

Asian Regional Governance

Crisis and change

**Edited by
Kanishka Jayasuriya**



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Asian Regional Governance

In the wake of the Asian economic crisis, the APEC-led process of regional integration and trade liberalization has been found wanting. Increasingly, regional political leaders and domestic groups are searching for new forms of regional governance, from 'East Asian' regional groupings to the proliferation of new bilateral trade agreements.

This book looks at the changing global and domestic political economies shaping the new regional governance in Asia and examines the relationship between domestic, political and economic structures and forms of regional governance. Focusing on contemporary factors such as the impact of globalization on Asian regionalism, new security challenges, monetary cooperation, sovereignty, democratization, industrial policy and China's engagement with Southeast Asia, *Asian Regional Governance* suggests that both the theory and practice of regionalism need to be radically revised in order to make the process applicable to the twenty-first century.

With contributions from distinguished academics in the field who provide an overview of the conceptual foundations of regional governance, this book will be an indispensable resource for all who want to understand the emerging dynamics of regionalism in the Asia-Pacific.

Kanishka Jayasuriya is Principal Senior Research Fellow at the Asia Research Centre, Murdoch University, and Research Affiliate, Southeast Asia Research Centre, City University of Hong Kong.

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1 Labour, Politics and the State in Industrializing Thailand

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2 Asian Regional Governance

Crisis and change

Kanishka Jayasuriya (ed.)



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Series editors' preface

The Asian economic crisis that began in 1997 struck down some of the major economies of the region and had global economic and political consequences. In Hong Kong, the economic downturn also caused economic instability and coincided with the end of colonialism as Hong Kong became a Special Administrative Region of China. The conjunction of these events meant that the launch of the Southeast Asia Research Centre at the City University of Hong Kong in late 2000 was propitious.

This new book series reflects the centre's research agenda, which seeks to advance research and understanding of the political, economic and social forces that are shaping contemporary Southeast Asia. This series reflects the centre's emphasis on multi-disciplinary, comparative and holistic research. It also recognizes that the Asian crisis marked a further watershed in the often turbulent development of the constituent nation-states of Southeast Asia.

Through the turmoil of the Second World War, decolonization, independence and the Cold War, great power rivalry and nationalist aspirations shaped the development of post-colonial Southeast Asia in significant ways. The long struggle for national unification in Vietnam exemplifies the significance of the local in global contestation.

As the region emerged from these turbulent times, rapid economic development reconfigured the societies of Southeast Asia. From the mid-1970s, a number of Southeast Asian economies entered extended periods of significant economic growth. The economies of Singapore, Malaysia, Thailand, and Indonesia benefited from a more generalized development in East Asia and made rapid advances, becoming some of the most dynamic economies and societies in the world. Huge flows of foreign capital and the development of relatively powerful domestic capitalist classes transformed these societies in just two to three decades. The World Bank and other international financial institutions celebrated the region's economic success and urged a continued unfettering of markets.

But the 1997 economic crash and especially its negative social consequences posed new challenges for the development models of the region. This led to increased questioning of the processes of capitalist globalization. Further, the

economic crash confronted the region's political regimes with significant challenges. The most notable of these was the collapse of the New Order in Indonesia. This confluence of economic and political turmoil stimulated a reassessment of the multiple impacts of globalization and associated ideas about regionalization. Nowhere has this reassessment been more vividly revealed than in the rise of China as an economic power. The regional reconfigurations that are in process indicate that multiple globalizing and regionalizing processes must be conceptualized to encompass economic, political, social and cultural processes.

Understanding how Southeast Asians are negotiating the broad and multiple challenges posed by globalising forces, and how they are reinventing their societies, are elements of the Southeast Asia Research Centre's research agenda. Another focus is the divisions of class, ethnicity, gender, culture, and religion that appear as fault lines underlying Southeast Asia's post-colonial nations. Such rifts shape diverse patterns of conflict and fragmentation in the region. While much recent attention has been directed to Islamic 'fundamentalism', this is but one type of conflict in the region. A third area of interest involves regional interactions, including those between states, civil society, business, labour and migration. Finally, attention is given to the ways in which Southeast Asian political economies are being reinvented following the Asian crisis, examining new patterns of accumulation and allocation, and how these are shaped by political struggles in the region.

This collection, edited by Dr Kanishka Jayasuriya, demonstrates that an understanding of the changing nature of Southeast Asian regionalism is essential in a region that is still recovering from the economic crisis. It is not that the economies have not recovered but rather that the crisis unleashed clashes and conflicts that are reshaping both the international and domestic political economies. In the era before the crash, when commentators regularly chanted the mantra that the world's economic centre was moving to Asia, an alphabet soup of regional organization developed. At the time, APEC was seen as a model of regionalism. This model is now seriously challenged. Indeed, the workshop where most of the papers in this collection were originally presented had 'running on empty' in its title; this seems an accurate depiction of the crisis facing this approach to regionalism.

As the papers in this collection indicate, the post-crisis regional political economy also provides opportunities for new or revised forms of regional governance. However, as they caution, this will remain a highly contested arena. The collection gives considerable attention to the role of China. In the post-crisis period, where the Chinese economy has achieved the stellar growth rates previously associated with Southeast Asia, this focus is important. China is increasingly courted in the region, and it is likely that China will continue to respond enthusiastically, both economically and politically.

A striking feature of this anthology is that many of the papers take an approach that is different from the dominant institutionalism of the international relations literature on the Asia-Pacific. They point out that domestic structures,

coalitions and struggles over political and economic power are critical in shaping regional governance. In making this observation, this collection suggests the potential for innovative and productive cooperation between country specialists and those interested in the developing regionalism in East and Southeast Asia.

Kevin Hewison
Director
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Preface

This volume first stirred into life over a latte with Kevin Hewison, Director of the Southeast Asia Research Centre (SEARC) of the City University, Hong Kong. Over subsequent discussions, we decided that it would be useful to have a roundtable of reputed scholars to examine the problems and prospects for APEC for the then forthcoming APEC Heads of State Summit in Shanghai in October 2001. Considering that much of what passes for conventional theory and practice of the APEC process was no longer sufficient or sustainable, it was agreed that it was an opportune moment to look at APEC, which as an institution had to confront the crisis and challenges of a new regional political economy that was taking shape in the aftermath of the Asian economic crisis. In the end, although the roundtable idea was abandoned in favour of a workshop, held in January 2002, entitled 'Running on Empty? Markets, Politics and Southeast Asian Regionalism', the rationale remained much the same. This project forms part of an ongoing series of research studies on regionalism to be carried out by the SEARC.

The greater part of the essays in this book form significantly revised versions of the workshop presentations. The essays seek to move the policy and theoretical debate beyond the forms and strategies of regional governance that shaped the development of APEC for most of the 1990s. Much of the trade liberalization agenda established under the auspices of APEC has been thrown into disarray after the Asian crisis.

Emblematic of these changes in the region is that East Asia, which has always been the jewel in the crown of the 'Washington consensus' of market and trade liberalization, was looking tarnished for international financial organizations – which suddenly discovered corruption – as well as political elites around the region. The latter began to defect from the 'consensus' when it threatened their financial and political interests. What is now evident in the East Asian context is an ongoing political struggle over programmes and projects of economic reform. While new forms of regulatory state are being established to manage the process of globalization, it is clear that for many states the emphasis is on management rather than simple integration into the global economy. Again, this marks a

significant departure from the new regionalism that dominated the Asia-Pacific regional governance in the 1990s. Part I of this volume provides a conceptual framework for the analysis of the rise and fall of the regional project of open regionalism and locates these developments in a comparative framework.

A distinctive feature of this book is that, unlike the US-based international relations literature, which focuses mainly on institutions, it is concerned with the forms and strategies of regional governance. The notion of governance enables us to see regionalism not as some functionalist panacea imagined by trade economists but as a political project. Hence the several contributors in Part II focus on, and succinctly examine, the domestic roots of these regional governance strategies. In so doing, these authors highlight some of the insights from the literature on comparative political economy that help to shed light on the process of regional governance in the Asia Pacific.

The challenges facing regional governance, in particular, have drawn attention to the importance of monetary and financial coordination in the wake of the Asian crisis. Yet it is precisely these kinds of regulatory arrangement for policy coordination that the region lacked. In one sense, the Asian crisis brought home to regional policy makers the idea that a globalized economy needs to develop regulatory structures for a range of financial and monetary issues, all of which encompass areas thought to be within the domain of domestic governance. However, the emergence of these forms of regulatory regionalism signifies the need to move beyond the forms of governance that new regionalism has taken in East Asia.

Symptomatic of these changes has been a proliferation, most noticeably in the last few years, of a variety of regional governance arrangements, ranging from the so-called ASEAN+3 to the recent promotion of a string of bilateral trade arrangements. Some of these governance arrangements are likely to clash. For example, the idea of an East Asia regional grouping sits uncomfortably with a region rushing in to sign preferential trade deals with the United States. But the very proliferation of these governance strategies is in itself indicative of the crisis of 'new regionalism' in the Asia-Pacific. This proliferation of new regional governance arrangements across the region is comprehensively explored in Part III.

Without doubt, the election of the Bush administration and the events of 11 September 2001 have dramatically altered the dynamics of the region. As the USA becomes much more inclined to be a coercive rather than a benevolent hegemon within the region, it is to be expected that regional institutions such as APEC will feel the damaging fall-out from this new tilt in US policy. Given that the regional governance strategies of the 1990s were framed within the context of a different US economic and military posture, the question of how regional institutions and countries respond to these challenges will be of great significance to the future of regionalism in the Asia-Pacific.

Adding to the complexity of this picture is the emergence of China as an economic and political powerhouse within the region. The importance of China in the region has been abundantly clear in the impact of the Asian economic crisis on the region. More recently, the diversion of FDI into China is rapidly

transforming the regional division of labour. Clearly, much of the new regionalism, previously based on a set of economic and political arrangements between the USA, Japan and Southeast Asia, has been considerably transformed by an economically and politically resurgent China.

These two important dimensions, (1) recent changes in US policy in the region, and the ramifications of this coercive bent of US policy for Southeast Asian regional politics, and (2) the implications of Chinese economic and political power for regional governance in East Asia, are critically examined in the concluding Part IV.

There are a number of individuals and institutions without whose support this project would not have been completed. First, I wish to acknowledge the vital contribution of the SEARC to this project. This includes funding and other support while I was attached to the Centre as Senior Research Fellow. A special word of thanks to Professor Kevin Hewison, the Director, and Dr Vivienne Wee, the Associate Director, for their encouragement and support. Equally, I wish to acknowledge various current and past members of the administrative staff – Ms Jill Chung, Ms Angel Ho, Ms Joy Lam, and Ms Amy Sim – who have provided valuable support not only with great efficiency and willingness, but also with good humour.

The chapters by Nicola Phillips, John Ravenhill, Andrew Rosser, Natasha Hamilton-Hart, Greg Felker and Kanishka Jayasuriya represent revised versions of articles published in Volume 24: (2) of *Third World Quarterly*.

Last, but by no means least, let me thank the contributors for their patience and forbearance with the tedious work of the editorial process. It has been a privilege and a pleasure to have been associated with a distinguished cast of both 'old hands' and younger scholars. Hopefully, this is but a first cut at setting a new research agenda for the study of Asian-Pacific regionalism, and one that may point the way towards further research on these issues.

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May 2003

1 Introduction

The vicissitudes of Asian regional governance

Kanishka Jayasuriya

The roots of the new regionalism in the Asia-Pacific

By focusing on the dynamics and nuances of regional governance within the context of the Asia-Pacific, a motivating theme that underlies the essays in this volume is the need to move beyond the 'new regionalism' characteristic of trade liberalization in the 1990s. The theory and practice of regional cooperation in the Asia-Pacific is moving through a period of crisis and change. Symptomatic of this regional transformation is the proliferating variety of regional governance projects. In a nutshell, these new forms of regional governance, which emerged in the period after the Asian economic crisis, need to be firmly located within the broader context of social and political changes that occurred across the region.

'New regionalism' is the term given to the infectious waves of regionalism that marked most attempts at regional cooperation across the globe in the last two decades of the twentieth century (Milner and Mansfield 1997). This new regionalism, as opposed to the older forms of regionalism, was directed at the integration of regional economies within the global economy through a variety of programmes, but chiefly through trade liberalization. In the Asia-Pacific region, this new regionalism was driven largely by the Asia-Pacific Economic Cooperation (APEC) strategy of open regionalism. However, in the aftermath of the Asian economic crisis, the core ideas and institutions of open regionalism have come to be seen as inappropriate in the circumstances of the global economy in the first decades of the twenty-first century. Regional governance is going through a period of crisis and change. The essays in this volume are designed to fill a much neglected gap in the literature on Asia-Pacific regionalism by exploring this ongoing period of crisis and change in regionalism.

Unlike earlier accounts of regionalism, mainly preoccupied with providing a descriptive accounting of institutional trends and features, a guiding motivation of the studies in this volume is to understand the new regional and political (dis)order that has been bequeathed by the Asian crisis – a disorder that stands in sharp counterpoint to the ringing triumphalism that was often characteristic of studies that examined the prospects for regional institutions and the economy during the period of the 'Asian miracle'.¹

The approach adopted here relies on a fundamental analytical ‘retooling’ to sharpen the analysis of the dynamics of this new regional order. One reason for the analytical hubris in several earlier studies of regionalism in Asia was the overemphasis on formal regional institutions, which proved detrimental to an understanding of the domestic political mainsprings of regional governance.² This problem is not unique to the study of East Asian regionalism and only serves to draw pointed attention to a major shortcoming of the broad literature on international relations, which is replete with set-piece debates between *realists*, *institutionalists* and *constructivists*.³

For instance, realists tend to suggest that national interests drive regional cooperation and are often persuasively sceptical of the viability of regionalism. This scepticism flows from a view of the state as a black box with a clearly identifiable set of interests. In the final analysis, this thesis is hard to test empirically because of its inherent circularity: the view that both the breakdown and the persistence of institutions are a result of the play of interests.

Institutionalists, on the other hand, are likely to be more optimistic in that they, unlike realists, assume that institutions themselves have a degree of power to influence and shape national interests. Here, institutions are seen as abstract entities with an indefinable set of interests and effects that are independent of state interests. Besides confronting questions of how these interests are to be identified, where this mode of theorizing appears to falter is in its explanation of how and why institutions and the strategies embody change over time. Finally, constructivist approaches to regionalism highlight the importance of social norms and ideational forces in serving to constitute the very notion of a region. These normative influences are regarded as the binding agents of the broad goals of regional institutions. No doubt there is much to heed in these constructivist approaches to regionalism, but where they fail is in identifying the dynamics of change in regional institutions.⁴

The problem – and this is the red thread that runs through these conventional accounts of regionalism – is that regional institutions are seen as driven by external imperatives. In the main – with the notable exception of historically inclined accounts of institutions such as Beeson (2002a) – regional economic institutions are seen as being led by the imperatives of regional economic cooperation. In short, there is an assumption that as the demand for regional cooperation increases because of deepening economic integration or the opening of markets, it will be matched by a ‘supply’ of appropriate regional institutions. Market models of regional integration assume that institutional development is driven by a rational and functional response of governments. This remains problematic, because it undervalues the importance of different types of regional political project and the different national consequences that follow from pursuing certain types of regional integration strategy. Moreover, we need to deal with:

a regionalism that in practice is much more multifaceted and multidimensional than in the past. States now engage in any number of overlapping

regional endeavours without feeling that there may be contradictions in such a process.

(Breslin and Higgott 2000: 339)

In sum, then, much of the literature drawn from studies of international relations fails to take proper cognizance of the fact that institutions are embedded in a deeper structural context that includes factors such as domestic coalitions, a particular set of growth strategies and a set of permissive international conditions. No wonder that after the Asian crisis, theories of regional economic and political cooperation performed rather poorly as explanations of regional (dis)order. This lacklustre performance can be largely attributed to the inability of prevailing accounts of regional cooperation to conceptualize adequately the relationship between the crisis in the domestic political economy and its capacity to pursue certain kinds of regional project such as the APEC strategy of open regionalism – the Asian variant of the new regionalism of the 1990s. Therefore, adopting a political project or governance perspective on regionalism allows us to look at institutions not as abstract entities but more or less as coherent projects of regional governance. Hence, regional governance projects, in turn, are seen as embodying particular constellations of power and interests. From this vantage, a framework can be developed that has the virtue of locating the dynamics of regional governance within the broader context of domestic political projects, which themselves are rooted in particular structures of the global political economy.

Regional governance and the global political economy

The distinct advantage in conceiving regional institutions as political projects is that it provides a way of linking these regional governance projects to periods of economic crisis and transformation. Economic crises unsettle prevailing entrenched interests and regional projects while providing opportunities for new reform coalitions to form around new kinds of political project. Accordingly, the crisis:

is critical to the degree that it makes it possible for entrenched elites to be weakened as a result of threat to the existing institutional arrangements that previously benefited those elites. It is also important to the extent that it creates opportunities for reformist coalitions to exert greater influence.

(Rodan *et al.* 2001: 26)

However, any consideration of the impact of the crisis on regional governance needs to be prefaced by a brief overview of how regional economic strategies had become entrenched in Southeast Asia. This has been described as one of ‘embedded mercantilism’ – borrowing an analytical category used by Pempel (1998) – in the context of the export-oriented industrialization strategies pursued by Southeast Asian economies (see Chapter 2, this volume). An illustrative example is the manner in which during the 1980s Malaysia developed a whole gamut of

heavy industries, ranging from steel to a nascent automobile industry. In varying degrees, other countries pursued similar strategies (see the various country chapters in Rodan *et al.* 2001). Herein lies the nub of the argument, namely that these regional economic growth strategies were sustained by a set of permissive international financial and production structures abroad, and by a set of distinctive developmentalist state forms and coalitions at home. In short, domestic and foreign economic strategies are intertwined, and more importantly, cannot be divorced from the broader political and ideological projects of dominant coalitions in East Asia.

Southeast Asian economic development, unlike in the then newly industrializing countries of East Asia, relied on rapid inflows of foreign direct investment (FDI), especially from Japan. Furthermore, much of the industrial transformation in Southeast Asia⁵ was spurred by the international agreement to allow the yen to appreciate – the Plaza Accord. As Beeson (2002b: 553) succinctly points out:

Japan has been a crucial source of investment for the rest of the region, especially in the wake of the so-called Plaza Accord, which saw a fundamental restructuring of Japanese industry as a consequence of the yen's appreciation. The massive outflows of Japanese capital that intensified at the end of the 1980s had an important global impact, but were especially influential among the smaller Southeast Asian economies.

Significantly, this Japan-driven investment order was complemented by what Sum (2001), in a theoretically sophisticated paper, refers to as an 'American-led financial order'. Sum perceptively argues that one of the components of this is the fact that Southeast Asian currencies were pegged to the US dollar and that:

this money-currency form suited the export-oriented region in two ways. On the one hand, since most of East Asian imports and exports are/were invoiced in dollars, it reduced currency risks involved in trading with major markets in the US or elsewhere. And, on the other hand, the dollar pegs anchored their domestic monetary policies.

(*ibid.*: 149)

Although this explanation of how this financial order underpinned the embedded mercantilism of Southeast Asia – which Sum calls 'exportism' – is persuasive, it needs to be added that what sustained the currency pegs, even when they started to impact on export competitiveness, was the benefit provided to the non-tradable sector by an overvalued currency. At the same time, it also facilitated the flows of short-term capital that sustained the politically connected cartels.

Most importantly, the changes in the global political economy and the developmentalist regimes that it spawned underpinned a distinctive set of social and political coalitions. The strategy of embedded mercantilism depended on a set of

trade-offs between economic sectors that were composed of distinct capitalist groupings with differing links to the state (for more details, see Chapter 2). Foreign investors drove the tradable sector, while the non-tradable sector was largely under the control of enterprises or corporate groups closely linked to the apparatus of political power. But this was not in some sense a coalition outside the state, because these alliances and contests were enmeshed within the state (Jayasuriya 1994a). Indeed, much of the increasing policy conflict in the period immediately prior to and after the crisis – over exchange rate or fiscal policy – reflected brimming tensions within the dominant coalitions. Nevertheless, during the boom period of Southeast Asian economies, enough growth was generated by the tradable sector for these tensions to be adequately managed.

The point that several authors in this book make is that the APEC-led process of regional integration – new regionalism – was a crucial ingredient of the domestic political economy of East Asia. This new regionalism, which went under the rubric of ‘open regionalism’, was only possible within the context of a set of permissive structures of the international political economy. These included the high rates of short-term financial flows, the dollar peg to which most Southeast Asian currencies were fixed and the inflow of Japanese FDI into Southeast Asia. These aspects are more fully elaborated in Chapter 2, but what needs to be underlined here is the importance of conceptualizing regionalism not as some inexorable process of regional economic integration but as a dynamic process whose governance is shaped by particular constellations of domestic and international forces. In other words, the argument here is that changes in the international political economy have led to the crisis of the new regionalism of the Asia-Pacific.

With the end of the Asian miracle, regional governance has been forced to adapt to the disciplines of the global political economy. Indeed, if the new regionalism is more appropriate to growing international interdependence (as reflected in the role of regional governance as a facilitator of global economic integration), it is clear that strengthening a more *global* (as against an international) economy demands increasing regularization and harmonization of domestic governance, ranging from finance to the environment.⁶ If globalization is conceived not so much as an externally driven process – that is, through increasing flows of trade and capital – but more as an *internal* process that fundamentally transforms the internal and external aspects of sovereignty, then it is possible to conceptualize the emergence of a regulatory regionalism that is distinct from the new regionalism that dominated Asia-Pacific political economy up to the Asian crisis. In essence, regulatory regionalism, which underscores the importance of harmonizing regulatory standards across a range of areas, is more appropriate to a global, or perhaps more importantly, a regional economy (see Chapters 3, 5 and 8), where the notion of a national economic unit becomes problematic. These issues are discussed in more detail in Part I, but let me emphasize here that the real advantage of adopting this governance or political project perspective on regionalism is that regional arrangements come to be understood as strategies of economic and political governance that are causally

associated with the intermingled structure of the global political economy and domestic state forms.

From ‘new regionalism’ to ‘regulatory regionalism’

Hence, from this standpoint, the development of this regulatory regionalism must be seen in the context of the emergence of a new regulatory state, which is crucial to this market governance in the global economy. Just as the developmentalist regimes and state forms in East Asia were meshed in with the specific regional governance of open regionalism, the emergent regulatory regionalism develops and forms part of the (albeit contested) emergent new regulatory state in East Asia. Clearly, this perspective requires us to explore the reciprocal casual links between transformations of the global political economy, state forms and regional governance.

This new form of state organization, identified as a ‘regulatory state’, is at the heart of attempts by multilateral organizations such as the World Bank to promote ‘good’ governance. These attempts signal the emergence of regulatory state forms markedly distinct from the interventionist state forms so clearly associated with the Asian economic miracle. For this reason alone, the new regulatory state reflects a more general transformation of the state from one that performed numerous allocative and interventionist functions to one that has acquired a more regulatory role as a guardian of the market order. In brief, the main features of this regulatory state provide for:

- a separation of policy from operation through, for example, contracting out of services;
- a creation of new and autonomous regulatory institutions such as independent central banks;
- an increase in the role of the state as the regulator of regulation – it acts like a *meta-regulator*. Hence, it does not attempt to regulate directly but acts to shape the institutional context of regulatory institutions; and
- a shift from a discretionary to a rule-based mode of governance in a range of economic and social policy areas. At its broadest, the regulatory state implies a transition from government (direct intervention) to governance (facilitating intervention).

What needs to be recognized here is that the governance strategies identified with the regulatory state provide the basis for new ways of organizing state power. In this context, Ferguson (1990: 21), in developing a thesis on the depoliticizing effects of development projects, notes that:

outcomes that first appear as mere ‘side effects’ of an unsuccessful attempt to engineer an economic transformation become legible in another perspective as the unintended, yet instrumental elements in a resultant constellation that has the effect of expanding the exercise of a particular sort of state

power while simultaneously exerting a powerful depoliticising effect.

In fact, an analysis of the governance programmes promoted by multilateral agencies such as the World Bank clearly indicate the significance of these programmes in nurturing new forms of political rule. Indeed, one of the most important features of these programmes is their influence in depoliticizing key areas of economic and social life (Jayasuriya 2000, 2001a). This process of depoliticization is revealed in three important dimensions: first, by placing economic institutions, such as central banks and other regulatory agencies, beyond the reach of democratically elected office holders; second, through a shift in economic policy making from discretion to rule-based forms of governance in areas like monetary and fiscal policy; and, third, through the decontextualization of 'agency' from relations of economic and social power and its consequent embedding in frameworks such as responsibility and community. In short, depoliticization – or, even better, a strategy of anti-politics – provides the underlying rationale for many governance programmes. It is this process of depoliticization, rather than success or failure of governance programmes, that should be the primary concern of those wishing to understand the process of exporting institutional templates. And it is important to locate this depoliticization in the collapse of developmentalist state projects and their associated governance paradigms and strategies.

At the same time, these regulatory state structures are enmeshed with various forms of regional governance, which in turn are distinguished by an emphasis on the development of policy coordination and harmonization. This is a form of regulatory regionalism that should not be viewed as a departure from the disciplines of the global economy but as an attempt to instantiate the disciplines of neoliberalism within a regional framework. In this context, Phillips makes the strong case that, in effect, the relaunching of Mercosur in June 2000 provided the basis for a new programme of regional integration based on a system of policy harmonization in areas such as monetary policy and surveillance programmes. She makes the highly significant point that:

subregionalism in the Mercosur has come to rest on a principle of policy coordination which implies, *in the long term*, the articulation of a new form of market governance. This form of market governance rests in the first instance on a significant regionalisation of governance mechanisms. While this process does not imply the wholesale elimination of more 'national' forms of economic governance, progressively the trend is towards convergence upon regionally coordinated policy norms and objectives and the location of market governance at the subregional level.

(Phillips 2001: 580)

A similar dynamic, discernible in the process of regionalization in East Asia, is the knitting together of emerging regulatory states and new patterns of regional governance. The emerging fabric of governance is best understood in the sense

that there is a simultaneous recognition that region-wide regulatory frameworks, such as monetary coordination and macro-economic policies, can be implemented and policed at a local level. From this perspective, the regulatory state is not a state form confined to the territorial boundaries of the national state. Rather, it should be seen as a system of multilevel governance that connects international organizations such as the IMF with regional entities such as the Asian Development Bank (ADB) and various national agencies, and even sub-national or local entities. One nascent example of the emergence of this system of multilevel regional regulation is the Association of South East Asian Nations (ASEAN) regional surveillance process (ASP), which was endorsed by ASEAN financial ministers in December 1998. Manupipatpong (2002: 114–15) argues that:

Another gap that the ASP can potentially fill has to do with current efforts to encourage countries to adopt internationally agreed standards and codes in order to enhance the effective operation of market forces and the resilience of financial systems. These standards and codes include the IMF code of good practices on transparency in monetary and financial policies, the IMF code of good practices on fiscal transparency, and the OECD principles of corporate governance.

What is clearly evident with this ASP process is that it links both national and international regulatory governance through the internationalization of various state agencies and actors. The latter became part of a regional system of surveillance and regulation that transmits the disciplines of a globalized economy. This underlines the critical point that the reproduction of the global economy requires the increasing harmonization of standards and codes such as corporate governance, transparency standards, and broad macro- and micro-economic policies. While the broad parameters of these standards are spelled out by supranational organizations, it is increasingly through regional governance structures that these standards are fleshed out.

To this end, close collaboration with national and other levels of governance is established to implement these standards and mechanisms of policy coordination. The regulatory system – or significant parts of it – is both internationalized and regionalized in the sense that the standards and mechanisms of policy coordination are instantiated within the local governing apparatus. The regional governance of this regulatory infrastructure goes beyond a mere focus on trade liberalization and constitutes the *raison d'être* of the new regionalism. In other words, the development of a global market economy and the increasing vulnerability of economies to financial crisis require the development of a type of regulatory regionalism that is able to provide some degree of regional policy harmonization. In short, we need to move beyond the new regionalism of the 1990s.

In this context, Dieter (2000) offers a provocative and highly stimulating argument which suggests that in an increasingly global economy regional integration projects driven by trade liberalization have only a limited viability for

the newly industrializing countries of East Asia and Latin America. Instead, he proposes a shift towards what he terms 'monetary regionalism', which will offer a degree of protection to increasingly vulnerable national economies. He argues that:

[countries] participating in a conventional integration project do not enjoy additional protection against financial crises. Neither with regard to the stabilization of the exchange rate of their currencies nor with regard to the stabilization of capital flows do conventional integration schemes strengthen the economies of their member countries.

(*ibid.*: 2)

In a proposal for an Asian Monetary Fund, Dieter plausibly sees the development of a putative East Asian monetary regionalism. Some movement in this direction was made with the establishment of the Chiang Mai Initiative (CMI), which provided for emergency funds for currency stabilization (Manupipatpong 2002). Natasha Hamilton-Hart (Chapter 8) refers to this question of monetary regionalism and observes that monetary cooperation remains at a very early stage. She provides a detailed analysis of the benefits for East Asia from monetary cooperation, especially with regard to the process of crisis prevention and management. However, during the Asian crisis, the Japanese proposal for an Asian Monetary Fund was quickly taken off the diplomatic agenda. Yet the CMI provides some evidence that a nascent monetary regionalism of the sort that Dieter advocates may be developing in East Asia.

Nevertheless, the Asian crisis has, above all, demonstrated to East Asian governments that globalization of capital markets requires some degree of regional monetary cooperation if future crises are to be managed. In this regard, it is worth recalling, as Milward (1994) has argued, that European cooperation was designed to rescue domestic autonomy in certain key policy areas by conceding the loss of sovereignty in other areas of domestic governance. It may well be that East Asian policy makers would come around to viewing the loss of financial autonomy through monetary cooperation as a similar kind of rescue effort.

It is clear that this emergent regulatory regionalism has a number of implications for the way we conceptualize the relationship between regional governance and globalization. The recent spate of financial crises, not just in East Asia but also in Latin America, has effectively underlined the importance of developing a regulatory framework for the global economy and the development of a new regulatory state that is enmeshed in regional, national, and sub-national governance. Furthermore, this regulatory regionalism differs from the new regionalism of the 1990s in the emphasis placed on integration through regulation rather than simply through trade liberalization. Consequently, it may be the case that strategies such as that pursued by APEC, which focused on trade liberalization, may have run their course (Bowles 2002). Whatever the merits of these arguments, the important methodological point here is the need to conceptualize regional gover-

nance not in terms of the growth and consolidation of region-wide institutions but as strategies of economic and social governance inextricably tied to the broader patterns of the global political economy.

Structure and organization of this book

The essays in this volume are organized into four parts. Part I provides a conceptual overview of the key issues. In Chapter 2, I develop the framework of regionalism as ‘governance projects’ by focusing on ‘open regionalism’ as a regional governance project. The argument advanced here is that moves towards regional integration need to be understood as ‘regional governance projects’ undertaken by domestic actors and coalitions. Regional political projects – such as open regionalism – have roots in domestic structures, and it is this that defines the broad configuration of the regional political economy. On the basis of this framework, it suggests that:

- The strategy of open regionalism was contingent upon a particular configuration of power and interests in the domestic and external economy (embedded mercantilism).
- This system of embedded mercantilism depended on a set of domestic coalitions between the tradable and non-tradable sectors of the economy. The non-tradable sector in Southeast Asia was entrenched within a particular system of political patronage.
- The Asian crisis and other structural changes in the international economy have made these domestic coalitions less sustainable, thereby creating opportunities for new forms of regional governance.

The other chapter in Part I, by Nicola Phillips, examines the rise and fall of the governance strategy of open regionalism within a comparative context. Phillips argues that, as in the Asia-Pacific, the regional governance project of open regionalism that underpinned the development of Mercosur in the southern cone of Latin America is undergoing a process of transformation. Her central thesis is that in order to understand this process of transformation, we need to move beyond the static study of regionalism and instead focus on the way in which changes in the global political economy are driving deep-seated changes in the way regional space is configured. At the same time, she argues that this process is reinforced by the restructuring of capital along regional lines. This regionalization of business demands that regionalism be conceptualized in terms of the way it constitutes a regional economic space that is more than the sum of discrete national economic spaces. Both chapters serve to highlight the importance of understanding regional governance projects of the new regionalism in the broader context of changes in the global and domestic political economy.

In Part II, some of these themes are pursued further by situating regional governance strategies in the Asia-Pacific, in particular the ensuing political contestation over the direction of foreign economic policies within the broad

ambit of the domestic political economy. John Ravenhill (Chapter 4) looks at the rapid growth of bilateral (or even minilateral) regional trade agreements. In fact, the rapid growth of this new bilateralism is symptomatic of the increasing crisis of the multilateral APEC approach to trade liberalization. In addition – reinforcing a key feature of the theme of this volume – Ravenhill argues that the push for bilateral agreements can also be located in sources that originate in the domestic political economy. In this context, he notes that business groups have pushed for bilateral agreements because they have strong interests in not being disadvantaged in markets where other competitors enjoy preferential access because of bilateral trade agreements. Equally, bilateralism does offer advantages to more domestically inclined protectionist interests in that such agreements have wide latitude to incorporate exclusion clauses that enable, as he succinctly observes, domestic interests to take the political pain out of trade liberalization.

In Chapter 5, Greg Felker explores the increasing diversion of FDI flows into China from Southeast Asia. The rapid inflow of FDI into China has raised doubts about the continuing viability of industrialization projects in Southeast Asia. This is important, given that these industrialization programmes provided the critical underlay for the regional governance project of open regionalism. Felker suggests that to view this in terms of a zero-sum game between China and Southeast Asia is to overlook how the Southeast Asian economies have been integrated into international production networks, which comprise internal linkages between multinational corporations (MNCs) and their subsidiaries and subcontractors. From this perspective, the economic emergence of China needs to be viewed in terms of a regionalization of production networks across the regional economy. In this sense, Felker's idea of a fundamental restructuring of MNCs along regional lines is consistent with Phillip's argument in Chapter 3 about the regionalization of business. More fundamentally, this restructuring of capital along regional lines implies the emergence of regional economic space, which is, as Phillips notes, more than the sum of national economic units. In this regard, Felker's contribution serves to highlight the way in which the newly emergent regulatory regionalism is a response to this more complex regional economy.

But the development of regulatory regionalism is fraught with its own problems. Andrew Rosser in Chapter 6 suggests that the new regulatory state in Southeast Asia is likely to be highly contested by those forces associated with earlier developmentalist regimes. Looking at a case study of corporate governance in Indonesia, he argues that the corporate governance regime in Indonesia is unlikely to converge on the Anglo-Saxon 'outsider model' of governance. While numerous attempts have been made to implement such an outsider model, these have been ineffective in the Indonesian context. According to Rosser, the reasons for this failure lie in the fact that old interests in the old regimes have been able to block effective reform of the corporate governance system. It is clear from Rosser's chapter that these battles over regulatory reform will form much of the backdrop to domestic and regional economic governance in the next decade.

In the final chapter of Part II, Amitav Acharya examines the way in which

the admittedly tentative steps towards democratization have significantly affected the shape of regional governance in East Asia. The so-called 'Asian way' of regionalism – predicated on the development of informal, and often elite-led, channels of discussion within regional forums – is a product of the strong centralized, authoritarian regimes that prevailed at the height of the Asian crisis. In this chapter, Acharya explores the impact of increased openness and democratization on the traditional routines and techniques of Asia-Pacific regional governance. Regional governance will need to deal with new transnational issues such as a more active and assertive civil society and evolve strategies of governance that depart from the doctrines of non-interference. But, as he notes, this shift towards what he calls 'participatory regionalism' faces a number of challenges, one of which in my view is the fact that authoritarian state traditions still act as a powerful influence in otherwise democratic polities such as Thailand and the Philippines. In fact, the recent US 'war on terror' has only exacerbated these authoritarian tendencies. Nevertheless, Acharya's chapter clearly shows that the emergence of regulatory regionalism in the Asia-Pacific requires a move away from the informal and closed systems of regional governance that held sway at the height of the era of open regionalism.

Part III explores new and emerging regional governance projects in the Asia-Pacific region. Helen Nesadurai, in Chapter 8, argues that there has been a proliferation of regional governance projects, and these arrangements differ in terms of the substantive issues they address, especially with regard to the modalities or procedural approaches to cooperation. Her fundamental thesis is that Southeast Asian governments have adopted these governance arrangements in an effort to give them some measure of control over the effects of global economic integration. Again, the argument here suggests the critical role of the restructuring of capital along regional lines (see also Chapters 3 and 5) in driving new forms of regional governance. For Nesadurai, these new governance arrangements signify a shift from the new regionalism to what she calls 'developmental regionalism', which differs from the new regionalism in that it seeks to balance domestic stability and external integration. The broader point here is that we need to view the crisis in new regionalism as a shift away from strategies of governance suited to an international economy composed of national economic units to a regulatory regionalism more attuned to the growth of a regional economy in which there is regionalization of business.

Natasha Hamilton-Hart in Chapter 9 explores one of the critical elements of regulatory regionalism: financial and monetary coordination. Hamilton-Hart provides a detailed analysis of the benefits for East Asia from monetary cooperation, especially with regard to the process of crisis prevention and management. However, during the Asian crisis, the Japanese proposal for an Asian Monetary Fund was quickly taken off the diplomatic agenda. But as in the case of Indonesian corporate governance (see Chapter 6), Hamilton-Hart notes that the obstacles to the development of a comprehensive system of monetary coordination are considerable. These include political differences between countries such as China and Japan as well as the resistance of powerful domestic interests.

Nevertheless, initiatives such as the establishment of the CMI, providing emergency funds for currency stabilization (see also Chapter 10), suggest that a nascent form of monetary coordination may be taking root in East Asia. There can be no doubt that contests over financial and monetary coordination will provide a key touchstone for the emergent regulatory regionalism in the Asia-Pacific.

In Chapter 10, Nick Thomas examines the putative East Asian community – the so-called ASEAN+3 (i.e., South Korea, China and Japan). One of the most interesting developments in recent times (see also Chapters 11, 12 and 13) is the emergence of forms of regional governance that exclude Western countries, notably the United States and Australia. The so-called ASEAN+3 process is in essence the core of this putative East Asian grouping. Thomas examines these issues through the lens of a report presented by the East Asia Vision Group for promoting regional cooperation. He notes that the implementation of any such regional grouping will involve substantial constraints on the policy autonomy of ASEAN members. Hence the kind of regulatory regionalism that the ASEAN+3 process may usher in depends on a significant move away from the traditional patterns and routines of new regionalism in the Asia-Pacific. Thomas perceptively suggests that the way ASEAN+3 members respond to these challenges (i.e., regulatory regionalism) will determine to what extent this new East Asian regional governance is likely to be a permanent and durable feature of the regional landscape.

In the concluding section (Part IV), detailed consideration is given to the way in which major powers are shaping the contours of regional cooperation in the particular context of Southeast Asia. Mark Beeson, in his analysis of the role of the USA in the region from the beginning of the Cold War, observes that the USA has played a critical role in shaping the economic and political development of Southeast Asia. He also notes that the events surrounding 9/11 will have a significant bearing not only on regional governance but also on the broad shape of regional politics. Crucially, Beeson underscores the troubling tilt from a 'benevolent' to a more coercive US hegemony both globally and in the Asia-Pacific region. Consequently, what we have described as the emergent regulatory regionalism will need to mesh in with US-based policy networks, be it in money laundering or terrorism. According to Beeson, the way in which the USA manages these problems, especially within the more coercive strategic posture of the Bush administration, will have a decisive bearing on the future course of regional politics.

The remaining chapters in Part IV, by Daojiong Zha (Chapter 12) and Joseph Cheng (Chapter 13), explore with great clarity one of the critical and significant changes in regional political economy: the emergence of China as an economic powerhouse and major political player in the region's international relations. In addition to providing a detailed analytical overview and background to China–Southeast Asia relations, Cheng notes that Southeast Asia will be increasingly embroiled in the matrix of China–USA strategic competition. It is within this strategic matrix that China has come to be an enthusiastic supporter of the

ASEAN+3 regional process. However, Southeast Asian states need to balance this with the growing coercive character of US policy in the region (see also Chapter 11). Despite this, he observes that the desire of both China and the USA to keep a stable bilateral relationship will serve to constrain their competition in Southeast Asia. Nonetheless, he indicates the way in which the emerging regulatory regionalism in the Asia-Pacific will constantly need to accommodate US–Chinese strategic competition.

Zha examines the strategic and diplomatic aspects of China's decision to form a free trade area (FTA) with ASEAN in November 2001. This FTA is a singular landmark in the evolution of China–Southeast relations. Zha's careful and succinct analysis of the policy rationale contained in the Joint ASEAN–China Expert Study Group's report shows that the FTA decision was driven by broadly diplomatic and political considerations. He suggests that two factors were critical in shaping the Chinese decision: first, to seek to develop its southwestern provinces, and second, the competition with Japan for economic leadership in East Asia. Thus, he regards the FTA – and echoing some of Cheng's conclusions – as a part of a broader embrace of ASEAN by China. But again, this emerging framework of China–ASEAN relations needs to be placed within the framework of the developing regulatory state in China.

Conclusion

In shaping the new research agenda on Asia-Pacific regionalism, the contributors to this volume draw pointed attention to the need to wrest this agenda from academics and practitioners who view the process of regional integration as one of institution building. Institution building is clearly an important part of this process, but to view it as somehow an independent external process remains problematic. The standpoint adopted in these essays suggests the need to locate the development of regionalism within the framework of broader political or governance projects of market making in individual countries. These, in turn, are underpinned by a distinctive set of domestic coalitions, state forms and permissive international strategies. A broad convergence of these political projects would facilitate a parallel process of regional governance.

The strength of this approach lies in locating the dynamic of regional governance within the broader structures and processes associated with the restructuring of domestic and foreign capital as well as the state forms that underpin such restructuring strategies. In other words, regional processes are embedded within domestic structures. Accordingly, it would appear that the impact of the deep-seated structural changes in the global economy have unsettled previously dominant coalitions and growth strategies and concurrently established governance projects centred on the APEC-driven process of economic integration. These established governance projects have given rise to a wide array of new proposals for regional governance. While the final shape of the new regional order is far from clear, it is evident that these new regional governance projects will be shaped by the new forms of regulatory states and associated structures of