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I. Introduction

Regionalism as an economic policy choice of governments has been prone to periods of fashion throughout the Twentieth century. The last decade of the century has undoubtedly marked one of its more popular phases with fully ninety per cent of the countries which are members of the World Trade Organisation (WTO) also belonging to at least one regional trading arrangement. This latest rise in the popularity of regionalism has been widespread and has been evident in countries at different levels of economic development and with varying levels of previous involvement with regional economic integration schemes.

This paper focuses on the appeal of regionalism, in the form of regional economic integration schemes, to developing countries in the 1990s and analysizes the impact of the recent global financial crises on this appeal. As background to this, the next section considers the causal factors underlying the re-emergence of regionalism as an attractive policy choice for developing countries. As will be shown, there are significant differences between the economic motives for regionalism in the mid-1980s and 1990s and those of earlier decades. Regionalism has, in fact, been associated with a variety of development strategies; what characterises the 'new regionalism' is the combination of regionalism with the adoption of neoliberal development strategies.

Just as the 'new regionalism' was taking hold, the international economic system was rocked by a series of financial crises, starting with some European countries in 1992, overtaking Mexico in 1994, and exploding spectacularly in Asia in 1997 before moving on to Russia and Brazil. The third section of the paper provides a (limited) review of the competing explanations of the financial crises and of the proposals for preventing their recurrence through a redesign of the 'international financial architecture'.

The financial crises have led to significant changes in the policy agenda of many countries, especially in the so-called emerging (developing) economies, and of the international financial institutions (IFIs) with international financial stability now much higher on the agenda. The fourth section of the paper analyses the effects of the crises and the changed policy agenda on the prospects for the new regionalism. To provide some empirical content to this discussion, the analysis of section four draws upon the post-crisis experience of two of the most prominent developing country regional economic arrangements, namely, the Mercosur and the ASEAN Free Trade Area (AFTA).

The concluding section is more speculative in nature and looks at some of the obstacles that must be overcome before it can be concluded that the regionalism of the 1990s will remain a feature of the international political economy into the next century.

II. Regionalism and Development Strategies: An Overview

Regionalism has had a chequered history as an economic policy choice. Its popularity in the past decade and a half is merely the latest turn in a much longer process. As Lawrence has argued (1994: 366):

> "the shift towards regionalism [in the 1980s and 1990s] is the third such wave in this century, but the forces driving the current developments are radically different from the previous waves. Unlike the episode of the 1930s, the current initiatives have all been presented as efforts to facilitate their members' participation in the world economy rather than their withdrawal from it. Unlike those in the 1950s and 1960s, the initiatives involving developing countries are part of a strategy to liberalize and open up their economies to implement export- and foreign-investment-led strategies rather than import substitution policies."

The regionalism of the 1980s and 1990s is therefore to be distinguished from previous rounds both by its content and by its motives. As Lawrence suggests, for developing countries a central feature has been the shift towards the adoption of neoliberal economic policies and away from the more inward-looking import substitution policies of the 1950s and 1960s. And yet, as Lawrence also notes, regionalism has been used in both periods but to serve different ends; regionalism, it seems, can be applied flexibly and can be utilised with quite different development strategies. To illustrate this further, consider how thinking about development and regionalism have changed in the post-war period as summarised below in Figure 1.

Figure 1: Regionalism and Development in the Post-1945 period

		REGIONALISM	
		POPULAR	UNPOPULAR
NEOLIBERAL DEVELOPMENT STRATEGIES	**POPULAR**	**mid 1980s/1990s**	early 1980s
	UNPOPULAR	1950s/1960s	1970s

Development discourse in the immediate post-war decades centred on the need for developing countries to gain a more equal share of the benefits of international economic interaction. It was premised on the need for North-South transfers through official development assistance as a means of closing the 'dual gaps' of savings and foreign exchange and for the countries of the South to industrialise using various protectionist tools. 'Free Trade' was rejected on the basis that the structure of world trade was such that the division of labour between industrial and developing countries relegated the latter to being the predominant suppliers of primary products (although this increasingly broke down as developing countries became the sites for the new international division of labour based on labour intensive manufacturing exports). At the international level, concern over the deteriorating terms of trade for primary products were evident and calls for commodity price stabilisation schemes heard. The demands of the new international economic order advanced by developing countries included more control over multinational corporations (MNCs) and the regulation of technology transfer to ensure that developing countries benefitted more from MNCs' operations. A complementary policy to these demands at the international level were South-South regional trading agreements, especially popular in the 1960s, premised on the need to have sufficiently large internal markets for developing countries to pursue import substituting industrialisation (ISI) strategies. Such agreements typically involved high external tariffs and assorted market sharing - and industry sharing - arrangements between member countries.[1] Added to these economic motives were political motives as well; as Ghatak (1978: p.303) notes "one of the major reasons for setting up such trading blocks is political. Regional co-ordination among the LDCs is supposed to provide them with a greater bargaining power in their economic and political relationships with the DCs."

Development theory in the 1950s and 1960s was therefore premised on the need for an activist state, an activism demanded not only by the requirements of domestic resource mobilisation but also by the structural impediments to growth which the international capitalist economy imposed on developing countries and which only interventionist and protectionist policies could overcome. Regionalism could be adapted to meet these ends although its fate, in this particular incarnation, was tied to that of the ISI. As ISI ran out of steam towards the end of the 1960s so did the appeal of regionalism.

The counter-revolution in economic thinking and the rise of neoliberalism had dramatically changed the nature of development discourse by the 1980s. The case for state activism and protectionist policies came under sustained assault in many countries led by the core industrial countries. This change at the ideological level was reinforced by the increasing awareness of the differences in development outcomes. In particular, the high costs of the ISI strategy in terms of support for domestically protected producers and the declining growth potential of the ISI strategy appeared in stark contrast to the rapid export-led growth of countries located in East Asia. The rapid growth of East Asian countries was interpreted by the new dominant paradigm as evidence that the structural impediments facing developing countries - and which formed the basis of dependency theory and ISI strategies - had been greatly exaggerated and that the key to growth lay in domestic policy choices rather than changes in the international trading system. The increasing differentiation between developing countries led many to announce 'the end of Third World' and the end of development theory.[2] It would be more accurate to describe this latter process as the dominance of neoliberalism as development theory, a theory in which countries differed in their endowments rather than in their structural relationship to the world economy. All countries were seen as operating according to the same economic laws and therefore a separate 'development economics' was not required.

The rise of neoliberalism in the core countries was matched by the changing intellectual attitudes of the international financial institutions (IFIs) and was reflected in their shift to policy-based lending as a response to the international debt crisis of the early 1980s. As Bhagwati (1992: 15) notes “the macroeconomic crisis of the 1980s ... fed the movement to microeconomic reforms.” The remedy to the international debt crisis was seen not in changing the rules of the international economy but in adjusting national economic development strategies. The East Asian economies’ experience, later deified as the ‘East Asian miracle’, figured prominently in the recipe for success, namely, low government spending, high investment in infrastructure and human capital, and ‘getting prices right’ to encourage the tradeable goods sector. This recipe became part of the new orthodoxy and formed the basis of the standard structural adjustment package implemented in country after country in Central and Latin America, in sub-Saharan Africa and later in the transitional economies of Eastern Europe. No matter that the interpretation of East Asia’s success was contested and that the results of the policy were, to say the least disappointing, the orthodox development strategy for the 1980s and 1990s was clear.[3]

The spur to adopt the neoliberal development approach came for many countries as a result of either positive policy choice or by the design of the Bretton Woods institutions through stabilisation and structural adjustment programs. Both sources relied on the international debt crisis, and the consequent need for developing countries to generate increased export earnings, the deflationary state of the international economy in the early 1980s notwithstanding. Thus, the ideological triumph of neoliberalism in the West and in the IFIs was mirrored by policy changes in developing countries either through embracing that neoliberalism with some enthusiasm (as in many Latin American countries), through a begrudging and contested acceptance (as in many Southeast Asian countries) or through an imposed necessity (as in many sub-Saharan African countries).

It was argued that such a development strategy would require both finance and technology, in short, it would require the rehabilitation of the multinational corporation. FDI-based export-led growth therefore became respectable and embraced with various degrees of enthusiasm by policy makers in developing countries. As part of the new ‘market friendly’ approach to development, restrictions of the activities and requirements placed upon MNCs were reduced as developing countries sought to attract increasing amounts of scarce global FDI to their shores. From the Caribbean to Mauritius to China, MNCs were courted as the harbingers of development.[4] Coincidentally, just as developing countries were courting FDI, MNCs themselves were searching for lower cost production sites. Flushed with this embrace of foreign private capital, developing countries also began liberalising capital accounts, allowing free convertibility and opening ‘emerging’ bond and equity markets to foreign purchasers. During the period 1992-1997, FDI inflows for all developing countries averaged US$100.2bn p.a.; during the same period, foreign portfolio investment inflows into developing countrues averaged US$63.3bn p.a.[5]

The new international division of labour based on the production of labour intensive manufacturers in developing countries can be dated from the mid-1970s as a response to the structural crisis in industrial countries. However, the largest increases in FDI were not to come for another decade. The increase in FDI flows in the mid-1980s partly resulted from the opportunities provided by the liberalisation in developing countries themselves and partly as a result of the exchange rate readjustments initiated by the U.S. and Japan as an attempt to solve the macroeconomic imbalances between the two countries. The Plaza Accord which led to a significant appreciation of the yen fueled Japanese MNCs investments in developing Asia. FDI from the U.S. and the EU also surged during this period as core countries MNCs' competitive strategies moved towards the creation of regional networks. FDI in the 1990s has continued to rise rapidly, especially inflows into developing countries, as shown below in Table 1.

Table 1: FDI Inflows by Host Region, 1986-1997 (US$bn)

Host region	1986-1991 (annual average)	1992	1993	1994	1995	1996	1997
World	159.3	175.8	217.6	243.0	331.2	337.6	400.5
Developed Countries	129.6	120.3	138.9	141.5	211.5	195.4	233.1
Developing Countries	29.1	51.1	72.5	95.6	105.5	129.8	148.9

Source: UNCTAD, (1998: p. 361)

Private capital flows, both long and short term, increasingly outpaced official development assistance flows and the latter became more focused by donors on poverty alleviation in the poorest countries.[6] The economic stimulus given by aid was simply too small as aid flows stagnated to play the role envisaged for it in the immediate post-war decades. Industrialisation in the periphery, the increasing differentiation between developing countries and the success of the NICs changed the development landscape. The structural inequities which were emphasized in much of the development theory of the 1960s and 1970s slipped in importance in the newly dominant paradigm and developing countries were seen more in regional terms - with the largest problems being those of sub-Saharan Africa - than in structural terms.

This account of the change in the direction of development theory and the rise of neoliberalism is perhaps well known. But why did regionalism re-emerge during the same period as a preferred policy choice of many developing countries? How did this transformation in the popularity of regionalism for developing countries occur in the mid-1980s and 1990s and how has it been used in conjunction with the wider move towards neoliberalism as a development strategy? This is indeed a good question because there is nothing inherent in the neoliberal approach which would suggest that regional economic integration arrangements are necessary to its success. Indeed, there has been significant debate between neoliberal economists about the desirability of regional arrangements at all with some arguing that they detract from the cause of global free trade. Furthermore, although there is plenty of policy advice from the IFIs in terms of liberalisation, forming regional trading blocs does not constitute one of the recommendations. Why then, in the absence of strong theoretical reasoning or policy advice from the IFIs, did regionalism among developing countries emerge and form part of their liberalisation programs?

The example of the further integration of the EU and the conversion of the U.S. in favour in regionalism may have been important in lending legitimacy to regionalism but these, in themselves, are insufficient to explain its widespread appeal for developing countries; something else is needed. Regionalism, I argue, was an attractive proposition for many developing countries in this new environment for at least two reasons. The first of these reasons is that, in a number of ways, regional economic agreements increased the ability of developing countries to attract FDI. The second reason was that regional initiatives offered the possibility of adopting a step-by-step approach to liberalisation which would permit some of the adjustment costs of, and political obstacles to, liberalisation to be reduced.

With respect to FDI flows, a central component of the neoliberal development strategy was, as noted above, the attraction of FDI to promote export-led growth (and, also, to enable privatisation to take place). Regional groupings of developing countries offered the possibility of attracting such capital inflows since a group of countries together might offer a more attractive package than a single country.[7] Small countries were at a relative disadvantage since the modern production process functions at multiple levels of the commodity chain; a group of countries which could offer not only labour but also some level of industrial and managerial capability would better suit MNC production objectives as well as offering larger markets.[8] Offering an attractive package to MNCs became an imperative since, the large increase in the supply of FDI notwithstanding, the demand for such flows increased dramatically as not only the ‘traditional’ developing countries sought more FDI but they were joined by China and the transitional economies of the former Soviet bloc. Countries fearing investment diversion therefore sought to form regional economic units as a way of maintaining their attractiveness for both the production and sales of MNCs.

Regional groupings also offered greater credibility than individual country commitment to the security of private investment. This was important because although communication and transportation costs have fallen rapidly with the onset of the information technology revolution, enforcement costs have not.[9] The rapid increase in cross-border FDI flows had little by way of regulatory framework and institutions to support it. For the past decade, institutional mechanisms have therefore been sought to facilitate and regulate these flows. By the end of 1997, 1,513 bilateral investment treaties had been signed involving 169 countries. Of the 153 such treaties signed in 1997, 28 per cent were between developed and developing countries, 27 per cent were between developing countries and 20 per cent were between developed countries and transition economies.[10] Regional agreements offered another way to signal to foreign investors that the move towards investor-friendly neoliberal policies was permanent since the costs of reneging on them were significantly increased. The desire to increase credibility with foreign investors has taken a variety of institutional forms in developing countries from granting independence to central banks to the willingness of some developing countries to unilaterally adopt the provisions of the MAI at the time of its negotiation by the OECD. Signing on to regional liberalisation initiatives provided one more institutional signal.

The adoption of a neoliberal development strategy might be expected to encounter opposition. This would come not simply from marginalised groups such as unskilled workers, public sector workers and the poor who might - and in many cases did - lose from the neoliberal policies of privatisation, subsidy removal and labour market deregulation. Equally importantly, at least from the point of view of policy elites, was the opposition that might be expected from protected industries which would lose as part of the liberalisation process. Since these industries typically formed powerful political constituencies a strategy which tempered and ameliorated the costs to these industries was required. Regional trade agreements presented themselves as a liberalisation strategy which might meet this requirement since liberalisation would be phased and allowed industries to adjust to the competition from neighbouring countries first before being faced with global competition. This strategy proved successful in mobilising business support behind regional liberalisation initiatives even if some industries would be adversely affected.[11]

Regionalism re-emerged, therefore, as a policy choice for developing countries because it proved useful in implementing neoliberal economic policies.[12] This context also explains some of the particular features which characterised the regionalism of the mid-1980s and 1990s and which earned it the title of 'new regionalism'. The adjective 'new' refers not only to the temporal dimension, but also to qualitative differences. The appeal of regionalism in the mid-1980s and 1990s for countries was that it allowed them to integrate more fully into the global economy, particularly into global capital flows. Thus, the new regionalism was characterised as an 'open regionalism'. Whether this term actually has any empirical content is debatable but it is important in indicating the desire of the participants in regional agreements to emphasize that such agreements are seen as complementary to the process of globalisation rather than as attempts to replace it.

A second characteristic of the new regionalism, is that regional agreements were being formed which encompassed countries at very different levels of per capita GNP and of vastly different economic size. This feature of the new regionalism was recognised as a distinct shift from previous periods. For example, de Melo and Panagariya (1992: p37) note that "in a dramatic shift, developing countries are seeking partnerships with developed countries rather than solely with each other", an observation supported by Park (1995: p. 23) who notes that "the current trend towards regionalism involves North-South regional arrangements rather than South-South arrangements which were characteristic of the first wave."[13] The role that regionalism played in facilitating FDI flows from Northern capital exporting countries to Southern capital importing countries helps to explain this characteristic of the new regionalism.

A third characteristic has been that regional agreements involving countries spanning the development divide have paid little attention to this divide in policy terms. The structural differences between developing and developed countries which formed the basis of much development theory and debate in the 1950s and 1960s have been viewed as only minimal barriers to free trade agreements between North and South. In NAFTA, for example, Mexico is regarded as needing no special treatment despite opening its economic borders to the largest economic power on earth.[14] In APEC, to take another example, while some statements talk of the development divide this amounts to little in policy terms. The major recognition of differences in developmental status comes in the time required to reach the free trade targets which are 2010 for developed countries and 2020 for developing countries. In APEC, being a developing country means having a longer time period to reach free trade objectives. Otherwise, the new regionalism is premised on the existence of mutual advantages for both the countries of the North and the South from the liberalisation of trade and international capital flows.

A fourth characteristic is that many regional trade agreements including developing countries are, relatively speaking, loosely structured. Typically they have not followed the forms of deeper integration witnessed in the EU or the tight legal structure of the NAFTA. For example, compared to the NAFTA, the Mercosur has no definitions about rules of origin, no mechanisms for resolving conflicts, and no sections on foreign investment. The looseness, or vagueness, of many of AFTA's resolutions reflect the operations of the so-called 'ASEAN way', noted for its lack of formality. New regional arrangements involving developing countries have tended, therefore, to be looser and more limited agreements reflecting both their newness and the difficulties - in terms of state capacity and the mobilisation of political support - associated with implementing such agreements.

To summarise, the new regionalism may said to have the following characteristics:

(i) FDI-based (typically export-led) growth, underpinned by an ideology of neoliberalism;
(ii) loosely structured;
(iii) supported by business;
(iv) minimising North-South differences.

Bhagwati, writing in 1992 (p.16), argued that the new regionalism would be likely to endure because "it shows many signs of strength and few points of vulnerability." The question we turn to here is whether the volatility of international capital flows might be one such point of vulnerability. That is, have the global financial crises undermined the basis for the new regionalism as summarised above?

As a first step in analysing this question, I first briefly consider the causes and nature of the financial crises and the response to them by the IFIs and Western governments and oragnisations.

III. The Financial Crises: Causes and Proposed Solutions

The 1990s have witnessed a number of financial crises with the crisis affecting some of the European countries in 1992 and the Mexican peso crisis of 1994 being precursors of the financial crises which occurred from 1997 onwards in Asia, Russia and Brazil. It is these latter episodes, especially the Asian financial crisis, upon which we focus here. What started as the failure of one bank - Finance One - in one country - Thailand - in July 1997 ended up debunking the ‘East Asian miracle’, spreading to the most important economy in both ‘transition Europe’ and in Latin America, and leading to calls for a ‘new international financial architecture’. How did this happen?[15]

Several theories have been advanced for the causes of the Asian financial crisis. Two of the most popular are the ‘crony capitalism’ and ‘financial panic’ hypotheses.[16] As MacLean (1999) has argued, the first theory has become widely accepted despite its lack of empirical evidence. It is based on the hypothesis that government- business relations in Asian countries were ‘too close’ and that, as a result, lending by financial institutions was subject to moral hazard problems. That is, financial institutions acted as if lenders had implicit government guarantees and therefore extended imprudentially excessive loans to borrowers. When the borrowers could not repay the loans the weak positions of financial institutions became clear and foreign investors withdrew their money fearing that they might be faced with non-performing loans. The role of capital inflows in this theory is that they exacerbated the problem by making greater resources available to financial institutions initially and further exacerbated the problem once the crisis started by the size and swiftness of their withdrawal.[17] However, the behaviour of foreign investors can be described as largely ‘rational’ and the main causes of the problem - as opposed to exacerbating factors - were financial institutions which were under-regulated and under-supervised, government-business relations which were too close, and corporations which were operating under poor governance structures.

The ‘financial panic’ hypothesis argues that the main cause of the financial crises was an irrational panic among speculative investors. The institutional weaknesses of Asian developing countries were all well known for years, risk premia were relatively low, and market forecasts were good. The timing, spread and severity of the crises must therefore be explained primarily in terms of the behaviour of investors who, with self-fulling expectations, bet on Thailand having to devalue its currency given its trade deficits. Once Thailand was forced to devalue, this reinforced expectations and investors looked for ‘similar’ countries. Thus, countries with fixed exchange rates, low foreign exchange reserves, trade deficits and high inflows of short term capital were potential targets for investor panic and currency flight; many became actual targets. Countries with non-transparent financial systems and close government-business relations such as China, Taiwan and India escaped the crisis not because there was less ‘cronyism’ here but because they did not have high trade deficits, or had large foreign exchange reserves, or had not liberalised their capital accounts to permit large inflows of short term capital, or - in at least China’s case - all three.[18]

While I would argue that the financial panic hypothesis fits the facts best, whatever the relative merit of these two hypotheses, the outcome was that countries had to resort to large bailouts from the IMF complete with the usual array of austerity measures which plunged many of the countries further into recession.[19] The policy packages of the IMF, especially their deflationary impacts, have come in for a great deal of criticism even from mainstream sources.[20] However, rather than focus on those here I want to discuss the longer term issues and, in particular, how it is proposed to prevent future crises through the construction of a 'new international financial architecture'.

As Eichengreen (1999: 79) has written "reforming the international financial architecture is a game that any number can play. Predictably, there already exists an abundance of proposals." Some of these proposals have come from the core industrial countries both individually and collectively. The UK, US, French and Canadian governments have all proposed reforms aimed at reducing the risk and impacts of financial crises.[21] While they differ in content and emphasis, there are some common elements in the recognition of the need to provide countries experiencing crises with the ability to call on extra credit lines and/or restrict short term capital flows, for medium term liberalisation of capital accounts in an 'orderly' manner and for longer term policies aimed at increasing financial 'transparency' and improving corporate governance.

Not unsurprisingly, these ideas are also predominant in the G-7 and G-22 proposals for international financial reform (the latter being significant for its inclusion of 'systemically important developing countries'). The emphasis is very much on the need for greater transparency for financial and non-financial institutions in the reporting, accounting and auditing of their international lending and borrowing. These measures are intended to apply in both creditor and debtor countries and apply to government as well as the private sector. Various proposals for transparency reporting have also been advanced which include the IMF as well as nation states. Innovations in bond-issuing and loan-contracting have also been proposed which essentially involve some kind of risk-sharing between borrower and lender in the event of a financial crisis and allow the borrower to defer repayment for a specified period in return for prenegotiated sums. These arrangements essentially involve reducing the liquidity of short term lending. However, noticeably absent from all of these proposals is any significant discussion of the need to reduce short term capital inflows through some form of 'Tobin tax' or through the type of capital import regulations which have been used by Chile and Malaysia. In short, the proposals for the new financial architecture place most emphasis on the need for 'information', 'transparency', and 'surveillance' in line with the 'crony capitalism' explanation of the financial crises. The need for the systematic regulation of international capital flows and for mechanisms to address macroeconomic imbalances caused by swings in the currencies of the core countries have been given relatively little weight in comparison.

Given the causes of the crises, and the timidity of the proposed solutions emanating from governments and the IFIs, the task facing emerging developing countries in managing their economies remains, in the era of globalised capital flows, Herculean.[22] How regionalism as a development strategy has been effected by this is discussed in the next section.

IV. Regionalism and Development Strategy after(?) the Financial Crises

The current combination of regionalism and neoliberal development strategy which characterises the 'new regionalism' could be challenged by either or both of its components losing popularity. Only if regionalism and neoliberalism remain popular will the regionalism of the mid-1980s/1990s continue; otherwise we may expect movement to one of the other three cells of Figure 1. At first sight, such a movement may appear improbable as proposals for new regional arrangements seem to be as popular as ever with Japan recently raising the possibility of forming a Northeast Asian regional grouping and with the South African led Southern Africa Development Community agreeing in 1998 on a plan to have zero tariffs on 90 per cent of intra-regional trade by 2006.[23]

However, to analyse the issue more systematically, this section will examine the impact of the global financial crises on the four factors characterising the new regionalism identified at the end of Section II, namely, the commitment to foreign-investment export-led growth, the loosely structured nature of the arrangements, the support of a pro-liberalisation business lobby and the minimisation of North-South frictions. This is obviously a large topic and one requiring an empirical approach. To permit this, the scope of the discussion will be restricted to discussing two regional agreements, namely, AFTA and Mercosur. Both came into existence in the early 1990s. Mercosur (Common Market of the South) was initiated in 1991 between Argentina, Brazil, Paraguay and Uruguay although it did not come into effect until four years later, while AFTA, which intially included the six ASEAN nations, was formed in 1993.[24] Both agreements were designed to reduce regional trade barriers and move towards free regional trade although Mercosur preferred a customs union (with a common external tarrif) while ASEAN went with a Free Trade Area. These two agreements are chosen as suitable for the present discussion given their importance as developing country regional agreements; they may not necessarily be representative of all regional agreements but are informative for analysing the position of developing countries.

(a) foreign-investment (and export-led) growth

There has been a clear continuation of the policy of regionalism as a vehicle for attracting FDI in both ASEAN and the Mercosur. In fact, the impact of the financial crises has been to stimulate new initiatives in view of the effect which the crises have had on investor confidence in many emerging markets on the one hand, and the increased need for external financing on the other. In both ASEAN and Mercosur we find examples of a recommitment to regionalism as a viable strategy for attracting FDI and integrating into the global economy.

Considering ASEAN first, within three months of the collapse of the *baht*, the Thai Deputy Foreign minister reported that "our global view is reflected in our commitment to actively encourage foreign investment in Thailand ... Although the rapid movement of capital flows has contributed to Thailand's present economic dilemma, we recognise that, with a better regulatory framework in place, we must keep our doors open and promote the cross-border flow of international capital. Only in this way can we achieve greater liberalisation, in turn widening and deepening our potential industrial capacities."[25] The Deputy Foreign Minister then continued by arguing how important Thailand's participation in regional associations such as ASEAN, APEC, the Greater Mekong Sub-region and Bist-ec were to meeting this objective.[26]

The potential role played by regional liberalisation as a policy has also been supported by other ASEAN states. As the ASEAN Secretary-General has noted "ASEAN leaders have made regional economic integration a primary component of the region's response to the economic troubles that have hit it. They know that ASEAN needs investment for the recovery of its economies, and that a large integrated market can attract investments much more effectively than small, fragmented ones. The economies of scale made possible by larger markets make for more efficient production and marketing. Regional integration fosters competition within the region before regional industries and firms face the inevitable competition brought on by globalization."[27]

To support this beyond the level of rhetoric, ASEAN has announced a number of initiatives aimed at providing some substance to this response. For example, the ASEAN Economic Ministers in December 1998 agreed to a pro-business package which gave additional incentives to foreign investors for a two year period. Increased FDI was seen as a way out the crisis.[28] FDI inflows into ASEAN averaged US$14.9bn p.a. between 1990-95 and rose to US$28.96 bn in 1996 representing 22.5 per cent of all FDI flows to developing countries; there is no evidence that ASEAN leaders wish to turn their backs on this. Other initiatives include the bringing forward of the AFTA tariff liberalisation schedule and the announcement of the ASEAN Industrial Cooperation Scheme by which products manufactured in two or more ASEAN countries can receive AFTA tariff treatment immediately, a benefit which has subsequently been claimed by MNCs from Japan, Europe and the U.S. The ASEAN Investment Area, which opens up the manufacturing sector to ASEAN producers on national treatment basis, has been announced and, as medium term measures, the Hanoi Plan of Action includes capital market development and trade liberalisation initiatives for ASEAN to achieve between 1999-2004.

ASEAN's continuing faith in foreign investment led growth as a development strategy and use of regionalism as a mechanism to achieve this, is matched by Mercosur leaders' assessment. Argentinian President Menem has justified pursuing Mercosur on the grounds that "Mercosur has become a magnet for foreign direct investments" which "increased by 20 per cent from 1997 to 1998 to over $31 billion."[29] Furthermore, the continued role of Mercosur as a mechanism for wider liberalisation and participation in the global economy is still very much in evidence. Menem has argued that "there is no doubt in my mind that the upcoming century will be indelibly marked by the move toward a more global economy and the clear tendency toward open regionalism."[30] Brazilian President Cardoso has argued that "Mercosur has consolidated itself as the main promoter of the strategy to insert Brazil in the international economic scenario"[31] and that regionalisation and globalisation should be seen as complementary processes. Chile, which has developed close ties with Mercosur, has also shared this view with President Frei arguing (in July 1998) that "there is now a new concept of integration, following many years of nationalism that divided us ... The entire region is characterised by a common economic strategy of opening to the world market. Isolationist policies would today be shortsighted and, frankly, irresponsible."[32]As an indication of its continuing desire to pursue regionalism, Mercosur has sought an agreement to establish a free trade area with the Community of Andean Nations (CAN).

The continued attraction of FDI for ASEAN and Mercosur represents not only a continuation of neoliberalism at the ideological level but also a practical judgement that FDI was not the cause of the recent crises.[33] Despite fears of 'firesale FDI' there has been a further bolstering of the position that attracting more FDI is desirable and it is now common to make a distinction between 'good' (i.e. long term) capital flows and 'bad' (i.e. short term) capital flows. Even Malaysian Prime Minister Mahathir, the fiercest critic of speculators, accepts this.[34]

However, beneath the rhetoric of support for regionalism, and notwithstanding the initiatives taken to foster greater integration, it is clear that the financial crises have led to major strains in regional economic relations. In particular, responses to crises have inevitably been based on national strategies and these have led to increased protectionist pressures and tensions between countries. Tariffs and non-tariff barriers (NTBs) have been used in ASEAN as countries have sought to protect their own industries in times of crisis.[35] The Philippines has also argued for a 3 per cent minimum tariff, as opposed to AFTA's official zero tariff goal, to protect its tax revenues.[36] ASEAN members have also been exploring ways of unilaterally expanding their extra-regional markets to the extent that the ASEAN Secretary-General has cautioned that "links with developed markets and the global economy must not be forged at ASEAN's expense or as an alternative to it."[37]

In Mercosur, the two leading economies, Brazil and Argentina are now both in recession. Intra-regional trade fell by 10 per cent in 1998 and was down a further 20 per cent in the first two months of 1999. The devaluation of the Brazilian *real* in February 1999 put strains on other countries as they feared imports from Brazil. Argentina has responded with a number of NTBs including import licences[38], and quality certificates for products such as electronics. Brazil has new rules for entry of canned food from Argentina and the problems in reducing the number of commodities on Mercosur's exemption lists have increased. Argentina has enforced anti-dumping measures against Brazilian steel and Brazil has threatened to resort to the WTO with Mercosur proving ineffective in mediating such disputes. In addition, Mercosur members have entered into bilateral negotiations with other countries breaking the so-called 'four plus one' strategy.[39] For example, Brazil reached agreement with CAN first without its Mercosur partners which it viewed as dragging its feet on the issue.[40]

Thus, at the level of official discourse, commitment to an open regionalism based on attracting FDI has remained strong and constitutes a part of states' responses to the economic crises emanating from the financial crises. However, beneath this, the economic crises have also placed strains on regional economic cooperation as national responses more firmly rooted in protectionism have been in evidence and as countries have sought extra-regional markets as ways out of recession. These strains have been evident in both ASEAN and Mercosur and represent a challenge to open regionalism, a challenge brought on by the pressures of recession. There is no doubt, therefore, that currency crises which induce recessions and threaten to unleash competitive devaluations make regionalism more difficult to sustain;[41] the question becomes, therefore, whether currency crises can be mitigated, a topic to which I now turn.

(b) Loosely structured

The desire of countries to limit the destabilising impacts of capital flows have resulted in the adoption of various policies designed to achieve this end. Malaysia's capital controls have attracted much attention as has Chile's requirement that foreign investors place 30 per cent of their investment with the central bank for one year. Argentina requires banks to increase their reserves by 15 per cent every time they receive a deposit as a way of preventing banks with little capital accepting a lot of short term resources which may leave at any time.[42] The need for increased regulation of short term capital flows has also led to demands for mechanisms which might increase 'transparency'. These mechanisms have been mooted at the regional level in ASEAN but have proven difficult to implement. ASEAN agreed in late 1997 to set up a surveillance mechanism to assist in crisis identification and prevention. However, Indonesia and Malaysia were wary of the information requirements, although these are supposed to be the same as those required by the IMF.[43] At the ASEAN foreign ministers' meetings in July 1998, Thailand's proposal for a more open debate on domestic issues was squashed.[44] There was also some backing away from commitments already made on economic surveillance illustrating the problems of changing the 'ASEAN way' of 'non-interference'. Thus, measures designed to increase transparency at the regional level have proven problematic for ASEAN and may require degrees of regional cooperation which are beyond the desire or capacity of member states to deliver. This same problem is also evident in the evolving debates over exchange rate policies to minimise the risk of currency and financial crises.

The debate over exchange rate policy has been initiated as a result of the view that the financial crises arose as a result of countries' pegging their currencies to the U.S. dollar. As this peg became unsustainable, foreign investors quickly sold off their holdings thereby causing a currency crises which the central banks were unable to combat. Post-crisis debate has therefore centred on preventative measures. Basically, countries are faced with the 'trilemma' of being unable to simultaneously maintain fixed exchange rates, liberalised capital accounts and control of interest rates.[45] IMF prescriptions have been based on giving up control of interest rates but the resulting recessions have robbed this of much credibility. Malaysia has opted for giving up liberalised capital accounts but runs the risk of being cut off from international capital flows, a move which most countries have been reluctant to pursue to any great degree.[46] Exchange rate flexibility would remove from countries the need to defend unsustainable exchange rates but the resulting exchange rate volatility, especially given their propensity for overshooting, makes this an unacceptable option for many countries as well.

The search for a way out of this 'trilemma' has focused mostly on institutional arrangements which might increase the credibility of fixed exchange rate commitments and/or lessen the likelihood of speculative attacks on national currencies. This search for new institutional arrangements has largely involved three options which might be capable of performing this role, namely, currency boards, dollarization and regional currencies. There are some similarities in the debates in Southeast Asia and Latin America on these issues although there are also differences with dollarization being more seriously considered in Latin America than in Southeast Asia.[47]

With respect to ASEAN, the attractiveness to policy elites of deeper forms of integration involving a common market and even a single currency have become evident.[48] Other proposals have included plans by ASEAN countries to settle trade using ASEAN currencies rather than the U.S. dollar and also agreeing to try to balance trade between member countries. Malaysia has even suggested moving away from using currencies and increasing barter trade.[49] Another possibility has been the suggestion of pegging currencies against a trade weighted currency basket rather than against the US dollar. Such moves have also been welcomed by Japan which is actively seeking to internationalise the yen and increase the yen's use in Asian regional trade. Japanese commentators have therefore argued that "as the currencies of the countries of Asia were totally dependent upon the dollar, when the dollar ran into a major problem, the Asian countries were affected immediately. Therefore, transforming the yen into some of kind of a buffer [to reduce such negative impacts] became an extremely important issue."[50] Thailand requested that the yen be internationalized as soon as possible after the currency crisis and Asian central bankers have indicated their interest in a system based on pegging against a basket of currencies including the euro, the dollar and the yen and other trading partners.

The move towards the increasing use of regional currencies to settle intra-ASEAN trade (or the more ambitious use of a single currency) is problematic for at least two reasons. Firstly, the relatively low volume of intra-ASEAN trade makes the use of regional currencies of limited utility in reducing the scope for speculation and, secondly, requires a higher level of economic cooperation than ASEAN has hitherto been able to achieve. These problems are perhaps even more evident in Mercosur where the debate over exchange rate policy has moved much beyond the tentative nature of discussion in ASEAN.

The option which caught most attention was Argentina's announcement of its intention to unilaterally move to dollarize its economy. By so doing it would literally remove the possibility of a currency crisis by removing any exchange rate to defend. The costs of such a policy are high in that it implies the complete abandonment of monetary sovereignty but this was apparently a cost that the government was willing to pay in order to gain the potential benefits which might arise from currency certainty. However, more recently, this option seems to have waned as Mercosur has aired its own collective solution, namely, the move towards a single currency. The rationale for this was provided by Argentinian President Menem who declared that "the best way to resist attacks on our economies is through a more solid, firmer Mercosur that will allow us to jointly confront these speculative attacks."

As a prelude to this, Mercosur countries have announced that they will be coordinating macroeconomic policies more closely. At the 16th Mercosur Summit held in June of this year the need to coordinate macroeconomic policies between member states and avoid unilateral devaluations such as that of Brazil in February were stressed.[51] Presidents Cardoso (Brazil) and

Menem (Argentina) proposed the setting up of a “small Maastricht” for Mercosur with the eventual aim of moving towards a single currency and an ad hoc group to coordinate macroeconomic policies was established.[52] Both countries are also debating fiscal responsibility laws which would complement this coordination by setting legal targets for budget deficits and public borrowing.

In practical terms, such plans would certainly test Mercosur’s ability to achieve such a level of policy harmonisation and coordination. In addition, tax systems differ widely and Brazil is going ahead with its own VAT plan. The single currency option is also subject to the same problems in Mercosur as for for ASEAN, namely, that most investment flows are from outside the region and so speculation between a single currency and other currencies is still possible. Furthermore, none of the Mercosur countries has sufficient credibility to back a single currency.

In both regions, the move to coordinate policies in response to the financial crisis whether it be for surveillance of capital flows in ASEAN or the more ambitious plans for macroeconomic coordination and the possibility of a single currency for Mercosur, represent qualitatively higher degrees of integration and coordination than have been apparent in either bloc in the past. The loosely structured regionalism of the past two decades would have to undergo a significant change if these proposals are to materialise. For this reason, there is good reason to be sceptical whether either regional grouping is capable of achieving such a degree of coordination.

Of course, the exchange rate credibility problem need not be solved by regional means.[53] There is no necessary reason why solutions need to be devised at the regional level; NAFTA has been implemented without the adoption of a single currency and has survived the Mexican peso crisis of 1994 without moving in that direction. While it is true that regionalism need not take this deeper form, it seems that leaders are wary of failing to address critical economic issues without a regional dimension for fear of weakening the perceived utility of, and commitment to, regional associations. This commitment has already come under strain because of the economic crisis in many countries and we next turn attention to a brief examination of whether one key constituency, that of business, has reneged on its enthusiasm for regional liberalisation.

(c) business support

Evidence from Latin America suggests that although particular industrial sectors have been vociferous in calling for protectionism, the broad constituency in favour of continued regional liberalisation has survived the financial crisis in Brazil. Thus, the Congress of Latin American Businessmen (Ceal) recently requested greater efforts of economic integration within Mercosur which they argued had made progress in theory but still had far to go in practice.[54]

The evidence from ASEAN is, however, more contradictory. The 56th ASEAN-CCI Council Meeting held in May 1999 reaffirmed its support for AFTA and regional integration and welcomed the ASEAN Investment Area. However, there were also noticeable words of caution about the wisdom of further liberalisation and, indeed, the basis of the neoliberal paradigm. For example, the CCI recommended the adoption of measures to stimulate demand in Asia as a main source of economic growth in addition to export-led strategies to ensure a sustainable economic recovery. Furthermore, they argued that "lenders should be mindful that over-borrowing is not one-sided and should not be too quick to liquidate companies but should help to ensure the continued survival of viable ASEAN corporations through sound corporate debt restructuring, improved corporate governance, and accountability."

In terms of the need for increased transparency, the ASEAN-CCI was quick to note that this should begin with more transparency in currency speculation and foreign exchange trading. This includes, the CCI continued, enhancing transparency on the activities of currency traders, hedge fund managers as well as banks dealing with currency trading and curbing the amount of leverage that is allowed for speculative transactions. Perhaps more surprisingly, the ASEAN-CCI concluded that "as economies in the region are still in the process of restructuring and recovery, the Chamber is not in favour of a new millennium round of trade negotiations at the WTO Ministerial Conference at the end of this year."[55]

The questioning of the desirability of a Millennium round, especially when such questioning is assured to have virtually no effect, is a strong indication that commitment to trade liberalisation among business elites in ASEAN is waning. While other groups in civil society have opposed globalisation, the shift in the views of business leaders as a result of the economic crisis signals a potential undermining in the coalition supporting neoliberalism which could also affect the ability to pursue regional initiatives consistent with this policy.

(d) minimising differences between North and South

The new regionalism was premised on the existence of mutual advantages for countries of both the North and South from increased economic integration and openness, an underlying shared assumption of the generally positive benefits of free trade, in contrast to development theory of earlier decades and the regionalism which it spawned. Ironically, just as the new regionalism was emerging based on a greater acceptance of the mutual interests of North and South, new frictions were also emerging in the world trade negotiations. As Whalley (1996: p.40) has noted, the linkage of trade and environment and trade and labour standards "threatens to revive North-South tensions in the trading system." The new regionalism notwithstanding, North-South tensions were still evident, and regional groupings continued to have a significant political motive. Have North-South tensions been fueled by the global financial crises?

The power of international financial markets and of the IFIs, seen as serving the interests of their Northern sponsors, have certainly been subject to much criticism in official and popular circles. In the face of this, regionalism has been seen as a necessary political project to counterbalance the power of Northern interests. This has been clearly expressed by the ASEAN Sectretary-General who has argued, in forceful terms, that "a new world order has not yet arrived, in which the interests are balanced and disputes adjudicated fairly under benign rules that are impartially applied and effectively enforced upon all. It is all too clear that such a utopia remains far from being upon us. Until it arrives, a long, long time from now, if ever, economic power, whether of states or of corporations, will continue to have preponderant advantage. In the face of this, weaker states must band together regionally, strengthening their solidarity and advancing their common interests."[56]

The view that the rules of the world trading system are applied unequally has also been expressed in Latin America. Brazilain President Cardoso, for example, has called for reversal of the injustice of the "asymmetric globalization" processes affecting emerging developing economies. In particular, the faster pace of the liberalisation of Latin American markets than of those in industrial countries, with result that trade growth is much higher in one direction than the other, has been highlighted.[57]

Mercosur has therefore been seen as a vital political project enabling Latin American countries to increase their bargaining position with respect to the major economic powers over trade issues. Thus, Mercosur has taken a negotiating position with respect to the US and the EU that all sectors, including agriculture, must be on the table for any trade negotiations. Regional collaboration has also put Mercosur in the position of having both the EU and US vying with each other over completion dates of agreements; the FTAA completion date is set at 2005 and the EU has pushed (unsuccessfully) for an earlier date for the EU-Mercosur accord.

Regionalism as a political response to international power imbalances therefore seems of continued importance. The financial crises, and solutions to it, have simply added one more area where developing countries see the need for these imbalances to be addressed. At the recent EU-Mercosur summit, Chilean President Frei, for example argued that the world needs "new institutions that adequately regulate the vast financial flows that characterise the global economy" and called for European countries to ensure that Latin American countries were not marginalised in the process, warning that "we cannot continue passively contemplating the limitations that financial crises impose on the growth of our countries".[58]

The effects of the global financial crises for the four factors identified in Section II as characterising the new regionalism are summarised below in Figure 2 and discussed further in the conclusion.

Figure 2: Summary of Effects of Financial Crises on Support for 'Neoliberal Regionalism' in ASEAN and Mercosur

FACTORS UNDERPINNING 1980s/1990s REGIONALISM	***EFFECTS OF FINANCIAL CRISES IN ASEAN***	***EFFECTS OF FINANCIAL CRISES IN MERCOSUR***
FDI funded export-led	Enhanced role for FDI at	Enhanced role for FDI at

FACTORS UNDERPINNING 1980s/1990s REGIONALISM	*EFFECTS OF FINANCIAL CRISES IN ASEAN*	*EFFECTS OF FINANCIAL CRISES IN MERCOSUR*
growth	official level; re-emergence of protectionism in practice	official level; re-emergence of protectionism in practice
Loosely Structured	Challenged by 'transparency' requirements in monitoring capital flows	Challenged by macroeconomic coordination and single currency initiatives to reduce currency volatility
Business support	Waning as economic crisis takes hold	Broadly supportive
Minimising North-South differences	Increased recognition of global power imbalances	Increased recognition of global power imbalances

V. Conclusion

This paper has identified the critical factors underlying the re-emergence of regionalism as a popular policy choice for developing countries within the context of the rise of neoliberalism during the past two decades. The comparative analysis of two of the most prominent regional economic arrangements, namely, AFTA and Mercosur, has revealed that the global financial crises have challenged the continuing applicability of some of these factors in important ways. These challenges have come both to neoliberalism as a development strategy and to regionalism as a viable economic project; either of these challenges imply a movement away from cell (1,1) in Figure 1 albeit in potentially different directions. For example, it has been argued that a loosely constituted regionalism is more difficult to maintain as countries attempt to forge more closely coordinated economic policies at the regional level to insulate themselves from currency crises. The short term measures required when such crises occur have also inevitably led to the adoption of nationalist economic responses which have strained relations with regional neighbours. The adjustments necessary have also led to a weakening of business support, at least in ASEAN, for further liberalisation measures. The barriers to be overcome before regionalism can operate successfully have therefore been raised and the degree of coordination now required may prove difficult for many regional arrangements to sustain.

However, the appeal of foreign investment led growth as a development strategy appears undiminished to policy-making elites and the utility of regional arrangements as an attractor to foreign investment is still predominant. In this respect, the new regionalism does exhibit considerable resilience. The desire to regulate short term capital inflows has not spilled over into any wariness about longer term FDI flows and a core component of the neoliberal development strategy remains intact; the appeal of regionalism as a mechanism to facilitate this strategy also remains strong.

Regionalism has also been bolstered by the perceived need to provide a strong and coordinated response among developing countries to the economic power of the U.S. and the Europeans both bi-regionally and within the context of the next multilateral round of world trade talks. However, this trend is more ambiguous since it is premised on the need to address power imbalances within the international system and, as such, challenges one of the assumptions of the new regionalism, namely, that an open international system provides advantages to countries of both the North and South. Nevertheless, it is more reasonable to describe this challenge as leading to a regionalism which tempers, rather than rejects, neoliberalism. It does raise a potentially interesting historical parallel, however, in that the regionalism of the 1950s and 1960s was spurred in part by the desire of developing countries to insulate themselves from the effects of the business cycle in industrial countries, cycles which were argued to be amplified in the primary commodity producing developing countries. It will be interesting to see the extent to which a regionalism might emerge in the late 1990s based on the desire of developing countries to insulate themselves from the effects of global capital market instability, an instability which has been particularly acute in emerging developing economies.

At present, therefore, it seems that the factors supporting regionalism as a policy choice have been sufficiently strong to withstand the counter-pressures arising from the global financial crises. Whether this remains to be the case depends crucially on whether we are indeed ‘after’ the financial crises or simply in a period of hiatus between crises. And this in turn depends partly on whether a ‘new financial architecture’ is put in place capable of effectively controlling volatile speculative international capital movements. This would seem an unlikely outcome at present given the assumptions on which the need for a new architecture is based as argued in Section III. It is possible, therefore, that if further crises occur the developing countries of the semi-periphery which embraced regionalism as a policy choice in the wake of the international debt crisis of the early 1980s may yet turn away from regionalism, at least in its current neoliberal form, as a result of the global financial crises of the late 1990s.

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1. For a similar assessment of the developing countries' motives for entering regional arrangements in the 1960s, see also Bhagwati (1992: pp. 10-11) who notes that during this period "there was an outbreak of FTA proposals in the developing countries as well. While stimulated by the European examples, they were motivated by the altogether different economic rationale formulated by Cooper and Massell, Johnson and Bhagwati. This was that, given any targeted level of import-substituting industrialization, the developing countries, with their small markets, could reduce the cost of this industrialization by exploiting economies of scale through preferential opening of markets with one another. By the end of the 1960s, however, the attempts at forming regional free trade areas and customs unions along these lines had also collapsed." For examples of South-South regional agreements during this period see Pazos (1973).

2. For a variety of different perspectives on this theme see, for example, N. Harris, (1987), D.Lall, (1980) and C. Leys (1996).

3. For alternative interpretations of the East Asian development experience see, for example, Amsden (1989), Wade (1990) and Rodrik (1995).

4. See also Rodrik (1999: p. 37) who argues that "the attitude of many developing-country policymakers toward DFI has undergone a remarkable turn-around in the last couple of decades, even more so than in the case of exports. Multinational enterprises used to be seen as the emblem of dependency; they have now become the saviours of development. Today's policy literature is filled with extravagant claims about positive spillovers from DFI."

5. See UNCTAD, (1998; p.15).

6. By 1997, official development assistance was 15 per cent of total financial flows to developing countries. See UNCTAD (1998: p. 13).

7. This is discussed further below in Section IV for the case of AFTA and the Mercosur.

8. MNCs are therefore attracted to regional trading areas for a variety of reasons. The export-orientation of FDI and the incentive to FDI provided by the existence of a large consumer market do vary significantly between countries and regions. See UNCTAD (1998) for more details.

9. See Epstein (1994) for this argument.

10. See UNCTAD, (1998: p. 59).

11. Furthermore, as export industries expanded so did their political influence which further reinforced the pro-liberalisation pressures on government. See Busch and Milner (1994). See also Bowles and MacLean (1996) for the role played by the ASEAN-CCI in this respect.

12. This was also recognised by the donor countries of the North. For example, Kennes (1998: p.26) points out that "one of the key objectives of the EU's development cooperation under the

Maastricht Treaty is ‘the smooth and gradual integration of developing countries into the world economy’. It is widely recognised that regional integration forms an essential part of the strategy for achieving this.”

13. The importance of this shift is also emphasized by Robson (1993: p.340) who argues that the North-South linkage was “perhaps the single novel feature of the new regionalism in practice.”

14. Tariff elimination is occurring at different rates but these rates are determined by sector rather than by country.

15. This question is answered only in summary fashion here and draws upon the more extended discussion in MacLean, Bowles and Croci (1999). For the most comprehensive source, readers are referred to N. Roubini, (1999).

16. See also Miller and Zhang (1999) for a review of competing explanations of the financial crises.

17. According to MITI (1999: p.3) “private capital flows into the ASEAN 4 and the Republic of Korea, the countries most heavily hit by the crisis, apparently went from a net inflow of US$93.8 billion on 1996 to a net outflow of US$6 billion (estimated value) in 1997, indicating an outflow over a very short period of time of capital equivalent to as much as 10 percent of the GDP of these five countries.”

18. Other commentators, such as Bergsten (1998), have also pointed to the role that fluctuations in the US dollar-yen and US dollar-European currency rates played in making the currency pegs utilised by many emerging economies unsustainable. This is a separate hypothesis although complementary to (or, at least, consistent with) the financial panic hypothesis.

19. See MacLean, Bowles and Croci (1999) for the argument that the financial panic hyopthesis provides a better explanation for the Asian financial crisis than the crony capitalism hypothesis.

20. See MacLean, Bowles and Croci (1999) for more details.

21. See Eichengreen (1999) for an overview of proposals.

22. For a more activist approach to the reform of the international financial architecture see, for example, Blecker (1999).

23. See J. Dludlu, SADC Agrees on Interregioanl Free Trade Plan, The Star, Johannesburg, 20 August 1998, as in FBIS-AFR-98-232 and, for Japan’s support of a Northeast Asian trade area see MITI (1999), p. 46.

24. For analysis of AFTA’s formation see Bowles and MacLean (1996).

25. See “Official on Economic Reform, Regional Role”, Bangkok Post, 3 October 1997, as in FBIS-EAS-97-276.

26. Ibid. Bist-ec is the Bangladesh, India, Sri Lanka, Thailand - Economic Cooperation Forum.

27. H. E. Rodolfo C Severinto, Secretary-General of ASEAN, Regional Economic Integration: The Philippine Stake, 23 June 1999, at ASEANWEB.

28. See “ASEAN Eyes Bold Short-Term Measures to Ease Crisis”, Agence France Presse, in FBIS-EAS-98-346, 12 December 1998.

29.EU farm subsidies jeopardize integration, Telam, Buenos Aires, 29 June 1999 in FBIS-LAT-1999-0630. Menem’s assessment receives support from UNCTAD (1998: p. 251) which notes that “in the case of Mercosur, both Brazil and Argentina have attracted much higher FDI inflows since the constitution of that market in 1995, as, on a smaller scale, has Uruguay which aspires to be the administrative centre of the subregion.”

30. See A. Rocasalbas, Menem Cited on Dollar Peg, Economic Stability, Telam, Buenos Aries, 31 March 1999, in FBIS-LAT-1999-0401.

31. Cardoso, “Mercosur-EU: Hour of Decision”, Jornol do Brasil, Rio de Janeiro, 20 June 1999 in FBIS-LAT-1999-0622.

32. Chilean, Paraguayan Presidents Laud Mercosur Achievements, Telam, Buenos Aries, 24 July 1998, as in FBIS-LAT-98-205.

33. This assessment receives some support from an examination of the volatility of international capital flows. UNCTAD (1998: p.14) reports that “recent episodes of financial turmoil have focused international attention on the problem of the volatility of private foreign capital flows and the extent to which that volatility creates an unstable environment detrimental to economic development. During the period 1992-1997, commercial bank loans displayed the highest volatility (0.71), as measured by the coefficient of variation, followed by total portfolio investment (0.43) and FDI (0,35).” See also MITI (1999: pp.20-23) for support for the argument that the currency crises of the 1990s have typically differed from those of the 1980s in their causes and that high short term debt ratios and low foreign currency reserves have been important explanatory variables in the 1990s crises.

34. See, “Mahathir on Japanese, East Asian economy”, Bungei Shunju, Tokyo, 28 July 1998, as in FBIS-EAS-98-209.

35. See P. Chanwirot, “Can ASEAN Survive the Regional Crisis?” Bangkok, The Nation, 28 September 1998, as in FBIS-EAS-98-271.

36. See B. Cahiles-Magkilat, “Manila Reviews Position on AFTA Zero Tariff on Imports”, Manila

Bulletin, 21 April 1999, as in FBIS-EAS-1999-0420.

37. H. E. Rodolfo C Severinto, Secretary-General of ASEAN, “Regionalism: The Stakes for South-East Asia”, Address delivered in Singapore, 24 May 1999, at ASEANWEB.

38. See Janes Rocha, Experts View ‘Worst’ Crisis affecting Mercosur, Jornol do Brasil, Rio do Janeiro, 3 April 1999, in FBIS-LAT-1999-0406.

39. See V. Goitia, “Experts Warn About Mercosur weakening”, Estado de Sao Paulo, 28 April 1999 in FBIS-LAT-1999-0428.

40. E. Oliveira, Brazil-CAN Achieve preferential Tariff Agreement, O Globo, Rio de Janeiro, 4 June 1999, in FBIS-LAT-1999-0604.

41. These crises may also induce a reduction in FDI, which would further undermine support for regionalism, if, as Blomstrom and Kokko (1995) argue, the positive effects of regional economic integration on FDI flows are greatest highest when accompanied by domestic liberalisation and macroeconomic stability.

42. See E. Fraga and F. Oliveira, “Argentina’s Fernadez on Desire to Speed Up Talks with EU”, Rio de Janeiro, O Globo, 30 June 1999 as in FBIS-LAT-1999-0630.

43. The surveillance mechanism is initially be under the auspices of the Asian Development Bank.

44. See A. Manibhandu, “Thailand Takes Up the Struggle for Freedom from Self-Reliance”, Bangkok Post, 31 July 1998 as in Article Views Outcome of ASEAN Summit in FBIS-EAS-98-218.

45. See MITI (1999: pp.30-31) for discussion of how this trilemma was handled by the international monetary system in the post-war period.

46. Research by MITI (1999: p.30) concludes that Japanese MNCs operating in Southeast Asia were significantly affected by foreign exchange losses. As a result, they have strong interests in exchange rate stability and were supportive of many measures to control volatile short term capital movements. The policy of encouraging longer term FDI but discouraging short term speculative capital as in the Malaysian case may, therefore, have a greater chance of success than many critics of the Malaysian policies have suggested.

47. Readers are referred to the collection of papers available at Roubini (1999) for a discussion of the relative merits of all of these options. Attention here is focused on the single regional currency option.

48. The prospect of AFTA moving towards a common market was raised by Malaysian Prime Minister Mahathir in October 1997 and quickly endorsed by Thailand. Such an imitative was

important for attracting more investment, maintaining economic cooperation since investors now viewed the region's economies as similar, and providing increased political bargaining power.

49. See, "Mahathir on Japanese, East Asian economy", Bungei Shunju, Tokyo, 28 July 1998, as in FBIS-EAS-98-209.

50. Hisaya Nara, co-chairman of Keidanren's Financial System Committee as a roundtable organised by the Keidanren, April 16th 1999, on "How to promote the Internationalization of the yen", Gekkan Kaidanren, as in FBIS-EAS-1999-0621.

51. See Mercosur Partners Reassert Pledge to Intensify Bloc, Telam, Buenos Aries, 22 February 1999.

52. See C. Burgueno, Mercosur summit Conclusions Reported, Ambito Financiero, Buenos Aires, 16 June 1999 in FBIS-LAT-1999-0616.

53. For further discussion of this in Mercosur's case see Eichengreen, B., (1998).

54. Brazilian, Argentine Businessmen Demand Expediting Integration, Estado de Sao Paolo, 9 June 1999, in FBIS-LAT-1999-0609.

55. Joint Communique issued at the 56th ASEAN-CCI Council Meeting in Rangoon on 27 May, reported in FBIS-EAS-1999-0531.

56. H. E. Rodolfo C Severinto, Secretary-General of ASEAN, "Regionalism: The Stakes for South-East Asia", Address delivered in Singapore, 24 May 1999, at ASEANWEB.

57. See "Article by Brazilian President Fernando Henrique Cardoso, Mercosur-EU: Hour of Decision", Rio de Janeiro, Jornol do Brasil, 20 June 1999, as in "Cardoso Calls for EU for End to Unfair Globalization Practices", FBIS-LAT-1999-0622.

58. Results of EU-ALC Summit Detailed, Estrategia, Santaigo, 30 June 1999, in FBIS-LAT-1999-0701.