatives for regional cooperation on financial and monetary issues in East Asia were mostly introduced in the wake of the financial crisis that hit several Asian countries in 1997 and 1998. Prior to the crisis, there was only one region-wide dialogue forum that explicitly focused on financial and monetary issues, in the form of the Executives Meeting of East Asian Central Banks.<sup>3</sup> Other institutions dealing with finance were similarly low-profile, such as the meeting of Central Bank Governors of Southeast Asia, New Zealand and Australia and the Southeast Asian Central Banks Research and Training Centre. Southeast Asia's premier regional organisation, ASEAN, did not have a regular finance ministers' meeting until 1997. After the crisis, given the consensus that the region had been under-prepared to deal collectively with issues of common interest, East Asia emerged as a relatively new arena for regional cooperation, under the banner of 'ASEAN Plus Three' which brought together the members of ASEAN with China, Japan and South Korea (Stubbs 2011). Regular Asia–Europe meetings have also been a forum for regional dialogue on financial cooperation. The Asian Development Bank (ADB), headquartered in Manila, initially took the lead in hosting nascent efforts at regional surveillance, financial monitoring and generating research relating to regional integration (Kuroda and Kawai 2004; ADB 2010).

The development of regional financial facilities or lines of support that could be activated during a crisis has been the major focus of regional financial cooperation (Amyx 2004, 2008; Chey 2009; Rajan 2008; Katada 2008). The plan to establish bilateral swap facilities, known as the Chiang Mai Initiative (CMI), was announced by the APT finance ministers in May 2000 and the ASEAN swap facility was increased to \$1 billion later that year. A series of bilateral swap arrangements were negotiated over the next years. In 2005, East Asian countries agreed to double the amount of emergency funds available to US \$80 billion. They moved fairly rapidly on this commitment, with total funds pledged under the CMI reaching \$75 billion by May 2006 (Sohn 2006: 9). This created a headline 'envelope' of total financing under the CMI that exceeded the amounts disbursed by the IMF during the 1997–1998 crises.

However, the significance of the CMI swaps was limited. First, the amount available to any one country should the swap lines be activated was a great deal smaller than the total envelope suggested (Amyx 2008). The envelope was divided into 16 bilateral swap agreements, so: 'the total amount of money available to an individual country in crisis is substantially less than that (the largest amounts, \$13 billion, being available to Indonesia and Korea while other countries can draw on less than \$10 billion)... These amounts are small in comparison with the foreign exchange holdings of many East Asian countries (especially those of China and Japan), and in comparison with the volume of daily flows in foreign exchange markets.' (Ravenhill 2009: 229). Second, initially only 10% of the pledged amount was to be available unless the recipient country had an IMF programme in place. In May 2005, the

<sup>3</sup> On pre-crisis regional cooperation arrangements and their development after the crisis, see Hamilton-Hart (2003) and Amyx (2004).

ASEAN+3 agreed to increase the amount available without an IMF programme to 20%, a link that both the major creditor countries (Japan and China) argued strongly to retain (Amyx 2008). In 2004, an officially sponsored study presented to APT officials in March recommended options such as multilateralizing the swaps, earmarking a portion of each country's foreign reserves for use under the CMI, a comprehensive regional surveillance system and centralized reserve pooling (ADB 2004). Initially, APT finance ministers did not endorse any of these proposals, merely referring the issue of financial cooperation for further discussion and study (Hamilton-Hart 2006a). The goal was endorsed in principle by the ASEAN+3 in 2007, but again returned for further study.

The 2009 decision to multilateralize the swaps is therefore a significant and concrete post-crisis step towards greater cooperation, although it is unlikely to develop into an autonomous 'Asian Monetary Fund' (Grimes 2011). The ASEAN+3 Finance Ministers, meeting in February 2009, announced a plan to increase the total size of multilateralised Chiang Mai Initiative (CMIM) from the initially agreed level of US \$80 billion to US \$120 billion, with the proportion of the amount of contribution between ASEAN and the Plus Three countries maintained at 20:80, respectively. The announcement also noted that after a regional surveillance mechanism was sufficiently strengthened, the IMF de-linked portion may be increased above the current limit of 20% (ASEAN+3 2009). The agreement to multilateralize the CMI came into force in March 2010 and the contentious issue of adjusting the division of contributions among regional countries was resolved (ASEAN+3 2010).<sup>4</sup>

In parallel, and in order to support the potential option of de-linking CMI funds from IMF conditionality, a capacity for regional surveillance has slowly developed. Despite a lack of enthusiasm by some regional countries, initiatives for information gathering and analysis were initially located within the Asian Development Bank, which developed a prototype for a regional early warning system (Bergsten and Park 2002). After having been referred by finance ministers to various working groups over the years, a significant further step towards institutionalising a regional surveillance capacity was made with the agreement to set up an ASEAN+3 Macroeconomic Research Office (AMRO) in 2010, for which a director was appointed in 2011 (ASEAN+3 2010, 2011).

ASEAN+3 continue to offer declaratory support and sponsored research on other finance-related issues. In 2001, in association with the ADB, ASEAN+3 took up an initiative to develop regional bond markets. This developed as the Asian Bond Markets Initiative, under which a multilateral Asian Bond Fund to guarantee bond issues was launched, along with a series of working groups that have carried out numerous studies on credit guarantee mechanisms, regional clearing and settlement mechanisms and impediments to cross-border bond investments.<sup>5</sup>

Monetary cooperation remains at a very preliminary stage, with no official initiatives for cooperation on the current agenda apart from the sponsorship of research, for which Japanese-led initiatives date back to the late 1990s (Hamilton-Hart 2006a). This has led to a large number of technical studies which offer moderate to mixed support for the

<sup>4</sup> On the negotiations surrounding CMIM contributions, see Kawai (2010).

<sup>5</sup> Developments regarding to the ABMI and ABF, along with related studies and commentary, are available through the website of the ADB.

idea of currency cooperation, as well as discussing preconditions and modalities. The initiative by the ADB to construct a virtual currency unit index for monitoring purposes in 2006 was, however, suspended due to the objections of some member governments (Kawai 2010). Several policymakers and commentators in several East Asian countries have, over the last 10 years, raised the idea that Asia might benefit from various forms of monetary cooperation, but the idea remained largely in the realm of academic study and quasi-official technical discussions. At the policy level, most countries were either lukewarm or dismissive of prospects for monetary coordination, relegating this possibility to the distant future. Even one of the more optimistic proponents of greater cooperation, Joseph Yam of the Hong Kong Monetary Authority, guessed that while Asia would move towards monetary union in a shorter time than the half century it took countries of the Euro area, 'I do not think that many of us in this room will be around long enough to see how many years it really does take' (Yam 2005).

Since 2008, and with the ongoing euro crisis in the EU, the cautious and mostly sceptical official views on currency cooperation have mostly become even more negative. There are some exceptions. Taiwan's central bank has publicly endorsed the idea of greater intra-regional currency cooperation (*Financial Times*, 6 September 2010). The ADB has continued its technical work on the topic and ASEAN+3 have commissioned research reports. At the policy level, however, the idea of currency union seems to have few takers. One journalistic assessment describes the Malaysian Central Bank governor as 'probably speaking for most of the region's policymakers' when she said that a currency union would do more harm than good (*Financial Times*, 7 December 2010). Intra-regional economic disparities and structural differences are probably not the major reason.<sup>6</sup> What is almost certainly more salient is that the prolonged and severe Eurozone crisis has underlined both the advantages of currency autonomy and the essentially political nature of currency cooperation (Grimes 2011; Eichengreen 2011).

### **An East Asian alternative? What does the region want?**

Despite the lack of enthusiasm for monetary cooperation, regional financial cooperation is inching forwards. Some commentators have seen it as a sign that Asia is developing the capacity and willingness to operate more independently of global rules and institutions, to carve out an area of autonomy and potential for pursuing paths at odds with the Anglo-American orthodoxy that the IMF has championed. Others have expressed doubt about any such agenda on the part of key policymakers in Asia (Amyx 2005, 2008). This section reviews some indicators that speak to the issue of what players in East Asia appear to want in terms of governance outcomes in the area of financial and monetary management. Based on statements by policymakers and influential actors in both regional and global forums, there is little evidence that these players have a distinctively Asian agenda for

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<sup>6</sup> There is no clear consensus among the many economic analyses of whether East Asia, or some part of it, is a suitable candidate for currency cooperation. Hamilton-Hart (2011) provides a review of recent work on the issue.



financial reform or governance, one that differs from the orthodoxy prevailing at the global level. There are signs that the ‘global’ orthodoxy is changing, at least in declaratory terms, but few that suggest East Asian players have been at the forefront of propelling such changes. Some East Asian countries are at odds with Europe and the USA when it comes to the issue of exchange rate management and its role in resolving global imbalances, but do not offer a coherent alternative vision for monetary governance.

If we examine recent statements from ASEAN and ASEAN+3, it is hard to read them as anything other than even more ‘orthodox’ than the prevailing mood in western capitals and multilateral organisations such as the IMF. They continue to affirm commitment to free and liberalised finance, to endorse trans-border movements of capital, and to frame cooperation largely in terms of financial integration and the promotion of regional bond markets (apart from the initiatives regarding swaps and surveillance noted above). In 2009, for example, ASEAN ministers reaffirmed their commitment to their Roadmap for Monetary and Financial Integration of ASEAN, and their response to global turmoil was to reaffirm the market-based principles they had previously claimed to support. Thus an ASEAN statement considered that

the current global financial crisis presents a clear opportunity to promote further integration of our financial markets. To this end, we reaffirmed our commitment to financial integration under the AEC Blueprint, particularly in the areas of Capital Market Development, Financial Services Liberalisation and Capital Account Liberalisation (ASEAN 2009).<sup>7</sup>

While not all ASEAN pronouncements should be taken at face value, it is impossible to read this as any kind of challenge to the old Anglo-American orthodoxy of financial liberalisation and capital mobility.

It is the case that not all actors within East Asia conform to a single vision—and there is disagreement as to how the preferences of even a single organisation should be interpreted. The ADB, for example, has been described as promoting ‘disciplinary neoliberalism’ in its lending programmes (Rosser 2009), while another account sees the ADB as leading efforts to institutionalise ‘developmental regionalism’ (Dent 2008). The ADB and its affiliate ADB Institute in Tokyo have certainly emerged as leading organisational champions of East Asian regionalism, in part through programmes to gather, classify and compare information on a regional basis (Nesadurai 2009). What is less apparent—based on the substance of research output—is any indication that the organisation is spearheading models of financial or economic governance that deviate from standards that prevail globally. It is of course a little early to make firm judgements on this issue. In the future, it may be possible to examine the content of surveillance reports and criteria that the new AMRO will employ, in order to draw firmer conclusions about the implicit and explicit understandings of governance that may become institutionalised at the regional level.

The global financial crisis has spurred the countries of East Asia to give much greater attention to global governance arenas and forums such as the G20, the IMF

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<sup>7</sup> The statement goes on to expand on each of these goals and does provide any indication that members considered fundamental reform at all desirable.



and—for China—the ‘G2’ of the USA and China (Katada 2011; Beeson 2011). Given that Asian countries hold the largest part of global foreign exchange reserves and (with the exception of Japan) enjoy relatively healthy government fiscal positions, they are in the best position they have ever been in to exercise a greater degree of voice in global multilateral institutions and global crisis management and prevention efforts. The unprecedented statement by the Governor of China’s Central Bank, calling for the creation of an international reserve currency in the form of IMF Special Drawing Rights to reduce dependence on the US dollar has been widely interpreted as evidence of China’s growing assertiveness and willingness to make use of its financial strength (e.g. *Business Times*, 24 March 2009). The recent agreement to give greater voice to emerging market countries in the IMF is also a sign of increasing Asian influence at the global level.

The implications of increased voice in global governance institutions are not clear. From one perspective, the failings and weaknesses of key multilateral institutions—largely as a result of neglect or worse on the part of the transatlantic powers (Dieter 2009)—suggest a timely opening for the injection of new ideas by East Asian and key developing countries. But it is hard to find signs that East Asian countries, either individually or collectively, are providing leadership in this way. Several Asian countries have supported the G20 summit’s post-crisis statements on the need to intensify and extend financial regulation, in order to prevent a recurrence of the kind of meltdown experienced by American and British financial institutions. This suggests that there is at least declaratory support for reforming the global rules governing finance in ways that would alter the entrenched Anglo-American bias of the ‘International Financial Architecture.’

On the other hand, Asian countries are not leading any of the principal reform agendas currently under discussion in global forums. When, for example, the G20 requested a review of risks posed by high frequency trading in financial markets, it was to the International Organization of Securities Commissions—a Western-dominated organisation—that they turned to Stafford (2011). Similarly, the G20 commissioned a report on financing for development and turned the task over to Bill Gates (G20 2011). High-level verbal support for major reforms such as a financial transactions tax has been forthcoming from players such as the French and German heads of government, the German finance minister and the president of the EU Commission—as well as prominent non-governmental individuals such as Warren Buffet, Bill Gates and the Archbishop of Canterbury.<sup>8</sup> East Asians of similar status are noticeably absent in such reform movements. Many East Asian financial regulators and officials joined in the chorus criticising the failings of the US financial sector, but have shown limited enthusiasm for adopting stronger international regulatory standards for the banking sector (Masters 2011). Some appear particularly anxious to maintain at least rhetorical commitment to the old orthodoxy. Thus, for example, a senior Japanese official balanced bland criticisms of pre-crisis financial sector governance with the rather extraordinary claim that, ‘it goes without saying that financial innovations and

<sup>8</sup> On variations of such a financial transactions tax, also known as a ‘Tobin tax’ or a ‘Robin Hood’ tax, see Peel and Wiesman (2011), Plender (2011), Wiesman (2011), as well as the advocacy group at [robinhood.org](http://robinhood.org).

the free cross-border movement of funds have generated the benefits of an efficient allocation of resources' (Nakao 2010b)

At the global level, another sign of change in orthodox understandings of financial governance has been the cautious endorsement of capital account regulations as a 'last resort' by the IMF. Again, this revision appears to have been driven more by the (French) managing director of the IMF, perhaps influenced by the views of prominent American economists, than intellectual leadership from East Asian institutions such as the ADB—although it may be the case that Asian officials have been influential behind the scenes. Bolder calls for greater acceptance of capital account regulations in a broad range of situations (e.g. Gallagher et al. 2011; Stewart 2011; Stiglitz 2011) have not been made by prominent East Asian research groups or organisations, at least not prominently. A number of East Asian countries—including South Korea, Thailand and of course China—have, however, employed limited capital account regulations since 2008, and Japanese officials have explicitly welcomed greater acceptance of such regulations by the IMF (e.g. Nakao 2010a).

In G20 meetings, the issue area on which East Asian countries, China in particular, have spoken out most clearly has been the governance of international monetary matters. Although Chinese officials have, as noted above, made comments about the need for alternatives to the US dollar as a global reserve currency, there has been little follow-up of this idea. China and Malaysia in particular have taken up the idea of increasing the use of regional currencies in regional trade settlements, but China's exchange controls still place limits on the international use of its currency. Rather than promoting an alternative international monetary system, China has expended most energy at the G20 on waging a defensive battle to avoid censure of its exchange rate regime—engaging most robustly, for example, on the debate over whether a country's foreign exchange reserves should be considered an indicator of currency misalignment (Rowley 2011; Strupczewski 2011).

### **East Asia in the global economy**

East Asia's structural position in relation to the broader global economy helps explain the agenda pursued by regional policymakers at both regional and global levels. In essence, the degree of regionalization that has occurred in East Asia continues to be embedded within a larger context of interdependence that not only goes beyond the region but is also significantly asymmetric. This section reviews a few indicators of both regionalization and global embeddedness.

A degree of regional resilience should first be noted. Unlike the previous major financial crisis of 1997–1998, the epicentre of the 2008 crisis was clearly an ocean away. While equity markets were hit sharply, for the most part Asia's banking systems did not experience severe stress once the partial freeze in wholesale markets that followed the collapse of Lehman brothers ended due to massive government guarantees. Asian banking and corporate governance systems have been through extensive processes of reform (albeit of mixed quality), and banks have much stronger capital positions than they did in the last crisis (Hamilton-Hart 2008; Walter 2008).

Nonetheless, the economic impact of the financial and economic crisis in America and Europe was noticeable in East Asia. In 2009, growth slowed sharply across the

region and a number of countries experienced economic contractions. The IMF revised its growth projections downwards in its January 2009 update to the World Economic Outlook, with the estimate that world economic growth would fall to its lowest level since World War II. Although most East Asian economies subsequently rebounded, as shown in Table 1, the collapse in production across the region was severe. According to the IIF, ‘the slump in industrial production has been more significant and more rapid than in 1997–98’ (IIF 2009: 11). Slowing domestic demand was one factor, but clearly the main cause was the collapse in export volumes.

Globally, the IMF forecast a contraction in world trade of 2.8% for 2009. For most Southeast Asian countries, export declines at the start of 2009 were much more drastic, with year-on-year decreases shown in Table 2.

The declining importance of direct trade with USA for most East Asian countries is consistent with a degree of regionalization in trade and direct investment flows (but not portfolio flows or bank lending). In terms of overall trade volumes, regional exports to the USA dropped from a peak of 29% of total regional exports in 1986 to average less than 20% of total regional exports in the years immediately preceding the financial crisis (Henning 2004: 85). As shown in Table 3, this trend of declining importance of the USA market re-emerged after the initial post-AFC period.

Regionalization has not meant de-coupling from the rest of the world. As noted in a recent assessment, ‘the process of economic integration within emerging East Asia is also tightly linked to global integration, rather than signalling a departure from it’ (Kim et al. 2011: 50). A second, and related, caveat is that raw measures of regional trade integration overstate the reliance on regional markets because of the high proportion of trade in intermediate goods in East Asia which means that a much higher proportion of final consumer demand still lies outside the region (IMF 2011: ch. 3; Thorbecke 2011). Thus, as shown in Table 3, the increasing importance of

**Table 1** Real GDP growth rates

	1992–2002	2005	2006	2007	2008	2009	2010	2011p
China	9.8	11.3	12.7	14.2	9.6	9.2	10.3	9.5
Hong Kong	3.0	7.1	7.0	6.4	2.3	-2.7	7.0	6.0
Indonesia	3.4	5.7	5.5	6.3	6.0	4.6	6.1	6.4
Japan	0.8	1.9	2.0	2.4	-1.2	-6.3	4.0	-0.5
Korea	6.1	4.0	5.2	5.1	2.3	0.3	6.2	3.9
Malaysia	5.8	5.3	5.8	6.5	4.8	-1.6	7.2	5.2
Philippines	3.7	5.0	5.3	7.1	3.7	1.1	7.6	4.7
Singapore	6.1	7.4	8.7	8.8	1.5	-0.8	14.5	5.3
Taiwan	5.0	4.7	5.4	6.0	0.7	-1.9	10.9	5.2
Thailand	3.6	4.6	5.1	5.0	2.5	-2.4	7.8	3.5
Vietnam	7.5	8.4	8.2	8.5	6.3	5.3	6.8	5.8
USA	3.4	3.1	2.7	1.9	-0.3	-3.5	3.0	1.5
Euro area	2.1	1.7	3.2	3.2	0.4	-4.3	1.8	1.6

Source: IMF, *World Economic Outlook*, September 2011

**Table 2** Year on year change in exports, January 2009

Indonesia	-36.1
Malaysia	-27.8
Philippines	-41%
Singapore	-37.8
Thailand	-26.5
Vietnam	-3.7

Source: ESCAP 2009

regional exports for most regional countries has gone in tandem with a noticeable decline in the share of exports destined for the region in the case of China and Vietnam. China's export surpluses, and hence its spectacular build-up of foreign exchange reserves, are thus a product of its regional role.

One implication is that East Asia not only remains more structurally dependent on external markets than a prima facie look at trade flows suggests, it is also deeply enmeshed in global capital markets. The size of capital flows to the region, the size of foreign exchange reserves and the composition of reserves, as shown in the Tables below, all point to a region that is very far from reducing its exposure to extra-regional investment and capital flows (Table 4).

Calls to redress global trade imbalances by increasing domestic demand in Asia have become regular features of G20 meetings. This is occurring, but is not be easy for a region that has to date followed a high growth strategy dependent on building up large external surpluses. Altering this growth strategy not only requires an alternative vision on which to base an economy, but quite fundamental restructuring in areas such as social welfare policy, labour policy and fiscal policy. An element of what has been called 'monetary mercantilism' (Aizenman and Lee 2008)—evident in the build-up of foreign exchange reserves

**Table 3** Export profiles

	Exports (% GDP)		Regional exports (% total exports)			
	1995	2008	1990	1995	2008	2010
China	20	35	65	57	37	37
Hong Kong	143	213	42	49	61	65
Taiwan	–	–	37	50	64	68
Japan	9	18	30	43	48	54
Korea	29	53	34	45	47	51
Singapore	–	221	44	54	61	63
Indonesia	26	30	67	60	62	61
Malaysia	94	103	58	55	58	63
Philippines	36	37	38	41	61	69
Thailand	42	76	38	47	53	55
Vietnam	33	78	40	66	43	41

Sources: World Bank, *World Development Report*; ADB, Integration Indicators Database  
Region is the East Asia 15

**Table 4** Emerging Asia: capital flows

	2006	2007	2008	2009	2010	2011f	2012f
Total inflows, net:	255.6	325.5	129.9	388.7	503.5	502.1	485.2
Private flows, net	258.9	314.8	107.4	371.4	478.3	491.7	475.8
Equity investment	122.6	112.9	158.7	254.5	286.3	252.8	264.8
Direct investment	87.2	148.6	213.1	168.5	159.5	182.2	175.7
Portfolio investment	35.5	-35.7	-54.4	86.0	126.8	70.6	89.1
Private creditors, net	136.3	201.9	-51.3	116.9	192.0	238.9	211.1
Commercial banks	90.5	155.7	-57.9	72.0	110.9	125.6	117.4
Nonbanks	45.8	46.2	6.6	44.9	81.1	113.4	93.7
Official flows, net	-3.3	10.7	22.5	17.4	25.2	10.4	9.4
Resident equity investment abroad, net			-96.0	-157.5	-135.2	-168.2	-193.9
Resident lending/other, net	-207.7	-158.0	-122.0	21.0	-117.9	-42.9	-65.5
Reserves (—=increase)	-337.5	-587.8	-347.8	-581.5	-596.5	-611.5	-567.8
Current account balance	289.5	420.2	435.9	329.2	346.1	320.5	342.1

In billions of US dollars

f IIF forecast

Source: IIF 2009, 2010, 2011

shown in Table 5—remains embedded in the domestic political economies of many countries in the region (Hung 2009; Hamilton-Hart 2011).

### Multi-level governance

Despite the limits of formal mechanisms for regional governance in terms of inter-state cooperation, it is possible to identify a patchwork system of multi-level governance structures operating within and across nation states. Kanishka Jayasuriya (2009) and Hameiri (2009) have argued that ‘new modes of regional governance’ have become ‘embedded within the domestic practices and institutions of states at the national and/or subnational levels of governance’ in a processes that result in ‘the significant and substantive transformation of the state itself’ (Hameiri 2009). It is premature to call changes in governance practices and institutions transformational—states and their constituencies are not re-made in a short period of time—but there are signs that practices and institutions at the domestic level are

**Table 5** Foreign exchange reserves

	2003	2005	2007	2009	2010
China	409.2	822.5	1,531.3	2,417.9	2,889.6
India	99.5	132.5	267.6	266.2	292.3
Developing Asia, excl. China and India	161.6	201.1	329.8	393.7	476.5

Source: IMF, *World Economic Outlook*, April 2011, Table A15

subject to forces for change, several of which are associated with the broad and cross-cutting international architecture for cooperation that draws in regional states but is not defined on an East Asian basis. The actors and mechanisms involved are too diffuse to discuss properly here, but include bilateral and multilateral aid flows (particularly the large amounts given for technical assistance, or consultancy projects), the activities of global institutions such as the World Bank (which has a dedicated ‘regional governance hub’ for East Asia and the Pacific), and regulatory reforms negotiated through bilateral and multilateral PTAs.<sup>9</sup>

One illustrative example comes from the low-level processes associated with the APEC group. APEC’s failure to bring about binding region-wide trade liberalisation commitments has frequently been noted. Nonetheless, groups associated with APEC—often non-governmental organisations and working groups—continue to promote particular ideas of governance. The US chapter of Transparency International (2011), for example, has reported to APEC on the implementation of APEC’s standards for government procurement: a report that showcases how particularistic interests and actors (the report was prepared in cooperation with the US Center for International Private Enterprise) have been able to use the diffuse and non-binding regional governance framework to lobby for change. Ostensibly pitched in terms of promoting an anti-corruption agenda through ‘transparency’, the report is clearly also concerned with promoting the US government’s efforts to improve access to government procurement contracts for US firms (what the report terms ‘the importance of fair competition to increasing US exports and job creation’).

Government procurement is but one of the many non-trade issues that have featured heavily in the bilateral and multilateral PTAs involving regional countries, particularly PTAs negotiated with the USA. While the discriminatory and economically inefficient nature of these PTAs as trade liberalisation mechanisms have drawn much criticism (e.g. Ravenhill 2009; Sally and Sen 2011), the non-trade aspects of these agreements are far from inconsequential. PTAs involving the USA have included extensive ‘behind the border’ changes to core government practices and domestic institutions, on areas ranging from government procurement, pharmaceuticals policy, financial services and intellectual property protection. While some agreements are still under negotiation, the secrecy and controversy surrounding PTAs such as the Trans-Pacific Partnership point to their potential to disrupt core governance arrangements within partner states.<sup>10</sup>

It would be an exaggeration to suggest that the array of diffuse and cross-cutting agreements and non-binding standard-setting efforts that together constitute a patchwork of regional governance mechanisms are likely to impose entirely new systems on regional states. They can only take effect through securing the collaboration of influential actors within states; reform commitments are often more rhetorical than

<sup>9</sup> Activities and agendas promoted by the World Bank’s regional governance hub can be viewed through the Bank’s website. On related processes of diffuse remaking of governance practices see, for example, Hameiri (2009) and Hamilton-Hart (2006b).

<sup>10</sup> The TPP negotiations currently involve nine countries: Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, USA and Vietnam. The Japanese Prime Minister is reportedly in favour of joining the negotiations (Dickie 2011). On opposition to the TPP and the issue of the secrecy of negotiating texts, see, for example, Trevett 2011. For strong criticism of other PTAs involving the USA, see Capling 2005: 56–76; Khor 2008.

real; and basic socio-economic cleavages and coalitions within most countries do not support wholesale adoption of reform agendas proposed by the World Bank, for example.<sup>11</sup> Nonetheless, if there is any consistent flavour to the notions of governance promoted through the various institutions and transnational actors that act in such diffuse and multi-level ways, it does not appear to be a distinctively Asian one.

### **Conclusions: regional leadership and decision-making in East Asia**

At the formal intergovernmental level, the regional architecture for cooperation and decision-making within East Asia remains relatively weak in terms of its problem-solving record. The region appears over-endowed with dialogue forums that have broad and overlapping mandates. These forums rarely provide the institutional basis for concrete cooperation initiatives, which remain very limited in the region, but their proliferation of meetings at the leaders', ministerial and officials' level consume considerable organisational and leadership resources. The most institutionalised group remains ASEAN, which has retained its position as the formal core organisation of the various 'ASEAN Plus' groupings, including the East Asian Summit. Yet ASEAN itself continues to endorse a mode of regionalism that is loosely structured and exhortatory rather than oriented to problem solving on specific policy areas. Its agreements and statements consist of declarations of principle or intent more often than constituting legally binding commitments that raise the level of intra-regional cooperation beyond that agreed to with extra-regional partners. With ASEAN officially driving most other cooperative forums in the region, this places inherent limits on possibilities for regional decision-making.

The issue area in which regional cooperation has produced the most concrete commitments is that relating to the development of a regional capacity for financial crisis management. The post-2008 agreement to multilateralise the CMIM and institutionalise a regional surveillance mechanism thus represents an exception to the 'ASEAN Way' of regionalism that the EAS and the ARF, as well as ASEAN, reflect. Not coincidentally, the organisational driver for CMIM and regional financial cooperation has been the Asian Development Bank, not ASEAN. The ADB has championed the development of a strengthened regional architecture for cooperation and integration, but there are limits to its leadership role. Its major strength is its technocratic expertise, which is subject to relatively tight political constraints when it comes to translating economic analysis into concrete policy proposals. It is a lack of political enthusiasm for more far-reaching regional cooperation, rather than unintentional institutional weakness, that underlie the limits to regional decision making and governance in East Asia.

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<sup>11</sup> On 'cosmetic compliance', see Chey (2006) and Walter (2008). On domestic coalitions, see Stubbs (2011).



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