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East Asian Regionalism: The Challenge of Political Reform and Systemic Crisis in the Late 1990s

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ABSTRACT

Recent examples of cooperative regional organisations that have had particular successes in the early 1990s are ASEAN (the Association of Southeast Asian Nations) and APEC (the Asia Pacific Economic Cooperation forum). However, during the period of 1997-1999, both organisations have come under particular pressures that test the underlying principles of regionalism on which they were founded. During the 1997-1998 period, many countries of the Asia Pacific region found themselves subject to severe economic downturns due to the Asian financial crisis. This crisis indicated a lack of robustness in several key ASEAN states including Indonesia, Malaysia and Thailand. The response of ASEAN as a whole indicated a limit to the theory of resilience, one of the underlying concepts of the organisation. Likewise, political crises have tested to what degree the organisation can maintain its principle of non-interference in the internal affairs of members (or prospective members). Combined with nagging environmental problems and bilateral tensions, the ASEAN process seems in need of conceptual overhaul if it is to meet the future challenges of the region.

APEC too, has managed to effectively pursue its agenda of lowering tariffs and trade barriers throughout the wider Asia-Pacific region, but the entire process has been called into question with major economies such as South Korea and Japan suffering economic difficulties. In 1997 the APEC response to the emerging crisis was at best minimal, and at least partly undermined the legitimacy of the organisation in the minds of the states most negatively affected. The November 1998 APEC meeting was more constructive. However, this meeting only went part of the way to forging a new cooperative agenda. Potential rifts did emerge within APEC, with Malaysia and China arguing for the need to regulate short-term capital flows which were speculative in nature, a move resisted by the U.S. The implementation of the general agenda outlined by the 1998 APEC meeting will be central to the future viability of the organisation.

At a deeper level, the agendas established by both ASEAN and APEC were concerned with the positioning of national powers, economic or political, within a wider regional setting. Diplomatic dialogue and increased trade flows were seen as empowering movements, especially by weaker states. At the turn of the century, however, environmental crises and global financial flows have indicated that regional environments are now largely determined by non-state actors. This has serious implications for regional governance and cooperative strategies in the 21st century. New conceptualisations, including a pragmatic 'soft' governance, will need to be developed to meet these challenges and maintain the dynamic of regional organisations.

Introduction

Recent trends in the Asia-Pacific region have suggested a crisis in regionalism which has threatened the already limited degree of institutional integration. These problems include the recent currency instability and widening economic crisis (see Rosenberger 1997; Litan 1998) which gripped large segments of the region from late 1997, and a range of secondary problems including limited environmental and security cooperation. The two core organisations which down through 1996 had begun to demonstrate progress in regional cooperation, ASEAN and APEC, seemed to falter in their reaction to these crises, with particularly limited success in leading responses to the currency crisis. As a result, many commentators have argued that both organisations are unable to continue their agendas without significant reform and institutional restructuring (Henderson 1999; Acharya 1999, pp2-9, pp16-18). Some scholars speak of the 'institutional weakness' of ASEAN and APEC due to the lack of convergence of national interests of member countries (Mansfield & Milner 1997, p9). Others oppose multi-timetabled, voluntarily accession to the trade liberalisation through APEC, and hoped for more "comprehensive action" across all sectors, a view supported by the US through the mid-1990s (Haggard 1997, p45).

For the purposes of this paper, no rigid definition of regionalism will be formulated, since a precise description of a dynamic system of interdependence may well remain elusive (see Mansfield & Milner 1997; Katzenstein 1997, pp8-12). From the point of view of regional theory, ASEAN seems to demonstrate a geographically bounded regional system, integrated by political aims and cultural realities, and only more recently by efforts at solid economic coordination. The ASEAN system, moreover, remains open to global international pressures, and its economic environment corresponds to a wider system of Asia-Pacific economic flows, loosely correlating with the APEC zone (see Soesastro 1995). Recent efforts to diversify ASEAN trade to deepen contact with Europe (through the Asia-Europe meetings of 1996 and 1998), and special efforts to develop greater contacts with South Asia and the Indian Ocean (McDougall 1997; Jayakumar 1996; Naidu 1996), have yet to fully develop, though remain coherent with the aim of creating an open regionalism which enhances the well-being of member states without being prejudicial to non-members (see Haggard 1997, p26; Katzenstein 1997, pp1-3). Moreover, differing images of regional order directly influence the confidence invested in existing organisations, and regional 'definitions and regional projects certainly involve contingent constructions of reality and identity' (Teik 1999, p187).

In many ways, both ASEAN and APEC seemed to have set themselves ambitious agendas for organisations basically working on consensus agreement (for consensus minus-one or 'opt-out options', see Soesastro 1995, pp486-490; Henderson 1999, p48), patterns of voluntary participation, and in the case of ASEAN, explicit doctrines of non-interference with member states. However, through late 1998 into 1999, both ASEAN and APEC showed some signs of making a more robust response to the challenges of economic crisis, a process which involved a review of some of these core principles. Nor do the dynamics of the crisis really support a traditional realist position based on a narrow interpretation of 'balance of power' (see Acharya 1999). Far from being the 'break' for these organisations, this paper suggests that the challenges of the 1997-1998 period, rather than debilitating ASEAN and APEC, may

well remake them as effective regional organisations. For this to be the case, however, the action plans formulated through late 1998 will need to be vigorously pursued, and there will need to be deepened regional coordination among ASEAN, the ASEAN Regional Forum (ARF), APEC, and wider multilateral agendas established through overlapping organisations (Wesley 1999, p64; Roberts 1997) such as the G-7, G-22, the World Trade Organisation (WTO), the Bank for International Settlements (BIS), the International Monetary Fund (IMF) and the United Nations (Peou 1998; *Hanoi Declaration* 6).

Bearing in mind the rapid onset of globalisation processes in the developing economies of the Asia Pacific region, it is no surprise that these countries have been unable to use purely national strategies to deal with either the instability of global financial capitalism (Webber & Rigby 1996), or with entrenched territorial and security disputes such as those found in the South China Sea (Feigenbaum 1999). On the other hand, global and near global agencies such as the UN (and its related institutions), the World Trade Organisation, the World Bank and the IMF seem to lack the depth, reach and authority to fully cope with globalisation problems, indicating the syndrome of incomplete, uneven and contested globalisation (Diwan 1997; Pettman 1996). In such a setting, it seems unlikely that even a refunded and somewhat adapted IMF agenda will be fully able to supply the kind of comprehensive security that many East Asian nations seek, including a wide range of economic, environmental and 'low-intensity' security issues (Rosenberg 1999; Li 1990; Chapman 1983; Ferguson 1998; Renwick & Abbott 1999). Likewise, in the difficult period of 1997-1998, ASEAN and its ASEAN Regional Forum have not been able to establish the comprehensive security agenda (Henderson 1999, p68) it had signalled during the 1994-1996 period.

However, adaptive regional organisations can play a useful middle-level role. They perform best as regional intermediaries in systems of overlapping authority, providing one pillar in a system of multi-tiered governance within an emergent and disputed global system. This level, though implying 'a proliferation of regulation modes', does not necessarily conflict with the idea of global governance, nor necessarily lead to a sanctioning of 'cynical-liberalism' (contra the possibilities outlined in Smouts 1998). As noted by Peter Katzenstein: -

> Regionalism offers a stepping-stone for international cooperation between unsatisfactory national approaches on the one hand and unworkable universal schemes on the other. For scholars regionalism brings into clearer focus an important intersection of the international and domestic factors that shape the economic fortunes, security interests and cultural identities of political actors. (Katzenstein 1997, p5)

So long as this is understood, ASEAN, the ARF, and APEC can continue to play an effective role in conjunction with the efforts of wider-based multilateral international organisations (see Haggard 1997, pp22-23). Greater attention will need to be given to coordination between these different levels of institutions, not just to the way each institution meets its stated goals or reflects the domestic politics of member states. A successful and adaptive role for these Asia-Pacific organisations will need not only sustained and effective leadership at the regional level, but also a willingness to set aside some of the trilateral and alliance politics that can distort effective international cooperation (see Johnstone 1999; Mansfield & Milner 1999, p10).

Delayed Reactions to Crisis: 1997-1998

As noted by Amitav Acharya, ASEAN's hopes of retaining resilience through the 1977 financial crisis received a hard blow by early 1998: -

> The crisis exposed ASEAN's dependence on foreign capital and its vulnerability to global markets and political forces. Within ASEAN, hopes that the crisis would engender greater unity, a sense of solidarity among the troubled economies, prompting them to deepen existing levels of co-operation and to develop common responses to the crisis, proved too optimistic. ASEAN's response showed the limits of its collective clout to deal with a major regional economic crisis. Lee Kuan Yew described ASEAN's response to the crisis as the "solidarity of fellow chicken-flu suffers". (Acharya 1999, p14)

Early efforts by ASEAN, APEC and ADB (Asian Development Bank) can indeed be termed 'minimalist', though the ADB was quick to boost its lending to affected economies up to US$9.4 billion in 1997 (Wesley 1999, pp55-56). Generally ASEAN's response was dubbed by some as both 'late in coming' and 'ineffective' (Henderson 1999, p12). One suggestion that was considered by some ASEAN leaders, particularly Prime Minister Mahathir, was to decrease reliance on foreign currencies, particularly the US dollar. On this basis, exchange would be based in local currencies where possible, a suggestion taken up at the Informal ASEAN Summit, Kuala Lumpur, December 1997 (Wesley 1999, p55). However, the reality was that the member countries of ASEAN were essentially too weak to bail each other out, though Singapore did attempt to provide some serious aid to Indonesia. Since most of the countries in the region were also deeply involved in trade and investment with key players outside the region, especially the U.S. and Japan, it was clear that intra-ASEAN responses would be insufficient to lead to a quick recovery.

APEC too, first of all emphasised its inability to deal with widespread financial contagion. The 1997 and 1998 APEC meetings were test-cases to see if the organisation could provide regional leadership amid economic crisis. From 1997 APEC leaders agreed ‘to endorse the idea of a new regional framework for enhanced Asia-Pacific regional cooperation, to promote financial stability and to establish what is known as the APEC fund’, as well as setting up an early warming system to avoid currency crises (Wanandi 1997). APEC also included proposals on human resources development and plans to help small and medium enterprises engage in growth in the Asia-Pacific region (Wanandi 1997). Likewise, ideas were floated about the possibility of some sort of collective action to mitigate risks (Wesley 1999, p65), but were not swiftly implemented. Moreover, the 1997 initiatives were still much too weak to really alter negative economic trends in the region, and left serious financial aid to the IMF and bilateral efforts.

The November 1998 meeting of APEC was a major opportunity to further tackle Asian economic problems in a concerted way, with one of the most constructive plans, The Concerted Asian Recovery Program (CARP), designed to reduce interest rates and stimulate economies throughout Asia (Kelly 1998), to be presented at that time. The key aim of this approach was to coordinate these reforms simultaneously throughout the region, thereby avoiding capital and investment flight from one economy to another. However, the November 1998 APEC meeting only went part of

the way to forging this new cooperative agenda. The countries of APEC did agree to create a new ‘cooperative growth strategy’ and in a joint declaration they stated: ‘We are resolved to work together to support an early and sustained recovery in the region, to contain the risks of contagion and prevent the possibility of a global recession.’ (Richardson 1998, p1). APEC hoped ‘to ease the burden of debt on companies and banks, strengthen financial systems, revive investment and growth, and cushion the impact of recession on millions of people’ (Richardson 1998, p1). The Joint Statement of the November 1998 meeting specifically tasked the organisation 'to advance policies and collaborative efforts directed at early recovery and sustainable growth in the region' (*Tenth APEC Ministerial Meeting Joint Statement*, p45). However, the exact details of this plan, and its sources of funding, remained vague, perhaps because of a rift within the APEC organisation. Malaysia and China in particular argued for the need to regulate short-term speculative capital flows, a move resisted by the United States. Opinion within Japan varied, with some officials, especially Sakakibara Eisuke (MOF Vice Minister for International Affairs) targeting hot-money flows in the global economy as the main cause of the Asian crisis (Johnstone 1999, p131). Japan also understood Malaysia's interrum desire to place controls on flows of foreign money (Johnstone 1999, p132). President Jiang Zemin of China put his case most strongly: ‘Those big powers with influence on international finances are duty-bound to take effective measures to improve the supervision and regulation of the flow of international financial capital, contain overspeculation of international hot money and enhance the capability for the forecast and prevention of financial risks and for their relief’ (Richardson 1998, p14). Politically cleavages also occurred during November 1998 within APEC, with intense acrimony between Malaysia and the U.S. over political and legal systems. This emerged out of the furore created by U.S. Vice President Al Gore, who in his speech at the APEC meeting supported calls for political reform in Malaysia, a move that Malaysian government circles branded as ‘gross interference’ (Fuller 1998). Even some Malaysian opposition groups were worried that such overt statements could backfire, allowing all opposition groups to be branded as disloyal, or puppets of neo-colonialist influences (Fuller 1998). The diversity of economic and political views emerging within APEC through late 1998, in fact, was so great that some commentators feared that they could threaten to sideline the organisation (Acharya 1999, p15).

In many ways, response to the crisis was left to existing organisations, or to individual 'economic superpowers'. The Japanese effort to create an Asian Monetary Fund (AMF) to operate more quickly and less intrusively than IMF packages, an idea lead by Japan at a G-7 meeting in 1997, was not taken up, nor seriously raised through APEC or the ADB, largely because of American opposition (Johnstone 1999, p125; Wesley 1999, p67; Acharya 1999, p14). Instead, Japan played a major role in bilateral aid and credit packages, as well as substantial support for some of the IMF packages. In October 1998 it announced a US$30 billion reserve of funds to be disbursed over two years under the 'Miyazawa Plan' (Johnstone 1999, p125). In effect, APEC, in spite of the fine rhetoric of the 1998 period, admitted that governance of Asia-Pacific economies would have to be taken through concerted activity at a range of levels, not just in its own forum.

Not Shelving the Problem : Emerging Agendas Through 1998-1999

Failures of leadership and shifting of responsibilities back to existing institutions, such as the IMF, led to a round of criticisms of ASEAN and APEC from late 1997 onwards (Henderson 1999, p43). However, just as this widespread propagation of negative opinion was gaining momentum, ASEAN, and to a lesser extent APEC, began to try to address the complex crisis that threatened to derail their core agendas.

The first of these was the effort to ensure that the reduction of tariffs in the ASEAN region was kept on track through an accelerated AFTA (ASEAN Free Trade Area) process, with dates brought forward for the more developed members through a two track process (*Hanoi Declaration*, 12). Original members would now bring compliance in AFTA forward from 2003 to 2002 for most trade items. Critics have sometimes argued that ASEAN economic integration was extremely limited, and based only on reducing tariffs on selected goods (see Katzenstein 1997, p16). However, this seriously under-estimates the agenda behind recent 'AFTA plus' proposals (1994-1999) which 'represented a plausible attempt at market integration', and had targets ahead of APEC timetables (Henderson 1999, p23).

This effort included an enhanced agenda announced at the Sixth ASEAN Summit, Hanoi, in December 1998. The Hanoi Declaration made explicit mention of the economic crisis (*Hanoi Declaration*, Preamble) and aimed to use this in part as a pretext for intensifying the established ASEAN agenda : -

> We shall move ASEAN onto a higher plane of regional cooperation in order to strengthen ASEAN's effectiveness in dealing with the challenges of growing interdependence within ASEAN and of its integration into the global economy. In doing so, we commit ourselves to intensifying our dialogue on current and emerging issues, further consolidating our unity in diversity, our cohesiveness and harmony (*Hanoi Declaration*, 5)

The Hanoi Action Plan included efforts for the core ASEAN nations to accelerate the AFTA agenda so that more tariff lines are reduced to a 0-5% rate by the year 2000, with new members (Vietnam, Laos, Myanmar) liberalising tariffs along a slower track (*Hanoi Plan of Action*, 2.1.1; Henderson 1999, pp43-44). At the same time, through 1998 serious efforts were made to push ahead with the proposed ASEAN Investment Area (AIA), designed to bring needed investment capital into the region (*Hanoi Declaration*, 12; *Hanoi Plan of Action* 2.2; Wesley 1999, pp58-59). Investment liberalisation for ASEAN investors was to be substantially opened by 2010, and for all investors by 2020 (*Hanoi Plan of Action*, 2.2a), correlating with wider APEC trade liberalisation dates. Efforts were also outlined to liberalise regional trade in services, with a new round of negotiations to run through 1999-2001 (*Hanoi Plan of Action*, 2.3). These plans were reiterated as responses to regional crisis in the related document, *ASEAN Statement on Bold Measures to Deal with the Financial and Economic Crisis*, with special efforts to enhance the ASEAN investment 'climate' (see sections 6-8). These efforts indicate a serious intention to maintain a momentum for inflow of investment.

The Hanoi meeting also approved a regional surveillance framework which would allow countries to monitor each other's economic policies and provide 'early warning' (Acharya 1999, p14) for crises before they had gained impetus, or had become transnational problems. This system of 'peer surveillance' (*Hanoi Declaration*, 10) in order to ensure a degree of 'convergence of domestic agendas was consistent with

ASEAN's informal style but unprecedented in its intrusiveness' (Solingen 1999, p49). Likewise, a degree of coordination between finance and bank officials within ASEAN nations had been institutionalised through 1997, with a resulting 'Manila Framework' that "established a regional economic monitoring mechanism to analyse capital flows and maintain joint surveillance of the operation of ASEAN economies' banking systems and macroeconomic indicators in order to provide an early warming mechanism of financial turmoil", a scheme which was further extended in 1998 (Wesley 1999, p58). In 1998 further study of the possibility of a regional currency was once again urged, being launched perhaps through the ASEAN 2020 framework (Solingen 1999, p49; Wesley 1999, p70; *Hanoi Plan of Action*, 1.4.1) At the Hanoi Summit it was also suggested that there should be a wider use of local currencies for 'intra-ASEAN trade settlements' (*Hanoi Declaration*, 13). Plans were announced to try to secure long-term financing in local currencies (*Hanoi Plan of Action,* 1.2.3) Likewise, explicit goals of adopting and implementing 'sound international financial practices and standards' by 2003 were undertaken in the Hanoi 1998 Summit (*Hanoi Plan of Action,* 1.2.1)

On this basis, ASEAN countries are considering regional efforts to stabilise their currencies, possibly through some kind of exchange-rate mechanism which would coordinate the value of local currencies within certain limits, as in the European mechanisms used prior to the full implementation of the EMU. These ideas have been supported by evidence that some regional organisations with suitable economic cooperation and resources help strengthen currencies targeted by speculation. Thus during the Mexican financial crisis of 1994, NAFTA played a central role in helping stabilise the Mexican economy, and the European Monetary System and European Monetary Union pegs in place by May 1998 helped stabilise the Finish mark and other weaker European currencies (Wesley 1999, pp63-64). However, any such exchange rate mechanism would need to be carefully monitored to avoid simply spreading contagion from weaker to stronger currencies within the region, and in the end the entire group of currencies would need to retain stability in contrast to strong international currencies including the yen, US dollar and the euro. Any prospect of a shared currency for ASEAN is extremely remote, since convergence in the member economies (across a range of factors including government deficits) would be required first of all, a process which was found to be very difficult even in the European context, resulting in considerable political and budgetary tensions through 1997, e.g. in France (Henning 1997; McGuinness 1997).

Another major area where an effort was made to retool ASEAN institutions was a review of the non-interference principle, viewed as a core doctrine to ASEAN through the 1976 Treaty of Amity and Cooperation (TAC). This principle came under indirect pressure over the admission of Myanmar with its repressive regime, where it was argued that ASEAN would need to begin persuasive positive influence (constructive engagement) if its reputation was not to decline. Likewise, international pressure, especially from the US, also helped galvanise an ASEAN response to the coup in Cambodia in 1997, leading to a slow path for formal admission into ASEAN for Cambodia through late 1998 and 1999. This could only occur after the Joint International Observer Group (Henderson 1999, p40) monitored Cambodian elections in July 1998. Such factors led to a reassessment of proactive diplomacy in ASEAN under the heading of 'flexible engagement', first proposed by the Thai Foreign Minister, Surin Pitsuwan (Acharya 1999, p19). Likewise, Anwar Ibrahim had

suggested a policy of 'constructive intervention', but this policy was weakened with his fall from political grace in 1998 (Acharya 1999, p19).

Although the reform policy, as proposed by Thailand and supported by the Philippines, was rejected in the Manila conference in July 1998, this does not mean that ASEAN has simply reverted to the old non-interference policy in the same way as in the past (contra Acharya 1999, p19). First, we should note that though the non-interference doctrine was retained, this was accompanied by an acceptance of the new concept of 'enhanced interaction', allowing for some wider frankness in dealing with trans-boundary problems and in discussing reform issues (Henderson 1999, p12, p52). Furthermore, whether the older leadership likes it or not, intra-ASEAN politics does seem to have moved to a more open and critical stage. Thus tensions between Singapore and Malaysia over Lee Kuan Yew's biography, over the use of Malaysia air-space by the Singaporean airforce, over a range of issues concerning Johor-Singapore, and the movement of Singapore's railway customs, immigration and quarantine (CIQ) post, have all received public airing (see Acharya 1999, pp9-10). Likewise, politicians in both Indonesia and the Philippines have been quite explicit in their criticisms over the arrest and trial of Anwar Ibrahim (Henderson 1999, p53). The airing of such matters, and their public debate, suggests that the future generation of ASEAN leaders may be willing to continue to adapt their regional strategy of non-interference (Wesley 1998, p70). The compromise formulation of 'enhanced interaction' seems to have intentionally left this possibility open.

ASEAN and APEC Circles

At first glance ASEAN has a very limited institutional relationship with APEC. ASEAN has been one official institutional observer at the APEC meetings since 1989. However, in reality, considerable interaction has occurred between the processes underway in the ASEAN and APEC groups. First, ASEAN has had to consider to what degree it would constitute a caucus within APEC. ASEAN has moved to accept the idea that though ASEAN nations agree on many regional trade issues, there was no need for a common, consistent ASEAN position (Soesastro 1995, p476). Thus Malaysia only accepted the Bogor Declaration on the basis of issuing its own 'annex of reservation' (Soesastro 1995, p476). Likewise, differences in economic development mean that some ASEAN members have more economic convergence with non-ASEAN states than with nearer neighbours, e.g. Singapore's open trading position (Henderson 1999, p27). In spite of this, ASEAN argued that APEC forms one of its 'concentric circles of cooperation', allowing for wider and sustained participation in the general APEC agenda (Soesastro 1995, p478). At the same time, there has been concern that APEC institutionalisation might interfere with the 'identity and cohesion' of ASEAN, resulting in the ASEAN Kuching Consensus in 1990, arguing that APEC should remain a consultative forum not leading to 'mandatory directives', though some degree of pragmatic institutionalisation has been accepted (Soesastro 1995, pp484-485).

ASEAN nations often do see eye to eye on trade and governance issues, though do not always coordinate voting patterns in APEC or other groups such as the WTO. For example, though wishing trade liberalisation, most ASEAN nations understand the need to open according to their own slower timetable, with voluntary liberalisation

occurring in 2020 rather than 2010. Likewise, debates concerning the future of the WTO indicate a loose consensus among ASEAN states. The December 1996 WTO meeting in Singapore demonstrated several interesting features. The first of these was the debate over China and the terms of its entry, with members such as the European Union, Australia and Singapore supporting an early entry for China (Aggarwal 1996). Other major concerns included whether core labour rights and standards should be appended to WTO trade agreements, a view supported by the U.S., France, Norway and Belgium (Ngoo 1996). Various countries, including the ASEAN nations, Britain, Australia, New Zealand, Germany, Japan, Taiwan, Pakistan, and India were opposed to the addition of labour standards to the WTO agenda (Wong 1996).

However, the strongest effort to institutionalise the ASEAN core as a block within APEC was signalled by Prime Minister Mahathir's effort from 1990 to create an East Asian Economic Group (EAEG) group, comprising the ASEAN members of APEC, plus selected dialogue partners, especially Japan, PRC, Taiwan, Hong Kong, Burma and South Korea. On this basis, American (and Canadian, Australian and New Zealand) influence could be reduced in the APEC process. Japan and others may have been reluctant to exclude their major trading partner (the US), and the idea soon foundered on the complex politics of Japan-US relations. The then American Ambassador suggested that the operation of EAEG could increase Japan-US economic rivalry (see Haggard 1997, p30). By 1992 this idea was soon watered down to the East Asia Economic Caucus (EAEC). This grouping, however, indicates how readily regional identity issues can begin to shape regional politics (see Katzenstein 1997, pp9-10).

Interaction within an Asian core of the Asia-Pacific group remains one of the main dynamics of the region. It is implicitly utilised as a counter-balance to American hegemony and Western pressure on a range of domestic issues. Thus we have seen the continued debate on Asian values, the 'Asianisation of Asia', and the ASEAN Way (Dupont 1996; Funabashi 1993). Concrete efforts in this direction have included the Asian table of the ASEM process, which largely mirrors EAEG membership (excluding the US and Australia), the calling of an Asian summit of leaders (ASEAN plus the 'big three' of Japan, PRC and South Korea) in December 1997, and continued efforts by ASEAN to remain the core hosting organisation within the ASEAN Regional Forum, i.e. to remain in the driver's seat of ASEAN, in spite of calls for this hosting role to be widened to non-ASEAN countries due to some doubts about how the smaller and newer members of ASEAN will cope with the responsibility of the rotating chair for the forum (see Acharya 1999, p15; Henderson 1999, p70).

Other areas of tension in the Asia-Pacific region include protracted debates concerning security affairs. Though not an alliance system, ASEAN, through its early efforts to secure regional resilience and limit great power conflicts, soon found itself creating diplomatic tools that directly impinged on security issues. The Treaty of Amity and Cooperation, TAC, the early efforts at creating the Zone of Peace, Freedom and Neutrality (ZOPFAN), and then the Southeast Asia Nuclear Weapon-Free Zone concept (SEANFZ), all aimed to reduce regional conflicts by voluntary adherence to a set of international principles. The Treaty of Amity and Cooperation, based on the principle of non-interference, has been moderately affective within ASEAN since 1981, but now has emerged as a point of controversy, while ZOPFAN

was in many ways ahead of its time. To achieve its goals ASEAN needed to reach out to a wider zone of players.

By 1993 it was recognised that the aims of ASEAN could not be sustained without wider, multilateral cooperation with dialogue partners of the region. This lead to the formal creation of the ASEAN Regional Forum (ARF), which has claimed moderate successes down to 1997. The ARF was designed in July 1993 to create a regional dialogue and to allow 'preventive diplomacy', a real possibility once the Cold War had ended and Vietnam had evacuated Cambodia (Tay & Talib 1997; Acharya 1993, p74). On 25 July 1994 its first meeting occurred in Bangkok. The meeting was based around the core of ASEAN nations and their seven dialogue partners (Australia, the United States, Japan, South Korea, New Zealand, Canada and the European Union), with 'invited participants' including China, Vietnam, Russia, Laos and Papua New Guinea. This meeting not only discussed major issues such as potential hotspots in North Korea, the Spratly Islands and Cambodia, but also addressed the issues of weapons proliferation, especially devices of mass destruction and missile technology (Sheridan 1994, p2). The 1995 ARF showed some success, in that for the first time China reluctantly agreed to discuss the Spratly Island dispute on a multilateral basis with ASEAN (Sheridan 1995; Simon 1994, p1052), with the matter being referred to the international law of the sea. China had been willing to take this more constructive approach with ASEAN because: 'Rather than confront China, ASEAN is engaging it politically and economically, for example, in regionwide security discussion through the ASEAN-created ARF. ASEAN state delegations visit and invest in the PRC, reassuring Beijing that its interests will be considered by the rest of Asia' (Simon 1994, p1054).

In the second ARF, 1 August 1995, an evolutionary, three stage approach was adopted to regional stability. The first stage aimed to promote confidence building measures, the second to develop preventive diplomacy, and the third the 'elaboration of approaches to conflict', i.e. some kind of conflict-resolution (Ball & Kerr 1996, p29; Henderson 1999, p69). Stage I includes 'dialogue on security perceptions, including voluntary statements of defence policy positions; greater transparency via defence publications such as Defence White Papers; encouragement of participation in the United Nations Conventional Arms Register; and an annual seminar for defence officials and military officers' (Ball & Kerr 1996, p29). Preventive diplomacy would also include a range of pre-crisis measures, fact-finding, goodwill and good offices activities (Tay & Talib 1997, p254). Stage II hoped to 'focus on preventive diplomacy and will be guided by the existing sets of preventive diplomacy principles contained within the UN Charter, the Treaty of Amity and Cooperation, and (with respect to the Spratly Islands) the ASEAN Declaration on the South China Sea' (Ball & Kerr 1996, p29).

However, through 1998, it has become clear that the ARF has had difficulty in fully engaging its preventive diplomacy phase. In part, this has been due to the emphasis on non-interference within ASEAN, and the fact that the ARF has had to limit itself closely to diplomatic activity, rather than any other forms of enforcement. We can sense some of this difficulty in the parallel ASEAN problem of defining the 'trans-boundary damage' problem, whereby domestic policies in one country directly create effects outside state borders (see Tay & Talib 1997, p259; Held 1995, pp235-236). Although trans-boundary damage might be viewed as a suitable pretext for the

engagement of preventive diplomacy, we can see the difficulty of actually doing this in the slow activation of ASEAN processes in relation to the air-pollution created by the massive fires in Indonesia in 1997 (and again in late 1998, and August 1999), in the problems created by illegal labour flows and the expulsion of such labour (Acharya 1999, p11; Hugo & Stahl 1997), particularly problematic for Indonesian workers in Malaysia, workers coming into Thailand from Burma, and in border control problems between Thailand and Burma (see Henderson 1999, p37). These cases fit the trans-boundary definition, with only the environmental pollution problems being seriously operationalised within ASEAN in 1998 with some ADB funding, utilising in part the 1995 ASEAN Co-operation Plan on Transboundary Pollution and the 1997 Regional Haze Action Plan (Rosenberg 1999, pp137-141). Further commitments to dealing with trans-boundary pollution were made in the Hanoi 1998 Summit (*Hanoi Declaration*, 25; *Hanoi Plan of Action*, 6.1-6.3). So far, the management of these wider security concerns only demonstrated 'limited competencies' for ASEAN based organisations, with some greater need to develop further 'bottom-up subsidiarity' with other organisations, including UN roles (Peou 1998, pp442-446).

Moreover, the ARF has not avoided entanglement with wider Asia-Pacific agendas. Disappointment with the ARF's non-interventionist approach has led to some sustained criticism from countries such as the US, and to a lesser extent Britain and Australia. Likewise, the inability of ARF to force solutions of the South China Sea dispute have led some to view it as a weak voice, particularly when facing the entrenched security problems of Northeast Asia (Lim 1998; Narine 1998). In 1996 there were some U.S. calls for a new chief-of-staffs regional summit, while in the November 1995 APEC summit, the American Defence Secretary surprised the group by suggesting that APEC should discuss security issues, a move for which there has been little support. On the other hand, any effort to create an extended security network in the Asia-Pacific region based on key American alliance partners (such as Japan, South Korea and Australia) runs the risk of emerging as a coalition than can only be aimed at containing China.

On this bass, the prospects for regional security approaches run through organisations such as the ARF are far from dead. Ironically, one of the benefits from the regional down-turn has been a decrease in military spending of between 10% and 50% in Southeast Asian countries (Acharya 1999, p13), emphasising once again that most of these nations are not in any kind of arms race. Indeed, in GDP terms most Southeast states spend less than many western nations on defence, and generally growth in military expenditures lags behind overall growth in GDP (see Solingen 1999, pp38-41). More importantly, it is clear that none of these nations, including China, is easily able to unilaterally enforce security throughout its EEZ's in the face of opposing claims, as in the South China Sea. Though the PRC might be viewed as the exception, she, too, is unable to field sizeable air power units over the Spratly Islands for any length of time, at least for the foreseeable future, and has to rely on a subtle mixture of diplomacy and low-level operations designed to secure selective control of reefs and islands, a programme which still continues to be effectively challenged by 'weaker' powers such as Vietnam and the Philippines, and by collective dialogue at track II levels (see Lee 1999; Storey 1999; Feigenbaum 1999). Of the latter, the 'Managing Potential Conflicts in the South China Sea' workshops hosted by Indonesia since 1990, with China attending from 1991, have been quite effective (Lee 1991,

pp165-166; Rosenberg 1999, p137, contra Lim 1998). China, though in many ways preferring a bilateral approach, has not been able to avoid these issues at multilateral workshops, or even via the ARF (Lee 1999, pp170-176).

Although I would not go so far as to suggest that the ARF has been slightly strengthened through the side-effects of the financial crisis (as in Solingen 1999, p50), I would certainly suggest that the relevance of the ARF has if anything increased, at least for Southeast Asian nations. This can be sensed in the Hanoi Declaration of 1998 where it is asserted that the ARF will be further strengthened and that 'ASEAN leadership of ARF shall continue to be exercised and enhanced' (*Hanoi Declaration*, 32), with an explicit statement that ASEAN should continue the chairmanship of the ARF (*Hanoi Plan of Action*, 8.1).

Furthermore, it is possible to envisage a new lease of life for security agendas down several avenues of reform. This could include a review of the assumptions underlying ARF diplomacy (for a critical review, see Garofano 1999, pp84-89), leading to a willingness of the ARF to move into preventive diplomacy. This could involve individual ARF governments taking on a leadership role in solving particular problems, some recognition that smaller coalitions of actors must be allowed to manoeuvre at a sub-consensus level, and for continued use of tacit, informal agreements to push ARF agendas forward (Garofano 1999, pp89-92).

Here we can see that great power and alliance politics, as well as the particular triangular relationships of northeast Asia (most recently, Japan-PRC-US), have made it extremely difficult for the ARF to play more than a discussant role in Northeast Asian Security affairs. Nonetheless, it possible to suggest that the PRC, Japan and the U.S. all share, in the long run, an interest in a relatively stable international financial order, in further trade-liberalisation and in maintaining open sea lanes (Feigenbaum 1999, pp79-84). Timetables and details vary, as do efforts at gaining competitive advantage within this scheme, but provide for some convergence of core interests. All three powers, for example, would find a failure of either the WTO or APEC processes problematic for their future economic security.

In summary, ASEAN, ARF, and APEC have overlapping and symbiotic functions, and attempt to provide some level of voluntary management for comprehensive security issues in a rapidly changing international and financial environment. These efforts will need to undergo both the implementation of existing agendas and selective reform to remain effective. Even if this is done, however, these organisations cannot deal with some of the larger global forces shaping the wider region. A new way of viewing the interaction of regional and global forces may help provide avenues forward.

'Soft' Governance: Beyond Deepening and Broadening

There has been an implicit tendency in much Western literature on Asian institutions to assume that deepened patterns of integration, based on rule-bound institution systems, indicate the maturity and success of a regional organisation. Using the EU, NATO and NAFTA as implicit paradigms, it is argued that ASEAN, ARF and APEC are fledging organisations at the early stage of institutional integration, with limited

ability to cope with hard disputes. Calls for change often focus on ways to deepen, regulate or bring in Western patterns of influence (see Henderson 1999). Though valid in some specific criticisms, it is possible to view international institutions as being forged 'in order to meet various functional needs' (Mansfield & Milner 1999, p6). The success and prospects of these organisations would then be assessed on how well these functional needs are addressed, and not on formal criteria developed in radically divergent international settings. On this basis it would indeed 'be a great mistake to compare European "success" with Asian "failure"' (Katzenstein 1997, p3).

Another implicit suggestion is that the maturity of an organisation such as APEC or ASEAN relates to its degree of genuine economic integration (Katzenstein 1997, p19). However, for the ASEAN countries, with their limited degree of complementarity in their agricultural, industrial and service sectors, premature integration may produce negative rather than positive outcomes. Likewise, premature currency integration could be disastrous. As argued by Etel Solingen: -

> Regional economic integration is not always required for co-operative relations to be maintained, although an absolute increase in regional trade and investment often results from interacting internationalist partners. For instance, where competitive - rather than complementary - economies are involved (as in ASEAN), the drive for integration is initially weak. However, even in the absence of dramatic economic benefits from bilateral economic interactions, internationalist coalitions find it in their interest to maintain global access, with regional arrangements serving only as stepping-stones subordinated to that logic. (Solingen 1999, p34)

Likewise, the great diversity in development stages within APEC suggests that insufficient convergence in national economies has been reached for anything like the kind of integration found in either the EU or the NAFTA systems. Trade and investment liberalisation, combined with strategic and diplomatic initiatives, may be more suitable paths for these organisations, without any implication that these are merely 'transitional' stages.

On this basis, two areas of study have begun to offer new insights into the process of institutional function. The 'new institutionalist' approach is one, backed up by recent studies in the area of international governance. The 'new institutionalist' approach has been effectively summarised: -

> Contemporary work in this area often highlights the ability of international institutions to help ameliorate international market failures . . . International institutions create incentives for states to cooperate by reducing collective action problems; by lengthening the "shadow of the future," thereby enhancing the prospects for states to engage in strategies of reciprocity; and by increasing the ability to link various issues, thereby increasing the costs for states of failing to comply with established rules and norms. (Mansfield & Milner 1999, p6)

Institutionalist approaches have also recently integrated a strong 'constructivist orientation', allowing a major role for 'incremental interactions and socialization', where states can modify both their interests and international identity (Acharya 1999, p5) through regional processes. From this viewpoint, ASEAN is not as weak as it may seem on the basis of material resources, and has in fact demonstrated a 'high degree of commitment' to its institutional principles, making 'an important contribution to the normative environment of the region by reinforcing the fundamental principles of international society' (Narine 1998).

Another suggestion that has been recently floated is that organisations like ASEAN will need to move out of soft regionalism into a deepened commitment to rule-based interaction, 'intrusive regionalism' and democratised civil society (see Acharya 1999, p18). However, to move directly to this position would simply lead to a deep spit within ASEAN, present the organisation with a crisis in its ideals, force an even deeper wedge between the older and new leaders within Southeast Asian countries, and undermine formulas that have had some success in the past. Rather, it is possible to suggest an alternative route to reinvigorated institutions without adoption of European style institutions or unpalatable rule-based regimes.

This alternative path has emerged out of new theories of governance. The term 'governance' has a particular ambit in organisation theory, and has been developed to a strong degree in notions of corporate and democratic governance involving civil society (see Collier & Esteban 1999; Held 1995). It has come into play in the analysis of globalisation and the role of multilateral organisations, especially economic and financial institutions including the World Bank, and more recently the United Nations Development Programme and international NGOs (Smouts 1998; Turner 1998; Weiss & Gordenker 1996; Knight 1999). Governance formed a core element in The Commission on Global Governance, whose report, *Our Global Neighbourhood*, was published in 1995. Co-chaired by Ingvar Carlsson and Shridath Ramphal, the commission included 29 politicians and thinkers from around the world including figures such as Ali Alatas and Jacques Delors, though aided by dozens of reports from individuals and institutions. Basically, it argued that with the end of the Cold War, the time was now ripe for another move forward in global governance, international law, and for reform of the United Nations. In effect a second track of international diplomacy, it tried to suggest an integrative approach towards transnational problems, with special emphasis on ways to accommodate conflicting and diverse interests within cooperative processes (Smouts 1998). The new governance theory, then, with its emphasis on participation, partnership, negotiation and consensus (Smouts 1998) represents an approach largely compatible with ASEAN ideals and wider Asian agendas.

This cooperative approach can be termed 'soft governance'. It has greater utility in providing a way forward than that of 'soft' regionalism, which often infers a loose, informal integration centred on consensus as in the ASEAN system (Acharya 1999, p15), but in the wider Asia-Pacific setting may allow strong external influence by economic powers, e.g. Japanese or Chinese economic networks (Katzenstein 1997, p22). 'Soft' governance, however, can be viewed as the application of 'soft' power (Katzenstein 1997, p43) within a regional or multilateral setting. That such governance is not an idealistic and impractical construct can be seen through the considerable progress of ASEAN and the ARF down to mid-1997, the ability of a number of international actors to cope with the Mexican economic crisis of 1994-1995 (Smouts 1998), and the renewed effort by ASEAN and APEC to adapt to global challenges through late 1998 (as outlined above).

Several factors come into pay in the application of a pragmatic 'soft' governance in the Asia-Pacific region. A number of initiatives could be undertaken that would increase effective governance without directly challenging the organisational culture of

ASEAN and APEC. Pragmatic avenues for enhancement, which do not rely on revolutionary reform or huge budgets, might include: -

- The recognition that preventive diplomacy in the region, even when operating through regional institutions, must take into account some of the cultural bases of power (Katzenstein 1997, p24). As such, the rhetoric of reform debates is crucial, suggesting that new conceptual tools may need to be developed, rather than simply reiterating the rhetoric of realist, liberal, or 'non-interference' positions.
- The importance of informal and 'second track' initiatives and dialogues. For example, there are some thirty 'ongoing, nonofficial security "dialogues"' in Asia at present (Katzenstein 1997, p27). At a deeper level, this should be widened to the engagement of civil forces, including NGOs and social organisations, throughout the Asia-Pacific region, thereby leading the ASEAN and APEC systems out of their current elite focus (see Acharya 1999, p22). At the same time, the semi-official activities, sometimes dubbed 'Track $1^1/_2$' of the ASEAN Institutes of Strategic and International Studies (ASEAN-ISIS) and the Council for Security Co-operation in the Asia-Pacific (CSCAP) should be continued (Garofano 1999, p78).
- The enhancement of goal directed activity in the ARF with follow up programmes (Garofano 1999). Although this may involve some degree of further institutionalisation, perhaps through small ongoing action groups or specialised secretariats, it would have the advantage of moving the ARF forwards without the construction of regime-based, European-type paradigms. One partial success in this area has been the 1998 activity of the Regional Haze Action Plan (RHAP), with officials meeting on a monthly basis since November 1997 to co-ordinate fire-fighting, satellite monitoring and training schemes (Rosenberg 1999, p141). Whether this will be substantial enough to effectively reduce the impact of the haze through late 1999, and face the entrenched social factors behind the forest fires (Dauvergne 1998), remains to be seen. However the continuous activity of RHAP indicates a clear step forward in ongoing management. Alongside big and pressing issues, ASEAN and the ARF should tackle smaller problems in which definite progress could be demonstrated, e.g. anti-piracy measures (Renwick & Jason 1999, p194). This would build further confidence in moving into the preventive diplomacy stage.
- The enhancement of the Regional Risk Reduction Centre (RRRC) concept, furthering the proposal put forward in the ARF Concept paper. As noted by Simon Tay and Obood Talib, such 'a centre should conduct ongoing work, serving the ARF between ministerial and other official meetings' (Tay & Talib 1999, p262).
- Coordination of a wider, continuing agenda to address the issue of 'systemic risk' in the global system (Roberts 1997, pp123-130), with ASEAN and APEC engaging in sustained dialogue with wider multilateral organisations (WTO, World Bank, IMF) either at an organisational level, or through key member states.
- Enhancement of the status, if not the formal powers, of the ARF Chairman and his office (Tay & Talib 1997, p263).
- Enhancement of the ongoing jurisdiction of the ASEAN Secretary-General (Peou 1998, p447)
- The further use of 'soft compliance' mechanisms, including peer review, annual reviews of progress and financial incentives (see Rosenberg 1999, p142), rather than consider invasive and punitive forms of compliance.

- Further development of 'inclusive' rather than 'intrusive regionalism', which allows for a cooperative approach to security, including early warnings about events which have transnational consequences, even if these arise first of all within the domestic sphere of individual countries (Acharya 1999, p18). In effect, current plans on air pollution monitoring and peer surveillance on financial and economic policies (Solingen 1999, p49) have taken a serious step in this direction.
- The recognition that liberalisation efforts should not undermine social or food security programmes, a key background issue in the Hanoi Declaration, and given detailed treatment in the Hanoi Plan of Action, including enhanced dialogue on the ASEAN Emergency Rice Reserve and concern over the gap in the level of development among ASEAN states (*Hanoi Plan of Action,* 2.4 & 2.11). Specific plans to counter the social impact of the financial and economic crisis included action plans on 'Rural Development', 'Poverty Eradication' and 'Social Safety Nets' (*Hanoi Plan of Action,* 4.1-4.3) Such attention to economic and social security will need to be maintained if regional governments are going to able to have the room to move towards further reform.
- Enhance financial and economic monitoring through both ASEAN and APEC. This would involve the extension of programmes already in place in both organisations.
- The reconsideration of some sort of Asian Monetary Fund (AMF) to operate more quickly and less intrusively than IMF structural adjustment programmes, but operated in conjunction with IMF and World Bank efforts. U.S. concern over this programme could be allayed by track II diplomacy, by positioning the fund at a middle rather than large scale, and suitable monitoring of the use of the AMF on the basis of financial and banking responsibility in the region. The AMF would be primarily concerned with dampening regional contagion or wider systemic problems. Positioned regionally, the AMF could be administered either through a leading state player (Japan), or be managed through a regional organisation such as the ADB.
- Enhancement of ASEAN coordination with APEC and the UN, with effective division of labour (Peou 1998; *Hanoi Plan of Action,* 8.7)

For these factors to take full effect, however, there will need to be a rethink of alliance politics and new triangular contests (Zhang 1998) which remain a feature of both security and economic politics of the Asia-Pacific region. Thus the actions of both China and Japan after the financial crisis of 1997 show some influence from 'balancing considerations' (Acharya 1999, p8), encouraging China's strong entry into financial diplomacy for the first time, and also drawing Japan into a complex series of international plans designed to live up to international expectations, but still not fully satisfying U.S. policy makers.

Likewise, a series of acrimonious interactions among Japan and the U.S., China and the U.S., and some Southeast Asian nations, were either caused by, or heightened, through 1997-1998 (see Johnstone 1999). The tensions between 'East and West' were vigorously reinvoked during the 1997-1998 financial and economic crisis. In particular, strong tensions between Asia and the U.S. emerged in debates over the causes and the remedy for the crisis. Some in the U.S. argued that cronyism, lack of transparency, and a false model of corporate-government cooperation were at the heart of the crisis, i.e. the so-called ‘Asian miracle’ was a mirage (Harding 1998). On the other hand, some Asians argued that U.S. financial institutions had eagerly

pumped vast amounts of short-term hot money into the ‘immature Asian banking systems and securities markets’, followed by the activities of American speculators, and that the U.S. has also been reluctant to top-up the IMF to help deal with the crisis (Harding 1998). At the worst, U.S. policies were viewed as partly causing the crisis through allowing an unregulated release of financial capitalism, through U.S. policies in relation in the IMF (both seeking to limit the scale of the bailout and demanding a strongly interventionist role in return for aid), and last, by not being willing to provide a strong leadership role for Asia-Pacific recovery. However, the risk of a second round of crisis, and the potential long-term effect on American trade, clearly indicated that a strongly cooperative approach was needed to stabilise regional and global financial systems. Since that time, the U.S. administration has begun to modify its view of the sufficiency of IMF agendas so that short-term loans could be offered more quickly (Johnstone 1999, p131). In 1998 the American economy also began to absorb more East Asian imports (Acharya 1998, p8), and the U.S. sought some sort of moderating balance in its complex trilateral relations with Japan and China.

It is not expected, of course, that Asia-Pacific institutions can control or remove existing 'balance of power' tensions, especially in northeast Asia. However, as summarised from the institutionalist point of view, regional organisations should seek to 'gradually soften and moderate great-power rivalry' (see the overview in Acharya 1999, pp16-18). On this basis, pluralistic forms of governance are an essential adjunct to realist calculations of possible conflict and competition. One of the most effective ways to avoid 'worst case scenarios' based on a failure of the financial, economic and diplomatic systems of the Asia-Pacific region is a deepened investment in the re-conceptualisation of major regional organisations.

Conclusion

It is true that ASEAN and APEC gave limited and slow responses to the crisis period of 1997-1998. In the case of ASEAN, however, debates within the organisation and determined efforts to continue its ARF and AFTA programmes suggest that ASEAN's role can be maintained so long as new responses are developed. This does not necessarily include a move towards European-style integrative regimes, but rather the development of new concepts and patterns of governance, best summarised under the rubric of a pragmatic 'soft' governance.

In general, it no longer seems to be true to suggest that ASEAN regionalism has an ingrained habit of 'avoiding problems' (contra Henderson 1999, p77). Nor is it clear that Indonesia retains or needs to retain a clear leadership role in ASEAN diplomacy (contra Henderson 1999, p77) when such functions can be approximated by coalitions among other leading players, such as Thailand, Singapore, Malaysia, the Philippines or even Vietnam. Likewise, the loose coordination between ASEAN and the wider APEC zone remains central to effective advancement in regional stability. However, for this to be achieved, new visions of regional governance will need to be developed to bypass blockages in solving trans-boundary problems, in moving towards effective preventive diplomacy, and in moderating triangular patterns of 'great power' competition.

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