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ITS ECONOMIC CRISIS AND THE
GLOBAL IMPLICATIONS**

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ABSTRACT

This paper looks at regionalism through the lens of multilateralism in Asia-Pacific. Some of the substantial criticism from outside the region of Asia's multilateral institutions is warranted. That criticism is generally overdone, however, for two reasons: an inadequate understanding of the achievements of regional multilateralism over the past two or so decades; and an inadequate understanding of how the region responded to the economic crisis.

The major achievements of regional multilateralism - normative frameworks for economic and security relations—have come through largely unaffected by the crisis. The prime objective of regional policies—internal security—has ensured a continued priority for economic growth and open liberal economic development; and the priority to settling disputes by peaceful means has not changed. Some weaknesses will continue—ASEAN enlargement for example—but these are largely not related to the crisis.

Regionalist impulses have been strengthened by the crisis, but are likely to continue to remain supportive of the global institutional framework. A heightened sense of a need for increased regional representation in the unrepresentative nature of global institutions has emerged.

THE ASIAN REGIONAL RESPONSE TO ITS ECONOMIC CRISIS AND THE GLOBAL IMPLICATIONS¹

*Stuart Harris*²

The economic crisis that hit East Asia in 1997 had various impacts on Asian regionalist impulses. Important among them were, first, that it led to an enhanced understanding of the region's vulnerability to forces external to the region. Second, the crisis also led to a belief by many inside, as well as outside, the region that existing regional cooperation arrangements were unable to make an effective contribution to solving the problem. The worst of the crisis now appears to be over. There is a long way to go, of course, but a modest process of recovery is evident. Japan's own economic crisis, which has had a significant impact on the region, is also showing some signs of bottoming out.

It is not too early to start assessing what these crises meant for Asian regionalism, whether as a defining event in Asia's economic and political development or just another speed bump on the road of regional progress. In this paper, I look at how Asian regionalism has responded to the crisis primarily by considering only one aspect, that of regional multilateral institutions. Multilateralism has contributed to a sense of region and regional community in Asia. Asia is seeing the emergence of several concepts of region: economic, political and security. The general tendency has been to be dismissive of the role of regional multilateralism in Asia generally and of its response to the economic crisis. The crisis certainly revealed weaknesses in these processes—and in the hubris of the external responses to the crisis these have been extensively documented—in the *Economist* and elsewhere. Indeed, the future relevance of these institutions has also been put in question.

Undoubtedly, the Association of Southeast Asian Nations (ASEAN) has been weakened, the contribution of the Asia-Pacific Economic Cooperation (APEC) forum to crisis management was limited, and one major regional initiative, the Japanese regional monetary fund proposal, was opposed by the United States and some in the region in favour of the US-led global multilateralism of the

1 Paper for a conference, After the Global Crises: What Next for Regionalism, Warwick University, September 1999. I have drawn on parts of Harris and Nuttall (1999).

2 Australian National University.

International Monetary Fund (IMF). Soul searching is underway in the region. Nevertheless, the judgements may have been unduly harsh. Although a full assessment will need more time, I believe some things can be said now. Any rush to judgement, however, needs to bear in mind that the history of Asia–Pacific as a region of independent states is short. Lateral linkages among the regional states were largely non-existent in the aftermath of World War II, national building is still far from complete, and those mostly new states started with considerable distrust of the metropolitan powers. This mistrust extended to their institutional constructs such as the General Agreement on Tariffs and Trade (GATT) and the IMF. I also argue that it is important not to overlook what has been achieved as well as what has not, and that rather than compare multilateralism in Asia with that elsewhere, the comparison should be with the relatively recent Asian past.

In most discussions of multilateralism, some formal institutionalisation is commonly seen as necessary, usually to avoid or limit the problems of free riding. Such needs are less if the time horizons of members are long, gains from cooperation are repetitive and if peer pressure is important. If the objective is less than a formal cooperative process of a functional nature, formalised institutions may not be required. Since in Asia, there has been little functional integration—despite the efforts of ASEAN, problems of free riding are hardly central.

Addressing Asian regionalism is complex. There is no consensus on what is the region, the concept of region is changing with various geographic sub-regions being encompassed, or excluded. There are fundamental political and economic differences—Japan, for example, is an advanced economy and China and the Indochina states are at various stages of transformation into ‘socialist’ market economies. The developing/developed divide is a present although not a dominant influence, but the reality of the differences remains and is important in some contexts, as for human resource development and in global environmental questions. These various differences have been important but not critical in those regional multilateral institutions that emerged over a period of three decades or so, essentially since ASEAN was created in 1967.

What is the Asian region?

I shall not rehearse the extensive literature on what constitutes regionalism or a region (for a summary, see Hurrell 1995). The question of defining the Asian region poses difficulties, and what constitutes the region remains ambiguous. It is not possible to avoid the definitional problem completely, however. Not only

is it contested but, in addition, an important process in Asia has been the change in views on, or understandings of, what constitutes the Asian region, for substantive economic and security reasons and for narrower political reasons.

In defining the Asian region, as with any region, a number of standard characteristics are important, notably geography and economic and political/security interdependencies. Geographic proximity and contiguity are important but not defining in Asia. Understandings compete mainly between a wider concept of Asia-Pacific, reflected in the APEC forum, which includes North America, and a narrower concept illustrated by the Asian half of the Asia-Europe Meeting (ASEM) which does not include North America (nor Australia and New Zealand). Membership of other regional organisations does not help much. Some include outliers: ESCAP, for example, includes Iran and Armenia, the Asian Development Bank (ADB) includes Afghanistan and several Commonwealth of Independent States (CIS) countries, APEC includes Chile, Peru and Russia as well as North America and Australia and New Zealand, and the ASEAN Regional Forum (ARF) includes India. There are various sub-regions, such as Southeast Asia (ASEAN), ANCERTA, the North American Free Trade Agreement (NAFTA) and less formalised sub-regions, including Northeast Asia, and the China circle, encompassing Taiwan and Hong Kong.

Economic interdependencies are important, but also not defining. The gradual emergence, autonomously, of economic linkages among the countries of the region and the expectation that these would increase if not hindered, became an important motivation for cooperative action leading to semi-formalised processes for facilitating cooperation. In functional terms both ASEAN and APEC, until the time of the Asian crisis, had been trading more intra-regionally: in 1997, 71 per cent of APEC's trade was intra-regional, 19 per cent of ASEAN's trade was intra-regional in the same year. In both cases the growth in intra-regional trade had increased over the previous five years (DFAT 1998, based on IMF data). Intra-regional capital movements have also been growing and, closely associated with this, strategic production networks.

A third characteristic is security interdependence. This is a varying influence because of the links between economics and security, because of the different perceptions of threat, and because of the bilateral allegiances of regional states. Thus, economic linkages among states in the region have been encouraged as ways to prevent conflict among states through greater functional interactions. As the region has developed, the security interdependencies have moved in new directions such as towards South Asia and the CIS states, although not yet paralleled by significant economic interdependencies.

A further, less tangible, characteristic deals with what the countries of a region have in common. A number of the countries in the region share common characteristics. These characteristics again can be internally oriented: shared histories, cultures, perceptions, political attitudes, and a sense of regional consciousness. Or they can be externally oriented: shared attitudes to others outside the region.

In addressing these various characteristics, we know that Asian regionalism, like regionalism elsewhere, is a construct: the definition of the region and of Asian regionalism is what the states of the region make of it. Yet the argument is somewhat circular since who are the states of the region is unclear given that there are different ideas of what constitutes the region.

External influences

More generally, the idea of regionalism in Southeast Asia included a post-colonial desire for neutrality in the Cold War and avoidance of involvement in the activities of the major powers. The rhetoric included expressing a wish to avoid the adversarial approach perceived among those countries as characteristic of the management of international relations by the major powers. Part of the initial support for regional cooperation processes stemmed from this reaction.

The mix of external factors that subsequently influenced Asian regionalism has included the emergence of regional blocs elsewhere and initially, in particular, the European Union (then the EEC). While the European Community (EC) and European trade protection were important in stimulating regional economic cooperation, as were the EC's moves towards a Single Market and the consequent fears of 'fortress Europe', and then the emergence of NAFTA, other regionally oriented motivations have also been important, such as developments in the Cold War, and Western human rights pressures. Asia has been and is still being pulled in several directions. The obvious advocate of movement in a narrower direction is Malaysia, but there is wider support for a closer sense of Asian community. At the same time, this is countered by three offsetting pressures: continuing US links, shifting interdependencies, and globalisation processes.

Although it is not shared by all to the same degree, maintaining the US presence in the region is an important objective for a number of regional states. Even China's feelings on the subject are mixed.

Shifts in interdependencies pose problems for an all encompassing regionalism. Even for a narrower regionalism, China's shifting interdependencies,

for example, pose problems. Although in some respects, China provides a central geographic link between Northeast and Southeast Asia, it has growing ties in new directions in developing economic, mainly energy supply, relations and political relations in what is now an established sub-regional multilateral grouping, with Russia and Central Asia.³

The third counter pressure is globalisation. Given that the starting point of the economic crisis was the financial system, that this above all is the context in which the processes of globalisation manifest themselves might indicate that regionalism will face special difficulties countering it. That is largely but not totally so for reasons we elaborate below.

More particularly, there has been a regional reaction to the general pressures of globalisation, to what was seen as the impact on domestic cultures of international values, including democracy, capitalism and Westernisation and to pressures from the West on human rights. The West has again been increasingly cast, but not always hostilely, as the external 'other'. One manifestation was the development of the ideas of 'Asian values', the intellectual arguments being developed by Singapore and endorsed by Malaysia and China in particular, with Dr Mahathir claiming that Asian values were in fact universal but European values were simply European. The basic issue was the question of how to balance economic growth and stability. The debate on both sides, however, mixed various arguments, mostly around the use of the values propositions to legitimise authoritarian governmental approaches to governance, hence the strong support given to the values argument by authoritarian regimes.

The economic crisis may have reduced the heat of the debate but it seems unlikely that it will disappear as a basic critique, not of economic development since that is not necessarily judged Western, but of 'Western' values and the excesses perceived to be associated with them.

Multilateralism in Asia

Multilateralism is usually seen, however, as functionally oriented, facilitating the provision of collective or public goods that contribute to economic progress and strategic security. In economic contexts, the need for multilateralism normally arises because norms, rules and standards are required for, among other things, trade, investment, communication, transport and energy supply in which

3 The fourth meeting of the heads of government of China, Russia, Kazakhstan, Kyrgyzstan and Tajikistan was held in Bishkek on August 24-26 1999.

international aspects are dominant. For security, multilateralism is most generally associated with collective security or collective self-defence, but also for cooperative action on matters such as public health, international crime and the global environment.

Concentrating on functional aspects tends, however, to emphasise the static, and to ignore political and social aspects. Such an approach suggests a view of the state that sees the international system as firmly established, its values and preferences as fixed and its understanding of how the international system does and should operate as unchanging. Yet discussion or dialogue processes may alter preferences, create feelings of shared identity, stimulate the development of norms and encourage cooperative behaviour. Such a dynamic element in multilateral arrangements has been important in shaping the approach of countries in the Asia-Pacific (Harris 1994; see also, on learning by China, Harris 1997).

Before addressing the question of how the region's multilateral institutions responded to the crisis, let me look briefly at the earlier achievements of multilateralism in Asia.

Each region of the world has its own historical experiences that shape its perceptions, values and understandings. Asia's regional developments have taken paths that differ from those of other regions. Let me remind you of those historical underpinnings. For most of the post World War II period, there were important differences, arising from geography, between the north Atlantic and Asia-Pacific in how far multilateralism was a feature of the international approach sought in the region. North American literature sometimes generalises those differences in terms of the states of the Atlantic basin endorsing liberalism and extended deterrence and those of the Pacific basin endorsing international mercantilism and finite deterrence (Kurth, 1989). Like most generalisations, it contains some truth but is increasingly misleading. In particular, it underestimates changes that have taken place in the economic arena, such that it has been argued that in the Asia-Pacific, '[l]iberalism, as a norm, is even more strongly emphasized...than among GATT members' (Aggarwal 1993: 1033). It also underestimates differences in the objectives sought in the region through multilateralism.

In the process of providing information, increasing transparency so that the behaviour of neighbours can be monitored, and in economic contexts, reducing transactions costs, regional institutions have reflected but also shaped regional preferences. In reflecting regional preferences, multilateral processes usually direct attention, first, to norms of behaviour, respect for sovereignty, non-aggression and non-interference in the domestic affairs of other members and

second, to the habit of consultation and accommodation, informality, a preference for process, a non-legalistic and non-binding flexible approach and consensus seeking (Snitwongse 1998: 184).⁴ The concomitant shaping influence includes acceptance of diffuse reciprocity and a general sense of give and take neither quantitatively nor time specific.

Three important characteristics of multilateralism in Asia are, first, that these are seen as supporting, not substituting for, the global multilateral institutions. This point is important both to the assessment of where regional multilateral arrangements fitted during the economic crisis and, as we see later, to the global implications of regionalism.

A second is that considerable weight continues to be put on semi-official or second track activities, contrary to the experience elsewhere. They constitute research bodies, idea generators and places to propose and discuss, among other things, new norms or standards.

A third characteristic of Asia's approach to multilateral security dialogue has been its inclusive nature. The interest in bringing within the dialogues those who might be potentially problematic has included China, to the point where at its 15th Party Congress in 1997, it adopted multilateralism as a policy and has been generally constructive in its participation in regional security as well as economic meetings. Vietnam and Burma are also examples. There is considerable interest, too, in bringing North Korea into the ARF process. It already participates in the Council on Security Cooperation in the Asia-Pacific, a second track process linked to the ARF.

The record to date

What constitute efficient institutional multilateral forms depend on circumstances. A range of motivations was important in stimulating regional multilateral developments. In considering the multilateral efforts we need to judge them first in terms of their own objectives before looking at the global implications.

'Soft', region-wide, institutions are central to Asia's multilateralism. At the regional level, I have suggested that regional multilateralism responded to specific Asian problems and historical experiences—colonialism, nation building and the regional impact of the Cold War—which shaped its choices. Filling the large gaps in understanding the interests and intentions of their regional

4 In practice, consensus is commonly sought in international institutions, for example, UNCLOS, IMF, WTO and NATO, but they normally have an underlying voting process available if needed.

neighbours and establishing a sense of community was an important goal and consequence of multilateral processes in Asia.

Moreover, an important contribution of multilateralism in Asia-Pacific has been to alter the environment within which interactions take place and, in encouraging cognitive learning about the way the world works, to change or reinforce how Asian states want to pursue their interests and reshape their national objectives. Those influences have also become important in domestic politics. ASEAN and APEC in particular, but also ARF have been domestically important, making more understandable the choices facing policy makers and pressing and legitimising the liberal trade and investment agendas.

While some norms are supported with guidelines, few rules exist to underpin or buttress them except in ASEAN, in the Treaty of Amity and Cooperation (TAC), and on procedural matters elsewhere. Only a few monitoring or sanctioning mechanisms are in place. The limited efforts at rules-making have been mainly over membership, although decisions there tend still to be made on political grounds.

Multilateralism in Asia has remained informal, gradual and consensual, and is often criticised for its lack of specific multilateralism. Yet, in practice, in all but the trade field, diffuse multilateralism is the basis of all multilateralism.

Not all norms have been accepted region-wide but Asian countries have generally agreed on a number of norms. While most attention is usually directed to the norms of preservation of national sovereignty; and the principle of non-interference in domestic affairs, others include the pursuit of prosperity through competitive market mechanisms, the pursuit of economic interdependence to enhance security, the resolution of disputes by peaceful means, and adherence to functional multilateral agreements at the global level.

Provision of public goods associated with economic interdependence and outward looking market systems, particularly the reduction of transaction costs through availability of information and reduction of non-tariff and other regulatory and procedural barriers to trade and investment, has been an important, although less than formalised, contribution of multilateralism in Asia.

Asian approaches to multilateralism have reflected the particular security concerns and superpower involvement, and a consequent lack of an effective UN collective security system. It will be a long time, however, before common or collective security comes into being in Asia. Multilateralism in the security field will remain a supplement to bilateral relations and will be one feature, along with power balancing and economic interdependence, of security interests and

constraints in the region. It will facilitate bilateral relations, however, and help to keep bilateral relations non-threatening.

Regional multilateralism has helped smaller countries to balance, with norms and peer pressure, the dominance, in particular of Indonesia and Japan, to integrate China into the region and limit US unilateralism. In global multilateralism, the influence of implicit minilateralism (the dominant influence of a few) often included participants from Europe (EC) and Asia (Japan in economic institutions, China in the United Nations Security Council). ASEAN, and PECC (Pacific Economic Cooperation Council)/APEC, however, have at times been effective in influencing outcomes, if mainly on issues important to them and less important to others (Cambodia) but also on general World Trade Organisation (WTO) questions. While minilateralism is now more constrained on global issues, however, there are limits to the ability to build regional coalitions in global arenas because of the differing regional interests as, for example, in the Uruguay Round, the UN Convention on the Law of the Sea, Montreal and Kyoto.

That regional multilateral dialogues have stimulated cognitive learning has been important in Asia because of the more basic starting point among decolonised Asian countries, and the initial national variability. Such learning helped in the development of ideas behind the open, export oriented, competitive economies that accounted for Asia's success and will do so again. It has led to learning in the security field, including the links between economic interdependence and security, the issues of economic security and the development of the new security agenda. More generally, it has also led to a widely held view that cooperative behaviour is valuable and appropriate in the security as well as the economic field, with peer pressure an important influence, and to feelings of shared identity that could provide a stimulus to regionalist thinking.

Overall, although largely dialogue processes, regional multilateral processes have gone a long way to establishing a normative framework for the region that covers both the security interdependencies and the economic interdependencies. This may not prevent conflict nor avoid all beggar thy neighbour policies, but there are grounds for believing it has made important contributions in both directions.

The response to the economic crisis

If these achievements are accepted as coming from Asia's multilateral regionalism, will their future potentialities be limited as a result of the regional

economic crisis? If the belief remains that the future of the multilateral institutions is limited, will the crisis lead to major changes? I shall look at four of the existing arrangements: ASEAN, ARF, APEC and ASEM.

ASEAN

ASEAN has been the most affected by the economic crisis with direct and severe impacts on several of its members. Particularly important was the effect on Indonesia, which had provided much of the ASEAN leadership. That ASEAN had little to contribute to ameliorating the crisis is commonly seen as putting the institution under sufficient strain to diminish its value greatly.

Despite the rapid economic growth of its members, ASEAN as an economic institution had not contributed much directly to that growth. With the weakening effect of the crisis, the political influence that came from ASEAN's economic strength has clearly declined. Moreover, not only did it not have within it a country that could provide financial resources (with the exception of some help proffered by Singapore to Indonesia), but it had little by way of established processes of economic cooperation across the board that could facilitate foreign involvement in crisis management. In practice, however, expectations of its role in a financial crisis were unreal, and despite consequent efforts to introduce changes, it is unlikely by its nature to be able to contribute significantly in similar circumstances in the future.

It has been trying to develop further its economic integration as a means of enhancing coherence and pushing forward its AFTA objectives. It also has interests in developing more of a role in the monetary field. ASEAN leaders in December 1998 directed that a study be undertaken of the feasibility of establishing an ASEAN currency and exchange rate system (see *Hanoi Plan 1998*: Article 1.4.1). Although the idea is being studied, initial reactions have been cautious.

ASEAN's objectives were never primarily economic, however, but involved security and then political influence. It was initially concerned with internal security objectives (to avoid existing territorial and border disputes or challenges to national legitimacies becoming military conflicts). Judged on its ostensible economic objectives, ASEAN's achievements have been limited. As a confidence building measure to facilitate avoidance of conflict among its members, however, and then encouraging peaceful settlement of disputes and developing confidence building more widely in the region, it has been a singular success. Many of ASEAN members' past border and territorial differences are still unresolved but remain largely quiescent. Keeping the peace was an important indirect contribution to the economic success of its members. It then

developed a political strength by being able to present a united front in response to external challenges. External problems such as airline rerouting, Vietnam, Cambodia, the Spratlys and China have been major challenges for the group's unity but they often provided the cement required for maintaining ASEAN's coherence.

To a degree its future importance will continue to reflect members' economic fortunes. Economic recovery, therefore, will be important from this perspective as well as from others. Nevertheless, more important will be its ability to maintain coherence as an institution, and in consequence to sustain its international influence, especially in the political and security fields. Many of the difficulties now and prospectively facing ASEAN arise not from the economic downturns but from the consequences of its enlargement, with different agendas likely to be followed by the new members—Vietnam, Burma, Laos and Cambodia—and greater difficulties to be expected in achieving common positions. Relations between Singapore and Malaysia have long been difficult, at least since Singapore broke away from Malaysia. The differences have been exacerbated by the crisis. The restrictions on capital outflows imposed by Malaysia have been particularly costly to Singapore.

ASEAN followed the logic of inclusiveness, enlarging ASEAN to encompass the whole of Southeast Asia in the belief that this will enhance security. It also saw this as strengthening its position *vis-à-vis* China, as it may well do, but it provides difficulties for its international position overall. Nevertheless, provided the ten strategically placed states can maintain collective unity, ASEAN's potential political influence will never be negligible.

Coherence has in any case been rather more difficult in the post-Cold War era than under the Cold War because the anti-communist rationale, already becoming differentiated before the passing of the Cold War, has gone. US strategic interests under the Cold War, which for ASEAN was an element in its significant international influence, have changed. Yet even during the Cold War, substantial differences existed among ASEAN members, over Vietnam and Cambodia, for example, but a process of accommodation was realised that enabled solidarity to be maintained, and that experience will help.

The crisis has opened up more directly the already difficult subject of the principle of non-intervention in the affairs of other members. The economic crisis convinced some members that it was not possible to continue strictly adhering to this principle. That, however, has been strongly resisted by, in particular, the new members, notably Myanmar and Cambodia, who would feel vulnerable in those circumstances. Without some compromise on that principle, however, the

influence of ASEAN internationally is likely to diminish. The compromise on 'enhanced interaction' is unlikely to meet this need (see Henderson 1999: 48–55).

Nevertheless, the ability to continue to present a united front was demonstrated over the Spratlys and its reaffirmation of its 'one-China' policy in response to the Taiwanese president's 'special state-to-state' restatement of Taiwan's links to China in July 1999. While the US may have less strategic interest in ASEAN, that is only marginally related to its changed economic circumstances. That is also true of its problems, and those of the Europeans with Myanmar membership, the effects of the economic crisis have made a difference to the substantially economics based European interest and, if not to the Japanese government, perhaps to Japanese companies (Sender 1999)⁵. China's interests in ASEAN seem not to have diminished, however, and indeed may have been strengthened by ASEAN's support for China's position on Taiwan. ASEAN's influence as a facilitating mechanism is likely to remain important, however, because of its role in managing ARF.

Security and the ARF

In a way not paralleled elsewhere, security for the countries of the region was, and remains, a critical internal as well as external question. This comes from the particular history I have discussed, with the problems of nation building making internal security still the prime issue of security. It also responds, however, to the recognition that there remain in the region, long standing animosities, unresolved borders and territorial sensitivities that although quiescent could emerge as conflicts in certain circumstances.

In its early stages, ASEAN had problems reaching agreement over external security interests. The ARF reflects, however, a reasonably clear definition of security interdependence. It has also responded, to a degree, to a broader conception of security. Economic security has always been a major concern of the region, initially as a means of overcoming or avoiding internal subversion, nation building and establishing national resilience. It has also been reinforced by the new security issues, such as drugs, transnational crime, piracy, refugees and illegal migration that have particular relevance to the regional security agenda. Arising from the economic crisis, however, this new multilateral agenda now includes questions of capital market vulnerability.

5 That report is not in accord with a report in the *Nikkei Weekly* (9 August 1999), which suggests that Japanese trading houses are moving back into Southeast Asia.

While economic influences are pulling Asia increasingly into the global economy, regional approaches to security have gained in salience since the end of the Cold War with bilateral and regional aspects of security more central. Yet many in the region still have alliances or military links with the US, most recently those established bilaterally between the Philippines and Thailand with the US.

Progress has been slow in the security field in the direct sense (that is, through the ARF), but a significant build up of CBMs can be observed on borders and in the maritime region. While progress on preventive diplomacy and conflict resolution is slow, socialising through multilateral dialogues, including not just the ARF but the economic cooperation processes of PECC/APEC, has led to significant changes in understandings and world views relevant to security postures.

The Asian economic crisis has not had major external security impacts. But those are not the major security concerns for most countries in the region. Nation state building—internal security—is still an incomplete process for most countries. While that makes the non-intervention principle in the ARF an important and sensitive issue, there are calls for its re-evaluation. Although there have been small moves in this direction (discussion of Burma's human rights, Indonesia's reporting on East Timor and the proposals for a code of conduct in the South China Sea), the sensitivities remain. Nevertheless, while specific proposals in this context received little support, the issue and a need for stronger regional institutions has gained regional support and will remain in regional thinking. Past experience suggests some (probably modest) change will be made eventually in a form acceptable to all.

The issue of ASEAN's leadership of the ARF was already in question before the crisis on several grounds, but particularly the exclusion from any leadership role of non-ASEAN members, notably those from Northeast Asia. The crisis, and particularly Indonesia's instability and weakness have increased concerns about the issue, as has the ASEAN enlargement. Although the disposition within ASEAN is to retain control, influential voices within ASEAN have suggested change, to permit a co-chair from non-ASEAN countries (see, for example, Wanandi 1998).

APEC: trade and finances

The initial APEC agenda was largely the agenda of PECC, its progenitor: trade liberalisation, trade facilitation (standards, regulatory and certification procedures and the like) investment protection and human resource development. It also continued the provision of the public goods of market and technical information, and transparency that remain an important part of regional economic

multilateralism not just in a static sense of reducing transactions costs but as a dynamic means of shaping members' understandings and ultimately policies.

Trade liberalisation gradually became a more central feature and, for the US, commonly the only criterion of its effectiveness. This limited focus was unfortunate in several respects but particularly in pursuing the Early Voluntary Sector Liberalisation program (ESVL) an initiative that failed to achieve its objectives. Despite this, critics linked to the region have argued the need for specific reciprocity on the grounds that domestic politics would not allow countries in the region to opt for unilateral liberalisation (Moon 1999).

The argument overlooks at least three considerations. Over the long period of regional economic cooperation dialogues, trade liberalisation, including unilateral trade liberalisation, became widely accepted as important in regional development strategies and for the domestic competitiveness benefits that result—the pressure to increase domestic efficiency is an explicit reason the Chinese are pursuing trade and investment liberalisation.⁶ Second, in an increasingly democratic or at least publicly responsive region, political cycles seldom coincide with trade negotiation cycles—and a steady process of liberalisation as and when politically possible may be more acceptable than a larger one-off reduction when a negotiating round requires it.

More importantly, the region has in practice pursued unilateral liberalisation, accepting the diffuse reciprocity that underlies regional multilateralism. While not a precise guide to the specific contribution of APEC, unweighted tariffs of APEC economies declined from 15.4 per cent in 1988 to 9.1 per cent in 1996 (PECC 1995). The attempt at reciprocal negotiations of the ESVL was a mistaken effort to move from diffuse reciprocity to specific reciprocity, the appropriate place for which is the WTO. APEC will have to manage the continuing difference between the US and most others on the issue of reciprocity.

The regional economic cooperation dialogues have had several different influences on regional policies: the substantial direct trade barrier reductions under the APEC programs, particularly following the Bogor initiative; the change in attitudes to where for most APEC members trade liberalisation is seen as having positive benefits in itself—the exception being the US; and the change from an initial distrust of the GATT to open and strong support for the GATT/WTO process and trade liberalisation.

⁶ Naturally unilateral liberalisers expect to be given credit for their trade liberalisation when formal negotiations take place.

Progress in trade facilitation has also been substantial but little understood and less quantitatively measured. Yet given the potential gains from moving to the European Single market (see Cecchini 1988), it should not be hard to see that considerable gain in transaction cost reductions would be expected from similar changes taking place, if more slowly and with less regulatory backing, within the APEC region.

Although north-south issues did not take the shape within the region experienced elsewhere, in its Ecotech formulation a program of technical assistance and human resource development designed to meet the needs of developing countries as a program in support of 'internationally oriented development strategies' has gained support from developed country members of APEC and has become more important in the light of the economic crisis.

There are often suggestions for more specific bloc arrangements within the region. ESCAP sought to push the new international economic order philosophy, with import replacement and preferential trade, but this did not find wide acceptance in Asia. The AFTA was largely a response to NAFTA, the original thinking behind the East Asia Economic Caucus was for an Asian trading bloc, the US frequently presses for bilateral free trade arrangements or special investment arrangements and moves are now underway to consider a Japanese-Korean free trade area.

Moreover, the liberal agenda is not without its opponents. For Malaysia, Dr Mahathir has articulated strongly his concerns that the international trading institutions such as WTO are at best irrelevant to, and at worst biased against, Asian countries and at times he has acted accordingly, not participating, for example, in the 1994 Bogor APEC meeting. With a history of discontent with Western markets, starting from his view of the LME tin market, he also argued that the economic crisis was a conspiracy of the West against Asia. Such arguments have not, however, become the dominant philosophy in the region, and Malaysia has in practice gone along with much of the regional action.

Given the limited role APEC could be expected to play directly, the hope was initially that APEC could hold the line in the trade field in the face of the downturn; to resist the pressure on countries to turn inward and protect individual domestic markets and producers. Contrary to a wide expectation at the time, the line was held—and indeed, in a number of countries, further liberalisation has taken place. Most fundamentally, the overall priority to an outward orientation to economic policies has not been changed despite the crisis.

* * * * *

The institutional area of greatest pressure in the face of the Asian crisis was the financial one. APEC is not a financial institution and has no special access to funds that could be mobilised in the crisis. APEC was in any case in a weak position to respond to the financial crisis but its initial responses were even weaker—the Leaders’ response at Vancouver 1997 ‘was banal’ (Garnaut 1999). The inability to build on a Japanese proposal in a way that, given the right circumstances, would have contributed constructively to reducing the problem, was especially unfortunate.

As a result of the crisis, however, closer links have been established between regional banks and other financial institutions and links have been enhanced between governments and regional and multilateral organisations. Subsequent meetings of leaders and further finance ministers’ meetings have improved the situation to where they can contribute positively in various ways. These include supporting or activating the IMF and World Bank, in developing new instruments that may help, in providing training in financial management, in financial market development and risk management, and in sparking new capital flows to Asia.

Although needing considerable strengthening, the regional effort in response to the crisis was not negligible. At their Shanghai meeting, in July 1997, the eleven members of the Executive Meeting of East Asia and Pacific Central Banks (EMEAP), had agreed to examine a new Asian facility to supplement IMF funding. Over \$10 billion was committed by EMEAP finance ministries in August 1997, in Tokyo. This was especially important in putting together the Thai package in which the US did not participate. Regional funds constituted three quarters of the total package, the IMF contributing the balance (Grenville 1998). These arrangements were formalised by the APEC finance ministers’ meetings in November of that year under the Manila Framework.

The establishment of the Manila Framework Group (MFG) in November 1997 was an important step in developing mechanisms for restoring financial viability, including mechanisms for regional surveillance to complement the IMF’s global surveillance. Under that Framework, an Asian Surveillance Group has been established, which met in March 1998 for the first time. It is enhancing economic and technical cooperation to strengthen domestic financial systems and regulatory capacities, and developing cooperative bilateral financing—this became the IMF’s Supplemental Reserve Facility in late 1997, used first by Korea.

Consequently, a number of steps that had begun before the crisis have since become important regional building blocks for better regional financial management. These need not be formally linked with APEC but they are likely to

be, through the APEC finance ministers' meetings. The regional contribution to the crisis was limited. It was, at best, supplementary to the actions of the global institutions and, in the future it will remain supplementary and should in no way seek to become competitive. Particularly if supported by APEC, however, it should be capable of being more effective in supporting the crisis management activities of global institutions.⁷ The APEC process can also be a mechanism by which an agreed set of minimum regional financial standards could be established and national performances become part of APEC's Individual Action Plans (Garnaut and Wilson forthcoming).

While Japan's proposal for an Asian Monetary Fund was given little support within the region and less from without, more considered thought suggests that if modified to include the US and designed explicitly to supplement the IMF (as the Asian Development Bank does the World Bank), this could be a valuable regional complement to the IMF (Bergsten 1999). While opposition to a Japanese financial leadership role might have diminished, helped by the experience of the regionalisation of Japan's bilateral support under the Miyazawa Plan and a stronger Japanese leadership capability, this is again where APEC's role could be crucial.

Although not directly linked to APEC, there has also been a reaction to the Euro in that Japan has formally indicated that it will move towards making the yen an international currency. The mix of motives probably includes not just a reflection of concerns at the dominance of the dollar and the Euro but as a desire for more political influence globally (Group 21 1999; see also Castellano 1999), and perhaps also to position Japan to maintain its regional economic pre-dominance rather than concede the field to China. It reflects a changed regionalist attitude that, rather than offer criticisms to such a suggestion, as happened some years ago, ASEAN countries indicated their receptivity to the idea. Despite Japan's continuing strong external economic position, its economic downturn, and perhaps regulatory inertia (although capital movement restrictions are being eased), will make it at best a slow process.

Overall, APEC is likely to have a greater input in the future in financial questions affecting the region. Membership of APEC has always been a contentious issue reflecting in part the competing ideas of region, and this aspect will be more important as financial issues become more central. Thus the admission of Chile was largely an effort to dilute membership and thereby make necessary in due course a smaller group. Chile in fact progressed to meet an

⁷ I have drawn in this section on Smith (1999) which provides a particularly clear exposition of the issues involved.

implicit trade criterion for membership, a similar agenda to that of existing members, linked to an outward orientation in economic development. Peru, and more particularly Russia, hardly meet these criteria and Russia in particular seems to have been added under US pressure as compensation for an expansion it did not want of NATO. Their membership will complicate APEC's coherence in the financial area, as does the US emphasis on reciprocal trade liberalisation in the trade field but, in contrast to the US, Russia has little else to add at the functional level. A smaller APEC sub-group may therefore be necessary.

ASEM

ASEM, which had its first meeting in 1996, was another ASEAN initiative, supplementary to the ASEAN-EU dialogue. From the Asian perspective it had a number of motivations, including hopes for increased investment from Europe.⁸ In addition to the ASEAN countries it includes Japan, China and Korea. It was scheduled to meet regularly at ministerial level with the EU and to discuss trade and investment issues between the two groups. In a sense it was to complete the triangle of trading areas. It has not met its European counterparts since the 1998 meeting and the problem of Burma will have to be faced before the next meeting, scheduled for 2000. There seems to have been some slackening of interest on the European side that, to the extent that it was an economic based interest in the first place, can be ascribed to the crisis. The Asian senior officials, however, have continued to meet.

There are questions about how far the ASEM process could go given the reluctance of countries on both sides, but particularly in Asia, to accept a coordinated line. As an indicator of regionalism it might be seen as defining Asia more in terms of the East Asia Economic Caucus of Prime Minister Mahathir who, although not the originator, is an enthusiast for ASEM.⁹ His has been the principle voice opposing membership in ASEM of Australia and New Zealand.

A further intensification of a narrower concept of region has emerged from the ASEM process. The coordinating meetings of the Asian members of ASEM (ASEAN plus three—Japan, China and Korea) have been developed into a

8 Motivations from the European perspective which, among other things, saw it as a way of overcoming the EU's failure to gain membership of APEC, are described in Dent (1997–98).

9 ASEM 'has been more successful than the Asia-Pacific Economic Cooperation (APEC) forum for the Asian participants' (*Sunday Star* [Malaysia] 3 March 1996).

process formally involving meetings of leaders of the 10 plus 3 countries annually.

Global implications

Asian states and their institutions have generally been globally oriented. It is easy to forget that rules of diplomacy, cooperative arrangements for international collaboration in telecommunications, postal services, shipping and air transport have been mostly followed by countries in the Asia-Pacific region since their inception. Thus, when able to make independent decisions, regional countries have been a cooperating part of the global system, in some cases from the late nineteenth century. Most countries in the region now participate in the global multilateral institutions and adhere to the norms, and the rules buttressing those norms. There are exceptions. Dr Mahathir's persistent efforts to reduce dependence upon the West (excluding Japan) were illustrated again by Malaysia's avoidance of IMF intervention in favour of alternative funding sources, notably Japan.

The crisis has intensified concerns at the imposition of reforms from outside the region since these are seen as in part ideologically driven, lacking a knowledge of, and sensitivity to, regional circumstances. There has at times been an increased sense of a lack of understanding of, and consideration for, Asian views and interests in the Eurocentred 'global' institutions. EMEAP, for example was set up in the belief that Asia was under represented in global financial councils (Grenville 1998).

For its part, although Asian multilateralism at the regional level has characteristics that distinguish it from regional multilateralism elsewhere, one of its strengths is that it does not in general conflict with the global multilateralist order, economic or strategic. Indeed, in the economic field it has been trying to move the international community more rapidly to achieve its stated objectives in the WTO, and at times it has pressed for more rapid progress in the security area.

In Asia, multilateral institutions have clearly become embedded in the economic, political and strategic fields. Differences that clearly exist between Asia and elsewhere in the approach to multilateralism, however, are predominantly at the regional level and especially concerned with regional security. Asian countries participate actively in global institutions, whether issue specific or concerned with international order—such as the United Nations (and its norm setting bases, for example, the law of the sea), WTO, IMF, NPT and CTBT.

The economic crisis has not changed this. There is criticism regionally of the IMF as part of the blaming process but this has not reached major proportions. The region is seeking reforms in the international financial architecture but is not seeking the scrapping of the present architecture, merely its improvement and its modification. The positive global outcomes of regional multilateralism have not been greatly affected by the economic crisis.

Conclusion

I have looked at regionalism in multilateral terms. Among the initial motives for embracing multilateralism in the region was the objective of developing a sense of community and a sense of region grew out of the various factors that brought them together. Multilateralism has had a number of specific economic and political objectives but in each case the processes have had a broader underlying objective—to establish and develop networks of relations among countries in the region and to build and generate confidence within those relations.

Security has been the ultimate objective in two senses. The regional economic cooperation arrangements—in ASEAN, PECC and APEC—have been equally concerned with these confidence and network building purposes as well as to enhance regional economic interdependence for the same purpose. Regional economic cooperation has at the same time contributed to their other and often more substantial internal security concerns—the lack of national resilience—which threatens stability of the country and at least the regime. In so doing the region has accepted that that economic development objective requires moving towards an outward looking liberal market orientation.

In that sense, multilateralism and economic development have been mutually reinforcing in establishing a normative framework for the region. This consists, on the one hand, of a security framework of norms as exemplified in the region wide acceptance of the principles of the ASEAN's Treaty of Amity and Cooperation, and notably the peaceful resolution of international conflicts; and on the other hand, the acceptance of the principles of liberal trade and the acceptance of economic interdependence as a contributor to economic growth. One strength of these two normative frameworks is the general compatibility with principles laid down in global institutions.

The global crisis has had some impacts on multilateralism in the region but perhaps less than expected, in part because multilateralism is normatively rather than functionally oriented. Weaknesses have been evident in the regional multilateral institutions themselves but only partly due to the crisis. In major

respects the two major elements of the normative framework have not been significantly affected by the crisis.

Security concerns have not been accentuated by the crisis—the current crisis points involve areas relatively unaffected by the crisis—China–Taiwan and North Korea. Nor for that matter have the systemic political changes matched the expectations.

Despite the economic crisis, the priority to economic development and greater economic interdependence has not changed—it may have slowed in particular contexts but the direction of liberalisation is being maintained.

The push for greater regional cooperation has intensified as a result of the crisis, and while the crisis has led to increased interest in regional policy consultation and development of a multilateral kind that can bring to bear a stronger regional voice globally, notably in the financial field, the concept of region is very flexible. The region now has an increased interest in overcoming some concerns that reforms in the region are being imposed from outside. Both were seen as being countered to some extent and, in the event temporarily, in the Group of 22 context. This in part reflects a realisation of the greater vulnerability that accompanies the economic interdependence of the region's approach to economic development; in that sense it is crisis driven. In part, however, it is an intensification of a belief already in the region about its under representation in global institutions.

Although weak, but less weak than at times argued, some of the apparent weakness of regional multilateral institutions was a consequence of characteristics that would otherwise receive approval, such as their intentionally supplementary role to the global institutions.

Given the disposition to support global institutional arrangements, the question is what can sensibly be better done regionally than globally. Global institutions have to set global standards and provide the resources on the scale needed in major crisis situations. At the same time, the size of those institutions often means that they are slow to respond, lack flexibility and lack knowledge of the regional circumstances to make effective contributions to the problems at the regional level. Garnaut and Wilson have used three criteria to answer this question: efficiency in terms of the level of assistance needed, efficiency of expertise and information, and efficiency in terms of institutional capacity. The first and third mainly, but not solely, point to the global level and the second mainly, but not solely, to the regional level (Garnaut and Wilson forthcoming). It is evident that the suggested division of labour is an extensive involvement from global institutions but with a strong regional supporting role. Although the

region made a significant supplementary contribution to resolving the crisis on this occasion, it will need to provide stronger support in the future.

Whether this was a defining moment for the region or a speed bump on the Asian road to progress is still to me an open question.

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