7 Regionalism and state capacity in East Asia

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Developments since the mid-1990s have institutionalized regional collaboration in the Asia-Pacific at levels never previously experienced. In this period, the Asia-Pacific Economic Cooperation (APEC) grouping adopted an ambitious agenda for its member states to remove their trade barriers by the year 2010 (for industrialized economies) and 2020 (for less-developed economies); ASEAN committed itself to the implementation of a free trade agreement; and a regional security dialogue was initiated through the ASEAN Regional Forum. In the years since the financial crises of 1997–98, proposals for regional collaboration in East Asia proliferated at multiple levels: for bilateral free trade arrangements; for sub-regional trade liberalization; and, most ambitiously, for various forms of cooperation in the monetary field.[1] And by inviting the governments of China, Japan and Korea to a special meeting after their own summit, ASEAN members brought into being the first truly East Asian grouping – the ASEAN Plus Three forum. In late 2005, this new East Asian collaboration was to be institutionalized in the East Asian summit, the first of what are intended to be regular meetings of East Asian heads of government.[2]

To what extent have these developments already added to or have the potential to add to state capacity in East Asia?[3] In principle, regionalism, the construction of intergovernmental collaboration on a geographically restricted basis,[4] has the potential to enhance state capacity through several processes. These include:

1 *Augmenting the financial resources available to participating states.* At the most fundamental level, regionalism may increase the resources available to states by facilitating a more rapid rate of economic growth. Regionalism may also stimulate larger flows of foreign direct investment from other states, either from within or outside the region.[5] Resources may also be derived from transfers from other member states on a permanent basis, for example, through a grouping's mechanisms for redistribution, such as the EU's European Regional Development Fund. Alternatively, resources may be provided on a temporary basis to assist countries in times of particular need, for example, through loans of foreign exchange made from a regional monetary swap facility

when countries within a region are experiencing currency crises. Participation in a regional grouping may also enable members to make a more effective claim on resources that external parties direct towards promoting regional collaboration. For instance, both Japan and the European Union in recent years have designated a portion of their aid budgets for supporting 'regional' projects among recipient countries. Other donors, including multilateral agencies such as the World Bank, have also looked favourably on requests from regional organizations. Whether or not such aid to regional bodies adds to the total amount of aid these agencies would otherwise give is debatable. Nonetheless, for an individual state, the pursuit of regionalism may add to its net aid receipts.

2 *Enhancing the expertise available to states.* Regionalism may enhance the supply of expertise either collectively, at the regional level, or that available in national bureaucracies. Such expertise can be transferred from within the region from states with greater know-how in an issue area, or from outside the region through channels such as the training programmes provided by multilateral organizations. Expertise can also be generated by activities at the regional level, for instance, through the establishment of a secretariat for the cooperative grouping, and/or by enhancing processes of information collection and exchange.
3 *Enhancing the bargaining situation of member states* vis-à-vis *third parties.* By acting collectively, members may gain better outcomes than if they acted individually. By integrating their economies, member states may strengthen their bargaining hand in negotiations with foreign partners. Examples include the provision of a more attractive investment locale (a larger 'regional' market) that makes them more attractive to foreign partners, and acting collectively in negotiating with foreign purchasers and/or suppliers. Moreover, bargaining strength is likely to rest in part on expertise, which as noted in the previous point, can be enhanced through regional collaboration.

East Asian regionalism and state capacity

ASEAN

Both of the major regional economic institutions, ASEAN and APEC, in the period before the economic crisis were working towards trade liberalization among their members. ASEAN's record in promoting economic collaboration among its members had been one of almost totally ineffectiveness in the first twenty-five years after its establishment in 1967. Despite its preferential trade arrangement, intra-regional trade had actually declined as a share of member states' overall trade. ASEAN leaders had responded in September 1992 at their fourth summit in Singapore to the twin challenges posed to it by APEC and by China's emergence as an attractive locale for foreign investors by launching proposals for an ASEAN Free Trade Area (AFTA), to be completed by 2008. Although the grouping subsequently initiated a variety of 'AFTA Plus' activities in the following three years, including efforts to eliminate non-tariff barriers and quantitative restrictions, and to harmonize customs nomenclature, valuation, and procedures, and also accelerated the timetable for liberalization, progress was at best halting, leaving various key issues unresolved (Ravenhill, 1995). Members failed to commit to the total liberalization of trade; instead, 'free trade' was defined as occurring when tariff levels reached somewhere between 0 and 5 per cent. Moreover, the agreement allowed for the exclusion of sensitive products from the liberalization process. Frequent adjustment of the timetable for liberalization tended to confuse rather than reassure foreign investors.

ASEAN's efforts at promoting industrial cooperation among its members had been even more ineffective, the *dirigiste* efforts under the ASEAN Industrial Projects scheme of 1980 to assign particular industries to states having clashed with the market-oriented policies of key members, especially Singapore. A partial exception to an otherwise dismal record was the Brand-to-Brand Complementation agreement of 1988, an arrangement applying specifically to the automobile industry that provided for intra-regional trade in automobile components at a tariff reduction of 50 per cent. This arrangement had facilitated the setting up of regional production networks by some multinational auto assemblers but had been substantially undermined by the continuing protection by the Indonesian and Malaysian governments of their domestic automobile assemblers (Guiheux and Lecler, 2000; Legewie, 2000).

In the realm of financial cooperation, ASEAN efforts had been meagre. Governments in 1977 had developed a small scheme for providing liquidity to one another when currencies came under attack. Each of the original five ASEAN members initially contributed $20 million to this swap facility, and was allowed to withdraw double that amount in the event of a crisis. The five governments doubled the sum committed in the following year – but left it unchanged between 1978 and 2000. The figure of $80 million that was available to an individual country is of course minuscule in comparison even with the overall foreign exchange reserves of the ASEAN states, and totally inadequate to counter the movements of capital that occur when currencies are subject to speculative attack.

By the mid-1990s, the contribution that economic cooperation in ASEAN had made to regional economic growth (and thus indirectly to state capacity through enhancing government revenues) was minimal. ASEAN's other contributions to state capacity were similarly of little consequence. It had added little to the bargaining power of member states. Collaboration had enabled ASEAN members in the second half of the 1970s to embarrass the Australian government into withdrawing proposals designed to limit airline capacity on the Australia–Europe route (Ravenhill, 1998). But despite holding frequent meetings with what became known as its 'dialogue partners', ASEAN seldom acted collectively in bilateral or multilateral international economic negotiations. And ASEAN members competed with one another to host foreign investment, often attempting to outbid fellow members in the concessions they offered to potential investors. One reason for ASEAN's inability to bargain effectively with extra-regional actors was its own lack of depth in economic integration, reflected in the absence of a common external tariff. States consequently were left to determine their own trade policies towards outsiders.

The weakness of the ASEAN secretariat was a further problem undermining collective action. Regional cooperative schemes can enhance the state capacity of their members when their secretariats develop expertise beyond that held at the national level. In ASEAN, such a development was precluded by the desire of the member states to ensure that the Secretariat remained weak and incapable of developing as an independent source of authority. The Secretariat's professional staff was tiny by comparison with those of most cooperative institutions; staff members were all seconded from national governments, ensuring that the Secretariat did not develop an independent presence. Its role amounted to little more than one of coordinating and servicing meetings of officials from the member states. If the Secretariat did little to strengthen state capacity in member states, neither could weaker members look to their stronger counterparts for assistance. With non-interference in the affairs of other states the paramount principle governing intra-ASEAN relations, member states showed little interest in enhancing the capacity of their fellows. Moreover, the principle of non-interference has meant that ASEAN itself has done little to reinforce the process of democratization in the region.[6]

ASEAN members did not attempt to develop redistributive measures that might strengthen the capacity of weaker states. Because its efforts at trade integration were ineffective, the issue of 'compensation' to countries or regions not fully sharing in the grouping's overall growth simply did not arise. And its efforts to ensure an equitable distribution of industrial activities through region-wide planning were nothing less than a fiasco. Perhaps the single most significant contribution that ASEAN made to enhancing state capacity was through the claims that it was able to stake on resources that donors made available to support regional projects. In 1987, for instance, Japanese Prime Minister Takeshita announced a $2 billion ASEAN–Japan Development Fund for the promotion of the private sector in ASEAN over the following three years. But while useful, these and other such resources from foreign donors were not of a magnitude that would have any transformative effect on the capacities of the various states.

APEC

APEC rapidly transformed itself in the first half of the 1990s from a ministerial-level meeting of 12 countries (which originally had excluded China, Hong Kong and Taiwan) to a grouping that embraced most Pacific Rim economies (21 in total) and which held annual leaders' meetings and frequent meetings at ministerial and senior official levels.[7] At its second leaders' meeting in Bogor, Indonesia, in 1994, APEC adopted an ambitious agenda for its members to liberalize their trade on a most-favoured-nation, i.e. non-preferential, basis by 2010 for the industrialized economies, and 2020 for the less-developed members. Trade liberalization was the first of three 'pillars' members agreed for APEC activities; the others were trade facilitation, and economic and technical cooperation (in APEC jargon, ECOTECH).

In its first decade, APEC gained much publicity for its actions to promote trade liberalization. In adopting a non-discriminatory approach, its members were building on the experience of unilateral trade liberalization that had occurred within the region, especially in Southeast Asia and Oceania in the 1980s. As the name of APEC's second pillar suggests, trade facilitation activities were intended to assist the process of liberalization through the negotiation of agreements on customs procedures, technical standards, mutual recognition of product testing, etc. Similarly, activities within the economic and technical cooperation pillar were directed primarily at enhancing the capacity of states to implement trade liberalization policies. APEC's industrialized economies, however, eschewed the phrase development cooperation, originally proposed by Indonesia's President Suharto at the Bogor meeting; they rejected any notion that APEC's less-developed economies should receive development assistance in compensation for undertaking trade liberalization. The logic was that of neo-classical economics; the gains from trade liberalization would accrue primarily to the economy undertaking such liberalization and would provide rewards in themselves. The role of the regional grouping was not to compensate but to enhance the capacity of states that had committed to pursue the desired policy course.

When political scientists conceive of state capacity in the East Asian context, they are typically thinking of the 'transformative' capacity of the state, in Weiss's (1998) terminology, that is, the state's capabilities to intervene to change an economy's trajectory through enhancing the national system of innovation and/or through the pursuit of sectorally-specific industrial policies. APEC's strategies point to another dimension of state capacity, one more consonant with the prevailing tenets of the multilateral financial institutions: a capacity to direct the liberalization of the economy. As Miles Kahler (1990) pointed out in the context of structural adjustment programmes in less-developed economies, an 'orthodox paradox' exists in that the principal agent of market reform and liberalization has to be the state itself. In other words, an effective state is required if liberalization is to be successful. The disastrous consequences of financial sector liberalization in the absence of an adequate regulatory framework in East Asia in the 1990s provide a perfect illustration of this point.

APEC's assistance in attempting to boost state capacity for economic liberalization took three principal avenues. Through the ECOTECH programme, it aimed to provide technical assistance to the less-developed member economies to enhance the capacity of their states through professional training in areas such as statistical data collection and preparation, implementation of harmonized customs systems, etc. A second avenue was the socialization effects that participation in APEC fora had on delegates from less-developed economies, a form of 'sociological liberalism', in Nye's (1988) terminology. Finally, APEC could also enhance the capacity of the state to promote liberalization through changing the domestic political economy equation through mobilizing pro-liberalization elements.

How successful have APEC's efforts been in practice? ECOTECH received relatively little attention until the end of APEC's first decade. The APEC Eminent Person's Group, a body set up in 1992 to provide a blueprint for APEC's future development, devoted only four and a half pages of the 78 pages of its first report, and one and a half pages of its 38-page second report to ECOTECH. The reports had a striking absence of specifics on ECOTECH activities, a marked contrast to the detailed attention they gave to trade liberalization. Gradually, however, governments came to appreciate the link between the role that APEC could play in the enhancement of domestic capabilities and the prospects for moving the trade facilitation and liberalization agendas forward. In the Osaka Action Agenda in 1995, member economies gave ECOTECH equal status with trade liberalization on APEC's agenda. The following year's Manila Action Plan identified six areas in which APEC would develop ECOTECH activities: developing human capital; fostering safe and efficient capital markets; strengthening economic infrastructure; harnessing technologies of the future; promoting environmentally sustainable growth; and encouraging small and medium-sized enterprises.

By the end of its first decade, APEC had 220 ECOTECH projects running under its auspices. Categorized according to the themes outlined at the Manila meeting, the distribution was: developing human capital (70 projects); developing stable, safe and efficient capital markets (7); strengthening economic infrastructure (21); harnessing technologies for the future (49); promoting environmentally sound growth (51); and strengthening the dynamism of small and medium enterprises (22). Approximately a quarter of the projects were in the human resources development area, with energy, science and technology, and agricultural technology the other most active areas (each contributing about 12 per cent of the total projects).[8] At first sight this may seem to be an impressive programme. In reality, the record was marred by several weaknesses.

A triumph of process over substance characterized APEC's activities. So has a general lack of coordination and setting of priorities. ECOTECH was not effectively integrated with the trade liberalization and facilitation agenda. The grouping launched projects when a member had sufficient enthusiasm to put up some money for them.[9] The projects financed reflect the particular interests of bureaucracies in the individual members. They range from the promotion of the understanding of culture in schools to an improved seafood inspection regime, from research on best gender practices in the workplace to risk assessment in customs procedures. As early as 1993, the EPG had criticized the proliferation of projects and called for their rationalization. Five years later, in the environmental field, to which APEC has given priority, the Australian government's Department of the Environment (Commonwealth of Australia, 1998) asserted that APEC's ECOTECH activity was 'ad hoc' and 'lacks cohesion'.

A report by senior officials to ministers on ECOTECH concluded that many projects were not goal-oriented with explicit objectives, milestones and performance criteria; they were oriented more to process than to easily measurable results (cited in Curtis and Ciuriak, 1999, p. 10). Surveys, research and seminars constituted two-thirds of the output of the projects, causing concern among some member economies at the lack of substantive product from ECOTECH activities.[10]

Inadequate finance has also hampered ECOTECH activities. The total annual expenditure on projects has not exceeded $2 million. Most of the projects have been of a very small scale, with funding of less than $50,000. The failure of APEC to adopt Japan's 'Partners for Progress' proposal denied it any significant funds for the pursuit of ECOTECH. And, contrary to the expectation that the private sector would supply the bulk of funding for ECOTECH activities, business has taken little part in them. Only a third of ECOTECH projects have had any business input or participation, let alone financial support. In a survey conducted by the Australian branch of PECC, none of the business respondents 'saw any potential in economic and technical cooperation activities' (quoted in Parliament of the Commonwealth of Australia, 2000, p. 174).

The lack of substantive outputs from APEC's ECOTECH programme rendered it vulnerable to criticisms that it was 'activity masquerading as progress' (Flamm and Lincoln, 1997, p. 6). Even Ippei Yamazawa (1998, p. 172), an enthusiastic supporter of APEC, acknowledged that during APEC's first decade the ECOTECH programme had produced 'no visible achievement'. At best, ECOTECH has made a very modest contribution to enhancing the capacity of some of APEC's weaker states to implement its trade liberalization agenda. APEC's less-developed economies in fact have used the lack of progress on ECOTECH as an excuse for slow implementation of trade liberalization.

Other dimensions of APEC's activities have had little impact on its members' state capacity. APEC is not generally concerned with enhancing the collective bargaining capacity of its members *vis-à-vis* other states in the system. The one exception to this has been the grouping's push for trade liberalization within the GATT/WTO. APEC's formation was argued by many participants and commentators to have increased pressure on the EU to reach agreement on key issues in the Uruguay Round talks. And APEC is often credited with having contributed to the successful negotiation of the Information Technology Agreement at the Singapore ministerial meeting of the WTO in 1996.[11] But on trade liberalization, APEC is riven by the principal divisive issues that confront the WTO: agricultural protection, and labour and environmental standards.

How effective APEC has been as an instrument of socialization of national government officials remains a topic characterized more by speculation than hard evidence. Certainly, APEC continued the tradition of the Pacific Economic Cooperation Council (PECC) of attempting to socialize participants into the virtues of trade liberalization (Harris, 1994). Arguments for the socializing impact of the Pacific regional economic institutions can point to the significant record of unilateral trade liberalization by countries in the region. Yet, as trade liberalization has increasingly posed hard questions for governments in their attitudes towards sensitive sectors, the socializing influence of the institutions may have diminished in effectiveness. Governments now may be listening to domestically-oriented ministers and constituencies more than they do to those who participate in APEC fora.

A third way in which APEC might enhance state capacity for pursuing liberalization comes through the impact that trade liberalization might have on the domestic political economy equation. The emphasis placed on reciprocity in international trade negotiations derives not just from the concern of politicians that domestic constituencies do not perceive that they are providing unrequited concessions to trading partners. It is also a function of the desirability of mobilizing pro-liberalization supporters. If exporters or potential exporters have confidence that trade negotiations will enhance their prospects of gaining improved access to foreign markets, they are likely to mobilize in support of trade liberalization initiatives. In the absence of any assured reciprocity, the domestic debate on trade liberalization is more likely to be dominated by domestic interests adversely affected by market opening.

APEC's unilateral approach to trade liberalization stood at odds with the conventional wisdom on the need for reciprocity in trade negotiations (although it was entirely consistent with economists' views on the desirability of unilateral liberalization and on the economic illiteracy of those who stressed the need for reciprocity). The emphasis on unilateralism flowed from the experience of Asian economies in the 1980s when rapid economic growth accompanied trade liberalization, Asian governments' frequently stated preference that regional arrangements must be grounded in consensus, and the arguments of economic theory that the principal gains from liberalization accrue to the states implementing this policy. The concern of Asian governments to maintain decision-making autonomy ruled out any pooling of sovereignty on economic policies. The Japanese Minister of Foreign Affairs, Yohei Kono (1995, pp. 1–2), asserted that 'we have adopted the approach of concerting members' voluntary efforts on the basis of mutual trust … APEC liberalization and facilitation should be implemented not by an excessively negotiation-like framework'.

To address the tension between those members who favoured a non-discriminatory unilateral approach to trade liberalization and those who favoured a process grounded in reciprocity, APEC adopted the idea of 'concerted unilateralism', a term that Funabashi (1995, p. 96) attributes to Tony Miller, the Trade Secretary of Hong Kong. Concerted unilateralism is an instance of what some have termed the 'constructive ambiguity' widespread in APEC's principles. The concerted component of 'concerted unilateralism', achieved through the setting of timetables for the removal of trade barriers, would be the value added by APEC to an ongoing process of unilateral liberalization. 'What we are talking about', according to former Australian Foreign Minister, Gareth Evans, 'is neither strict, hard edged GATT-style multilateral offer and acceptance negotiations nor very loose voluntarism, in which every member economy is absolutely free to choose the pace at which it unilaterally liberalizes' (Evans, 1995, p. 3).

Outside of the circles of professional economists that have dominated Pacific regional organisations such as PECC, few have given much credibility to the concept of concerted unilateralism. Certainly, no support for the concept has been forthcoming from the US business community or from Congress. And even in

Australia, where the orthodoxy of unilateralism held sway from the mid-1980s to the mid-1990s, governments have more recently asserted that Australia will not cut protection for sensitive sectors unless it is assured that its Asian trading partners will follow suit. In short, because 'concerted unilateralism' provided no certainty about the behaviour of trading partners, APEC's contribution to enhancing state capacity to introduce liberalization through changing the domestic political economy equation was negligible. And because APEC's programme of trade liberalization was unilateral and voluntary, it is difficult to point to any increase in members' overall economic growth that derived from activities associated with APEC.

Crises and the new East Asian regionalism

The economic crises that afflicted East Asian economies in 1997–8 were at root a crisis in state capacity. Commentators from all perspectives identified state weaknesses as exacerbating the problems that East Asian countries experienced. For neo-classical economists, poor mechanisms for the oversight of domestic financial systems reflected weaknesses in state capacity, a product of the 'crony capitalism' that characterized relations between the state and the private sector. At the other end of the political spectrum, writers from a statist perspective argued that the crises had their origins in a flawed process of liberalization; they resulted not from excessive statism but from a lack of state capacity as successive governments had set about dismantling the policy armoury that states previously had at their disposal.[12]

Asian governments undoubtedly were disappointed at the response of the existing regional institutions and their ineffectiveness during the economic crises. A response to this ineffectiveness could have taken several directions. One would have been to attempt to strengthen the existing institutions. An alternative was to devote energies and resources to building up one or more new institutions. To what extent have the crises led to a strengthening of regionalism in East Asia that has a potential to affect state capacity?

Observers frequently point to the role of economic crises in paving the way for changes in policy. Crises may disrupt long-standing political coalitions, may affect the balance of power among various domestic groups, and provide an opening for new ideas to challenge prevailing orthodoxies. In discussing the importance of the 1994 debt crisis in changing the Mexican government's position on NAFTA, Haggard (1997, pp. 37ff.) focuses on two factors: the role of the crisis in bringing about a convergence of elite attitudes on the desirability of trade liberalization and of more general economic deregulation; and the impetus it provided to the government's desire to use regional collaboration as a signalling device to potential investors of its commitment to greater economic openness.

The record in East Asia in response to the 1997–8 crises is far less clear-cut as regards changes in domestic coalitions. While the crisis did provide an opportunity for pro-liberalization groups to seize the initiative in some countries, most notably Korea, elsewhere (and, indeed, in some quarters in Korea itself), domestic groups continued to resist liberalization, and associated it with unwelcome external pressures. On balance, the crises resulted in a reinforcement of liberalization/deregulation tendencies across the region – but the record is uneven both by sector and by country. It would be far-fetched indeed to assert that a triumph of pro-liberalization ideas and the ascendancy of pro-liberalization forces across the region is the root of governments' new interest in regionalism. This terrain remains hotly contested.

Regionalism as a means of post-crisis signalling of 'credible commitments' (Rodrik, 1989) also has limited explanatory value for ASEAN. ASEAN clearly lacked the resources – financial and human – to respond effectively to the financial crises. One reaction by member states was to attempt to strengthen the institution – by adding to the scope of cooperative activities through, for instance, the introduction of procedures for surveillance of financial activities in its member states, and by bringing forward the date for the implementation of existing activities, notably its Free Trade Area. Member states committed to implement the arrangement in full by 2002 (for the six original signatories of the treaty). The grouping issued new comprehensive statements of its intentions (the 1997 'ASEAN Vision 2020' and, more significantly, the 1998 Hanoi 'Plan of Action'). At its 2003 summit, ASEAN leaders committed themselves to establish an ASEAN Economic Community by 2020. Rhetoric notwithstanding, few observers are convinced of the commitment of governments to these new regional blueprints.

Progress in implementation remains painfully slow and has been complicated by ASEAN's enlargement, which incorporated countries – Cambodia, Laos, Myanmar – conspicuously lacking in state capacity. AFTA's six original signatories agreed to abolish tariffs on 60 per cent of their tariff lines by 2003 but completely free trade in the sense of zero tariffs will not be achieved until 2015 for these six and until 2018 for the four more recent members. Member economies continue to seek exceptions from the agreement for politically sensitive domestic industries – vividly illustrated by Malaysia's determination to continue protection for its domestic automobile industry.

Trade between ASEAN member economies in the 1990s grew only slightly more than 1 per cent more rapidly than their trade with other countries – and remains at less than one-fifth of the members' overall trade (and is heavily dominated by entrepot trade through Singapore). Moreover, ASEAN trade preferences probably contributed little to this modest growth in the share of intra-regional trade in the total exports of ASEAN economies. A study by the ASEAN Secretariat (Robert R. Teh Jr., 1999) estimated that only 1.5 per cent of intra-ASEAN trade used the certification required to attain preferential tariff treatment under AFTA's rules of origins; the balance either entered duty free or at most favoured nation rates (indicating that most companies perceived the transaction costs of qualifying for AFTA preferences to outweigh any potential gains). Preferential tariffs are lower than MFN rates in fewer than one-third of the tariff lines. ASEAN's integration efforts continue to suffer from a yawning credibility gap – and have reinforced concerns that the region is losing out to China in attracting foreign direct investment. The ASEAN Secretary-General, Rodolfo C. Severino, Jr., acknowledged these concerns in calling for member states to integrate their economies more completely and more quickly (ASEAN Secretariat, 2001a).

In response to the crisis, ASEAN members took two major initiatives to encourage enhanced foreign investment. One was to establish an ASEAN Investment Area, under which members agreed to liberalize selected sectors over a 12-year period. Again, however, the lengthy time frame, the exclusion of certain sectors, and frequent amendments of the scheme did little to enhance the attractiveness of the region to external partners. The other measure was to improve the conditions of the ASEAN Industrial Cooperation Scheme, which had been introduced in 1996 to replace the Brand-to-Brand complementarity arrangements. The major improvements introduced in 1999 were to reduce the processing time for applications, to allow for AICO arrangements between two branches of the same company, and to provide (for two years) an automatic waiver of the previous requirement that 30 per cent of the equity in approved ventures be held locally. As of March 2001, 74 proposals had been approved, all but 11 in the automotive industry. Although regarded by many foreign investors as a positive step, the scheme was still seen as heavily bureaucratic and subject to uncertainties and delays at the national level. The temporary nature of the waiver on local equity participation again reduced its attractiveness to foreign investors.

In the realm of financial cooperation, progress has occurred but again has been limited. At the Chiang Mai meeting of the finance ministers of the ASEAN Plus Three grouping in 2000, as part of an attempt to establish a broader arrangement for the swapping of currencies (discussed below), ASEAN members agreed to increase the size of their own contributions to their swap facility to total $1 billion and to extend it to all ten ASEAN member states (Bank Negara Malaysia, 2000). The total finance available, however, remains modest even in comparison with the national reserves of the ASEAN states.

ASEAN Finance Ministers, at a meeting in Washington DC, in October 1998, also created an ASEAN Surveillance Process. Its stated objectives are to strengthen cooperation by exchanging information, by 'providing an early warning system and a peer review process to enhance macroeconomic stability and the financial system in the region', and by 'highlighting possible policy options and encouraging early unilateral or collective actions to prevent a crisis'. Besides the Finance Ministers themselves, the surveillance mechanism would comprise the ASEAN Senior Finance Officials Meeting and the ASEAN Central Bank Forum. These meetings would be supported by an ASEAN Surveillance Coordinating Unit, created within the ASEAN Secretariat, and by an ASEAN Surveillance Technical Support Unit (ASTSU) based at the Asian Development Bank in Manila. During an initial period of two years, ASTSU in Manila would be responsible for providing technical support to the surveillance process as well as training and capacity-building assistance to the ASEAN Secretariat, finance ministries, central banks, and other relevant departments of the ASEAN states.[13]

Since many commentators suggested that a lack of transparency aggravated the financial crises of 1997–8, ASEAN's new mechanisms for increasing information flows will generally be applauded. How effective ASEAN's efforts at peer review will be, given the culture of non-interference in the affairs of other members, remains to be seen. *The Economist* ('Swapping Notes', 11 May 2000) was typically sceptical in noting that 'forthright mutual criticism is hardly one of the region's strongpoints'.

The introduction of the surveillance mechanisms, however, did herald a new dimension to ASEAN's activities that had the potential to enhance state capacity in its weaker members: an emphasis on training and capacity building assistance. Recognizing that enlargement had been widely perceived as damaging the credibility of ASEAN's commitment to economic integration, member states reinforced this new dimension in their activities at their 34th ministerial meeting in Hanoi in July 2001. In their 'Hanoi Declaration on Narrowing Development Gap for Closer ASEAN Integration', they pledged to 'devote special efforts and resources' to promoting the development of ASEAN's newer members, 'with priority given to infrastructure, human resource development, and information and communication technology' (ASEAN Secretariat, 2001b). The Singaporean government followed up by announcing its intention to establish training centres in Vietnam, Cambodia, Laos and Myanmar for information technology, English-language training and trade promotion. And in a move that heralded a new concern with distributive issues, ASEAN ministers made a commitment to unilaterally extend tariff preferences to new members beginning on 1 January 2002 (although such preferences would be for specific products and implemented on a bilateral and voluntary basis).

If crisis did spark new efforts among ASEAN members to deepen their integration and increase its pace, the response of East Asian countries to the perceived ineffectiveness of the other major regional institution, APEC, was quite different. APEC appeared to have generated considerable momentum in the first half of the 1990s with first, the establishment of annual leaders' meetings, and subsequently the adoption of a timetable for trade liberalization. But its momentum largely disappeared after 1995 when a disappointing summit hosted by the Japanese government failed to make any significant progress on its trade liberalization agenda. Subsequently, the United States government attempted to force the pace of liberalization through a sectorally based approach. This was successful in the information technology sector, where in 1996 APEC endorsed an agreement reached by the Quad grouping (Canada, EU, Japan, and the United States). At its 1997 leaders' meeting, APEC then agreed to negotiate a package of sectorally based liberalization (known by the acronym EVSL – Early Voluntary Sectoral Liberalization). But this agreement soon unravelled when the Japanese government declared itself unable to implement liberalization commitments in the fisheries and forestry sectors.[14]

At the time of the economic crisis, APEC was pre-occupied with the debate on sectoral liberalization. To East Asian governments, it seemed that the grouping had its priorities all wrong. Rather than attempt to construct creative approaches to tackle the crisis, APEC's Western members continued to focus narrowly on the trade liberalization issue. At its Vancouver leaders' meeting in 1997, APEC

governments declared that 'on a global level, the role of the IMF remains central', and urged the 'rapid implementation of the Manila Framework' (see discussion below) (APEC, 1997). Although the leaders' statement showed some sensitivity towards Asian views on the need for supplementary financing and for monitoring capital flows, it offered little by way of solutions to the crisis beyond urging a re-commitment to liberalization and to deregulation.

The question of which priorities APEC should pursue has always divided its membership. Western members, joined consistently only by Singapore and occasionally by Hong Kong, have emphasized trade liberalization. Other East Asian members, however, believed that APEC should give priority to its other two 'pillars': trade facilitation, and economic and technical cooperation. The Western push for trade liberalization at a time of economic crisis demonstrated a particular lack of sensitivity to the views of East Asian governments. It was, however, systematic of a broader problem that APEC has faced since the mid-1990s: a lack of leadership. The US government has only spasmodically taken an interest in APEC, largely when it perceived that the grouping might be used to further US objectives in global fora, as with the Information Technology Agreement. Governments of the two other countries that had consistently been champions of the grouping – Australia and Japan – also failed to seize the initiative at the time of the financial crisis.

Australia and Japan had worked together in the formation of all the Asia-Pacific groupings: PAFTAD, PBEC, PECC and then APEC. In early 1996, however, the Labor Party government led by Paul Keating in Australia, which had championed APEC's cause in the first half of the decade, was defeated at the polls by a conservative coalition. The new government attempted to differentiate its foreign policies from those of its predecessor by arguing that it would put Australian interests first; one element of this re-orientation was a downplaying of the commitment to international institutions that had figured prominently on its predecessor's agenda. APEC consequently was placed on the back burner – while it was not ignored, the government did not attempt to seize the initiative in response to the financial crises.

The EVSL episode was particularly damaging for APEC in that it removed the other traditional source of leadership for the grouping. The Japanese government, already on the defensive for its lacklustre performance as host of the 1995 leaders' meeting, found itself portrayed as the principal wrecker of APEC's trade liberalization agenda.[15] For a government that regarded APEC as its 'baby', this experience was particularly traumatic. It came to perceive APEC as a vehicle that its Western members were using against Japanese interests – and the attempt to negotiate sectoral liberalization as a contradiction of the fundamental APEC principles of voluntarism and operation by consensus. While the Japanese government has not abandoned APEC altogether, the EVSL debacle encouraged it to direct its resources and diplomatic energies in other directions, particularly towards the negotiation of bilateral and East Asian frameworks for cooperation.

APEC was revitalized as a forum for discussion of Asia-Pacific issues among leaders in the aftermath of the September 2001 terrorist attacks on the United States.

The transformation of APEC's agenda that occurred post 9/11, with emphasis now placed on security issues, especially the securitization of trade (through, for example, improvements in port security), may lead to better coordination and financing of ECOTECH projects. It has introduced a new urgency to trade facilitation activities and a greater willingness on the part of other agencies, e.g. the Asian Development Bank and the World Bank, to co-finance APEC projects.[16] The potential exists for APEC to contribute to a strengthening of state capacity. Whether, however, this new focus for ECOTECH will produce more substantive outcomes than those achieved in APEC's first decade remains to be seen.

The new regionalism: bilateralism and pan-East Asian arrangements

The economic crisis not only affected existing regional arrangements but led to new efforts at economic integration at two levels: the bilateral, and the Pan-East Asian (ASEAN plus the three Northeast Asian states of China, Japan, and the Republic of Korea).

The bilateral level

Before the economic crisis, East Asian countries had preferred to unilaterally lower their tariffs or bargain multilaterally on tariff reductions within the GATT/WTO rather than to engage in preferential trade arrangements (the one notable exception being the AFTA agreement). This was the approach to trade liberalization that APEC advocated. Of the close to 140 members of the WTO at the time of the crisis, only Japan, Hong Kong, and Korea along with Mongolia had not entered into any preferential trade deals. In the immediate wake of the financial crisis, however, some of the larger East Asian economies expressed an interest in the negotiation of bilateral trade arrangements. Several factors influenced this change of approach. One was disappointment with the momentum of trade liberalization in other fora, including APEC and AFTA. Another was concern that abstaining from such bilateral arrangements was increasingly costly. Two considerations were significant. One was that failing to participate in the rush to preferential trade reduced a state's potential bargaining power within the WTO with countries that were undertaking preferential liberalization. Another was that it potentially impeded domestic economic restructuring and efficiency by precluding the additional competition that bilateral preferential trade would provide for domestic companies.

The most dramatic reversal of approach came from Japan, the country that had most consistently (after the US reversal of attitude when it signed free trade agreements with Israel and Canada) and most strongly advocated a multilateral non-discriminatory rather than a regional preferential approach to trade liberalization. Tokyo's stance previously had been grounded in fears that as an economy with an unusually diverse range of export markets, it would be particularly vulnerable to discriminatory regional trade arrangements (and officials in Tokyo would recall that other countries continued to discriminate against its exports even after Japan was admitted to the GATT). The 1999 MITI White Paper on International Trade signalled a dramatic alteration in Japanese government policy, explicitly calling for the development of a free trade agreement in Northeast Asia.

Japan's first move towards negotiating a free trade agreement was with South Korea, initiated by the annual meeting of the countries' leading business groupings – *Keidanren* and the Federation of Korean Industries – but then given a high profile by the invitation for negotiations on such an arrangement from South Korean President Kim Dae Jung in an October 1998 visit to Tokyo. Five years later, little progress had been made in these negotiations. In the interim however, Japan negotiated preferential trade arrangements with Singapore and with Mexico and is currently negotiating agreements with most ASEAN economies.

Meanwhile Singapore, disappointed with the pace of liberalization within ASEAN and the refusal of other members to negotiate a linkage between the ASEAN Free Trade Area and the trade agreement between Australia and New Zealand,[17] opted to break ranks with other ASEAN members by entering into negotiations for bilateral free trade agreements with a large number of countries – inside and outside East Asia – including New Zealand, Australia, Canada, India, Japan, Mexico and the United States. For Singapore, a country with zero tariffs on most products, the attractions of such arrangements are obvious; the balance of concessions made in negotiations will almost inevitably be in its favour (at least on merchandise trade; partners have insisted that Singapore remove most of its remaining restrictions on trade in services).

The potential economic benefits for the participants in the new preferential arrangements appear to be limited – not least because many of the arrangements involve countries that are relatively insignificant partners for one another. Korea accounts for 6 per cent of Japan's total exports; Singapore for less than 4 per cent. Similarly, Japan accounts for 8.5 per cent of Korea's total exports, and less than 7 per cent of those of Singapore. Even allowing for the possibility that current trade barriers have reduced these figures below the levels that would otherwise prevail, the overall benefits to the economies from a free trade agreement are likely to be small (and even more so in the case of the agreement between Japan and Mexico where the partners account for less than 1 per cent of each other's exports). Until 2000, Korea operated a policy of 'trade diversification' that discriminated against Japanese exports of a wide range of consumer products. The removal of this and other barriers makes it likely that Japanese exporters will benefit more from a preferential trade agreement than will their Korean counterparts. Even so, econometric studies indicate that the overall effect is unlikely to be more than a 2 per cent increase in the current value of bilateral trade.[18] The effects of the proposed free trade area on GDP by the year 2010 is estimated to be a mere 0.027 per cent for Japan and less than 0.25 per cent for Korea (Hasegawa, Sasai and Imagawa, 2001). The overall gains from such arrangements suggest that, if aggregate economic benefits are the prime consideration, the bureaucratic resources invested in their realization might be better placed elsewhere.[19]

Clearly, many of the proposed preferential arrangements are valued as much for their symbolic as their practical effects. But they may also serve other purposes. For Japan, one potential function is as an instrument in the ongoing struggle between internationalist and protectionist interests within the bureaucracy. The choice of Singapore as the country with which Japan would accelerate trade liberalization is no accident. Of all the countries in the global economy, few pose as little threat to the heavily protected areas of the Japanese economy as does the city state of Singapore. Yet, the proposal for a free trade agreement with the island state still sparked opposition from the Ministry of Agriculture, Forestry and Fisheries – because Singapore farmed goldfish, which competed with Japanese production, and had the potential to export orchids to Japan. Zero tariffs apply to less than 10 per cent of the volume of exports of agricultural products from Singapore to Japan; the economic partnership agreement with Singapore created no new preferences in the agricultural sector. In a similar manner, Japan made very few concessions in its bilateral trade agreement with Mexico – even to the extent that less than 90 per cent of Mexico's exports to Japan are included in the agreement.[20]

Japan is not alone in carving out whole sectors from the coverage of free trade agreements. Korea sought significant exemptions in agriculture in its FTA with Chile. The likely impact on pro-liberalization forces in the domestic political economy will be negative. By creating isolated islands of protection in the overall trade landscape, partial FTAs risk making the political task of tackling sensitive domestic sectors even more difficult; producers in the excluded sectors have more resources to invest in lobbying than would otherwise have been the case, and have more confidence that an investment in such lobbying will bring the outcome they desire. Meanwhile, export-oriented interests may obtain their objectives through FTAs, for example the Japanese car industry lobbied the government to conclude an FTA with Mexico so that it would enjoy a relatively level playing field in competition with North American and European producers, and having achieved their objective fail to invest resources into lobbying for additional liberalization. Because the FTAs are bringing partial rather than full liberalization they may have the unintended consequence of weakening state capacity to push for further domestic economic restructuring.[21]

The pan-East Asian level

The development that has triggered more excitement than any other among advocates of East Asian regionalism occurred at a meeting in Thailand in May 2000 at which the finance ministers of China, Japan, and Korea agreed to join an ASEAN arrangement that enables members to swap currencies when faced with liquidity problems. The 'Chiang Mai Initiative' was widely (mis)-perceived as resurrecting the idea of an Asian Monetary Fund in another guise.

A reasonably persuasive case exists for the creation of regional funds to assist economies when their currencies come under speculative attack. Currency crises frequently contain elements of contagion, which are usually but not always – as the Russia–Brazil contagion of 1998–9 indicates – geographically confined. Currency crisis contagion across a geographical region can develop for several reasons. All countries in a region may suffer a similar external shock arising, for instance, from exchange rate movements among currencies of the major trading states (as occurred in the run-up to the 1997 East Asian crises when the dollar appreciated against the yen). Moreover, once one or more regional currencies have depreciated, other governments may have to devalue their currencies if their goods are to match the prices of exports from regional competitors. Crisis-induced recession in a regional trading partner may also cause a loss of export income, thereby subjecting the domestic currency to downward pressures. And investors often fail to distinguish between various economies within the same region regardless of differences in their economic fundamentals; a crisis in one may generate a panic and 'herd-like' behaviour as speculators rush to repatriate funds from all countries in the region.[22]

It is not only the crises themselves that have been largely geographically confined but so too have the rescue packages that have been pieced together in recent years. The United States provided most of the funds for the bailout of Mexico following the 1994 crisis; Japan was by far the single most important provider of assistance to East Asian economies after the 1997–8 crises. In each of the rescue packages for the crisis-hit Asian economies, total bilateral assistance exceeded the contribution of the IMF.[23] The dominance of bilateral assistance points to another justification for a regional fund: the insufficiency of current IMF resources to cope with several crises in medium-sized economies simultaneously.[24]

A further set of arguments in favour of a regional monetary fund is that such an institution would be better placed, because neighbours usually are well-informed about developments in adjacent countries, than the IMF or extra-regional governments to monitor developments in member states and to develop early warning indicators.[25] If the new institution were able to establish clearly defined procedures for assisting economies in trouble, this could be an improvement on the *ad hoc* character of current bailouts. Moreover, a regional institution might be able to disburse funds more rapidly than the IMF, and to provide them with fewer strings attached. Finally, from a strategic perspective, a regional fund might give member economies a stronger voice than they would otherwise enjoy in multilateral fora – a particular concern of Asian countries in a global financial system dominated by the US and the EU.

The initial suggestion for a radical deepening in financial cooperation in East Asia, through the creation of an Asian Monetary Fund, came from the government of Japan in 1997. The Japanese government presented proposals in September 1997 – before the financial crisis hit Korea – to meetings of the G7 central bankers and finance ministers, and to a meeting of the IMF in Hong Kong, for an Asian financing facility with a capitalization of up to $100 billion. Its primary argument for a new facility was that this would provide additional resources needed to supplement those of the IMF. Moreover, countries' access to these resources would not be limited by the Fund's quota arrangements. US opposition to the proposal, especially that of Treasury Secretary Robert Rubin and his deputy, Lawrence Summers, who feared that an Asian fund would diminish the authority of the IMF (and, indirectly, US influence in the monetary regime), is well known. Less widely known is that the proposal was also opposed by China. By mid-November, the proposal had disappeared from the agenda; senior finance and central bank officials from 15 Asian Pacific countries meeting in Manila together with observers from the IMF, the World Bank and the Asian Development Bank endorsed proposals (the 'Manila Framework') that confirmed the IMF's centrality in the provision of emergency financing in response to crises. The Framework re-affirmed the principle that funding would only be given to crisis countries after they had negotiated a programme with the IMF.

The Japanese government subsequently unilaterally implemented a programme of liquidity provision for the crisis economies through its Miyazawa Plan, which it launched in October 1998. One dimension of the Plan was a currency swap arrangement: Tokyo agreed with Korea and Malaysia to swap the equivalent of $7.5 billion in exchange for local currencies. A second stage of the Plan provided for the Japanese government to guarantee borrowing by crisis-hit governments on international capital markets for up to a total of 2 trillion yen ($16.7 billion).[26] It was not, however, until the Chiang Mai meeting of the finance ministers of the ASEAN Plus Three grouping in 2000 that a regional approach to financial crisis management was re-launched. At this meeting, as noted above, ASEAN economies agreed to increase the size of their own contributions to the swap facility. More significantly, the governments of China, Japan and Korea agreed to participate in an enhanced version of the arrangements to create a network of bilateral swap and repurchase agreements amongst the 13 states.[27]

The inclusion of the three Northeast Asian countries in swap arrangements gives any government in crisis a potential opportunity to gain access to substantially larger foreign exchange reserves. Japan has the largest single holding of foreign reserves of any economy, totalling $838 billion in March 2005. At the same month, the foreign exchange reserves of other Northeast Asian economies stood at: China $659 billion, Hong Kong $122 billion, and the Republic of Korea $205 billion. Added to the total reserves of the five original ASEAN economies of $280 billion,[28] these provide an impressive fund on which countries might draw in a crisis. Indeed, East Asia considered collectively now holds the majority of the world's foreign exchange reserves.

In reality, governments are unlikely to place a substantial part of their reserves at the disposition of their regional neighbours. The Chiang Mai Initiative is a modest step towards erecting additional fortifications to protect currencies under siege through a series of bilateral swap arrangements. Contrary to some press commentary, it is not therefore a resurrection of the Asian Monetary Fund proposal in another guise. How effective such arrangements will be in fortifying currencies under attack will largely depend on the quantity of reserves that members are willing to commit to the scheme. And here the other dimension of the regional contagion argument has to enter into the equation: if currency crises and contagion effects are indeed geographically concentrated then once a crisis gets under way, a regional fund may soon be overwhelmed as several countries

attempt simultaneously to draw on its resources. Moreover, any arrangements are likely to be beset by disputes over the terms under which countries have access to the resources.

Even a limited scheme of swap arrangements has the potential to intrude on national sovereignty. One of the principal questions raised at the time of the original Asian Monetary Fund (AMF) proposals was what conditions governments would have to comply with to borrow from the Fund. The concern of the IMF and of many Western governments, voiced most strongly by the US Treasury, was that an Asian fund would undermine the attempts by the multilateral institutions and Western governments to use conditionality as a lever in support of reform proposals. Potential beneficiaries of the fund shared the view that it would provide assistance with fewer strings attached than was characteristic of IMF aid.[29]

Yet the governments that are potentially the major sources of funding – notably Japan and possibly China – are unlikely to be willing to commit significant resources to a crisis economy without some assurances regarding the policies that the recipients will pursue. Creditors inevitably will attach some strings to the loans they make. A process of monitoring/peer review, as established by ASEAN in the wake of the crises, may possibly be sufficient to satisfy this requirement.[30] But even this limited form of conditionality can raise sensitive issues of national sovereignty. Hiding behind the IMF is convenient for governments and private creditors alike. Asian creditors may face embarrassment if a large-scale swap arrangement was to go ahead without IMF involvement – and the resulting recriminations could set back the cause of regional cooperation for some years.

The initial implementation of the Chiang Mai Initiative has illustrated several of these dilemmas in regional financial cooperation. A central point of contention has been the general question of conditionality and, specifically, the involvement of the IMF. The Malaysian government, which adopted its own adjustment programme without seeking IMF support when faced by financial crisis in 1997, has argued against IMF involvement in any East Asian swap facility. The Japanese government, however, the likely primary supplier of resources to a facility, has stood firm on the principle that access to any substantial sum must be subject to the beneficiary reaching agreement with the IMF on a programme of reforms. The initial swap arrangements, announced at a meeting of the Asian Development Bank in May 2001, would release only 10 per cent of the funds unconditionally, the balance becoming available only after a country had an IMF programme in place.

The initial arrangements also pointed to the limited contribution that such facilities are likely to make in the event of a speculative attack on a regional currency. The agreements announced in Honolulu provided for a swap facility between Japan and Thailand of up to $3 billion, between Japan and South Korea of up to $2 billion, and between Japan and Malaysia of up to $1 million.[31] As *The Economist* ('Helping Themselves', 10 May 2001) commented, 'these are not sums that will terrify the currency markets'. Although ASEAN Plus Three finance ministers agreed in May 2005 to a 'significant increase' in the bilateral swap arrangements, reportedly up to a doubling of the total of $39.5 billion then available,[32] the amounts in the individual arrangements remain relatively small.

The new enthusiasm for regional cooperation that followed the 1997–98 financial crises sparked a number of more fanciful proposals in the financial domain that were quickly abandoned. The idea of a common East Asian currency was put forward in several fora. In January 1999, Joseph Yam, the chief executive of the Hong Kong Monetary Authority proposed an Asian monetary union, an idea subsequently taken up by Hong Kong's Financial Secretary Donald Tsang, who suggested that a common currency for Hong Kong and Singapore might be a promising first step towards realizing region-wide monetary union. ASEAN's Hanoi Plan of Action, its comprehensive statement in response to the crises, called for a study of the feasibility of an ASEAN currency; in opening the ASEAN summit in November 1999, President Estrada of the Philippines called for countries to work towards a single regional currency. However worthy such an idea might be, it is clearly premature at best. Even some of the advocates of the idea of a regional currency quickly retreated; Joseph Yam back-pedalled to declare that 'the idea of an Asian monetary union is farfetched' when suggestions that Hong Kong might be willing to give up its currency unsettled foreign investors.[33]

A more practical sphere for cooperation has been the efforts by the region's central bankers to promote an Asian Bond Markets Initiative, an attempt to reduce the dependence of countries in the region on short-term bank loans. The principal institution involved has been the Executives' Meeting of the East Asia and Pacific Central Banks (EMEAP).[34] To date, the funds involved have been modest and the initiative encounters some of the same problems of governments' fear of loss of credibility that afflict the bilateral currency swap programme – but it does represent a modest step in capacity building.

In the trade sphere, no collaboration has occurred at the ASEAN Plus Three level equivalent to that on finance and money. ASEAN's initial response to the Chinese proposal at the ASEAN Plus Three summit in 2000 for the creation of a free trade zone between China and ASEAN was to suggest the creation of a study group to investigate a free trade zone for the whole of the East Asian region. The first response from both the Japanese and South Korean governments was to indicate their lack of enthusiasm for an East Asian free trade area.[35] The Japanese government continues to insist that it is not interested in a trade agreement with China until the latter demonstrates its commitment to protection of intellectual property rights. Unlike their counterparts from ministries of finance, trade ministers do not meet at the ASEAN Plus Three level.

Conclusion

At one level, the surge in governments' interest in the construction of regionalism in East Asia in the period since the economic crisis has been remarkable – and certainly unprecedented. It is easy, however, to be swept away by the enthusiasm that some proponents have expressed for the proposed collaboration. To judge by some accounts, East Asia is on the brink of forming a region-wide free trade area and of establishing a regional monetary fund. According to Fred Bergsten (2000), the ASEAN Plus Three grouping 'has become the most active regional grouping outside Europe, and already has more sophisticated machinery than the North American Free-Trade Agreement'. To accept the argument that East Asia is on the verge of supplying the missing piece required to complete the jigsaw of a three-bloc world would be to confuse hyperbole with reality, a proliferation of meetings with institutionalization, and proposals with binding policy frameworks.

The record of intergovernmental collaboration in East Asia, especially that of ASEAN, gives grounds for scepticism on the prospects for regionalism and its potential for contributing to building state capacity. ASEAN's economic integration has proceeded at a snail's pace – so much so that its most advanced economy, Singapore, has tired of the process and has negotiated (and is in the process of negotiating many more) bilateral free trade arrangements with countries from around the world. A compelling case can be made that the influence of pro-liberalizing elements in domestic coalitions in ASEAN states has increased since the financial crises (Stubbs, 2000). But the new influence of pro-liberalization elements has yet to be translated into effective action at the regional level. Even though ASEAN leaders brought the deadline for the implementation of AFTA forward, the obligation is not to free trade completely – reaching that objective was postponed for a further decade. And even the modest requirements of AFTA are being flouted by individual states. Liberalization is pursued selectively when it does not threaten entrenched domestic interests.[36] ASEAN has made an important contribution to confidence-building and has enhanced the security relations among its members – arguably its main purpose – but it has yet to have any significant positive effect on the building of state capacity or on mediating the impact of the forces of globalization on its member states.

At the broader (ASEAN Plus Three) level, no serious efforts have been made to move a region-wide trade agreement forward. And trade liberalization has largely disappeared from APEC's agenda since 1998 save for routinized statements in support of the desirability of reaching success at the WTO. The main area for action on trade liberalization has been bilateral agreements. These arguably have contributed to increasing the trade negotiating capacity of participating states. But the economic effects of most of these agreements are likely to be minor given the generally low levels of tariffs and the relative economic insignificance of the parties for one another. And the carving out from the agreements of sensitive sectors, by reinforcing the position of entrenched protectionist sectors in the domestic political economy equation, risks undermining state capacity to promote domestic economic restructuring.

In the monetary field, it is clear that what is on the agenda is not a version of the abortive Asian Monetary Fund proposal but a series of bilateral arrangements. The reluctance of governments to commit any significant portion of their sizeable foreign exchange reserves will limit the effectiveness of the scheme. As the Deputy Governor of the Reserve Bank of Australia (Grenville, 2000) suggested (even before the limited sums to be made available under the swap agreements became known): 'such arrangements are valuable in that they get people together and talking about other issues, but it would be a mistake to see them, taken by themselves, as massive breakthroughs in regional cooperation'.

The impact of the new regionalism in East Asia on state capacity therefore remains limited. Some enhancements to state capacity have occurred through financial transfers and through technical assistance that has led to an upgrading of skills in parts of the bureaucracy. At best, however, these enhancements have been modest and are likely to remain so in the foreseeable future, the rhetorical commitment to a new East Asian regionalism notwithstanding.

Notes

1 By East Asia, I mean both Northeast Asia and Southeast Asia.

2 ASEAN foreign ministers in April 2005 decided to open the meeting to countries from outside the East Asian region – India and New Zealand – and to Australia, provided its government agreed to sign ASEAN's Treaty of Amity and Cooperation. The absence of Taiwan from ASEAN Plus Three denies the grouping comprehensive coverage of the whole East Asian region.

3 Despite its centrality to much of the literature on development, few writers discuss in any detail what they mean by state capacity. One reason is that state capacity in the abstract is a largely meaningless concept (Weiss, 1998). Capacity has to be discussed in the context of a particular task or set of tasks. Resources that facilitate the pursuit of goals in one area do not automatically translate into capacity in other domains. Moreover, the capacities of states to realize their goals depend not just upon the resources available to them but on their skills in negotiating with other actors (Noble, 1998). As Evans (1995) suggests, while building coherent bureaucracies is an essential task in promoting economic development in less-developed countries, it has to be accompanied by the building of links with society: 'Capacity without connection will not do the job'. Discussion in this chapter of how regionalism can contribute to state capacity focuses solely on the dimension of provision of additional resources to the state – whether financial, managerial or technical.

4 Following Lorenz (1991), I distinguish regionalism from regionalization, the process whereby interactions, such as trade, within a geographical area increase more rapidly than those between states within the area and those outside of it (for further discussion, see Hurrell, 1995, pp. 38–45). It is common to confine discussions of regionalism to preferential trade agreements, as Mansfield and Milner (1999) do. These agreements are, however, but one form of the phenomenon. Regionalism also encompasses functional cooperation on a geographically limited basis in a broad array of issue areas, such as meteorology, river basin management, etc.

5 Both of these possibilities were identified by the Japanese government's Ministry of Economy, Trade and Industry in its proposal that Japan should pursue bilateral free trade agreements as positive consequences of regionalism in other parts of the world (Ministry of Economy, 2000). Note, however, that economists are divided on the impact that regional economic cooperation has had on the growth of member economies. Many doubt that even the European Union, the most sophisticated of regional schemes, has had a significant positive impact on its members' welfare when account is taken, for instance, of the distortions introduced by the Common Agricultural Policy. For a brief overview of the debate see Schiff and Winters (2003).

6 Member states were generally resistant to attempts by Thailand and the Philippines to establish a principle of 'flexible engagement' under which ASEAN members would have responsibilities as well as rights, a principle that would open the way for ASEAN meetings to criticize the policies of individual member states. In 2004–5, however, ASEAN members did show a willingness to criticize the Burmese regime's treatment of political opponents, and a concern at the potential international reaction should Burma take its turn in assuming the ASEAN chair.

7 Indeed, so too did ASEAN. Whether the proliferation of meetings that occurred within the two institutions added to or detracted from state capacity is a matter for debate.

8 Information on APEC's ECOTECH activities is available on the APEC Secretariat's website at http://203.127.220.68/Apecp1.nsf?OpenDatabase.

9 In Yamazawa's (1997, p. 143) words: 'A typical APEC ECOTECH activity is a pet project proposed and coordinated by a member, financed mainly by the sponsor, and partly supported by APEC'.

10 Broken down by type of activity, the 220 projects under way in 2000 consisted of: Survey/Study/Report (75); Workshop/Seminar (59); Training (38); Standard/Best Practice (4); Database/Website/Network (37); and APEC Centre/Exposition (7) (APEC, 2000).

11 For further discussion of these and other points about APEC's effectiveness see Ravenhill (2001).

12 See, for instance, Chang, Park and Yoo (1998), Wade and Veneroso (1998), and Weiss (1999, 2000).

13 For details of the ASEAN scheme, see ASEAN Secretariat (1998).

14 For further discussion of the failure of the EVSL initiative see Krauss (2004), Wesley (2001).

15 Perhaps unfairly because other East Asian governments were happy to hide behind Japan's veto of the liberalization measures in forestry and fisheries.

16 For further discussion of APEC's post 9/11 agenda see Ravenhill (2006a forthcoming).

17 Officially, the Australia New Zealand Closer Economic Relations Trade Agreement.

18 Cited in Castellano (1999).

19 Scollay and Gilbert (2001) demonstrate that much larger welfare gains will be achieved if liberalization occurs on an APEC-wide basis rather than through bilateral agreements.

20 Some countries have interpreted the GATT/WTO requirement that preferential trade agreements must cover 'substantially all the trade' between the parties to be granted exemption from the most-favoured-nation principle as being met if 90 per cent of the value of trade in a sector is included.

21 The logic of this argument is spelled out in more detail in Ravenhill (2006b forthcoming).

22 See Rajan (2000) for a fuller discussion of these points and a summary of the econometric studies of contagion.

23 For Thailand, for instance, bilateral assistance was more than three times the quantity provided by the IMF.

24 In January 2001, the IMF had total resources of $279 billion; at that time only $96 billion were 'uncommitted usable resources'. Besides the problem of limited total resources, the Fund's lending is confined by the country quota system, members normally being able to borrow only a limited multiple of their quota. In the Korean package, to which the IMF committed $21 billion, its largest single contribution ever, the Fund ignored its established procedures in lending an unprecedented multiple of Korea's country quota (a factor of close to 20 in contrast to the norm of three to four times the country quota). Korea's quota in March 2001, after the 45 per cent increase in quotas that took effect in January 1999, was SDRs 1,633.6 million, or approximately $2.12 billion.

25 The Deputy Governor of the Reserve Bank of Australia, S.A. Grenville (2000), for instance, commented: 'I can recall that in July 1997, when East Asian central bankers met in Shanghai, it was very obvious to everyone at that meeting that the Asian crisis was going to be very serious indeed. Four months later, the US President was still talking about the crisis as "a few glitches on the road" – no reflection on his own competence in an enormously complex world, but a reflection of the poor advice

going into the US decision-making process, which was reflected elsewhere, for instance in the lack of participation in the Thai support programme in August 1997 ... there can hardly be any doubt that the IMF Indonesian programme would have been quite different if it had had an effective input from the region'.

26 In total, the Miyazawa Plan provided $30 billion in assistance to the crisis economies, although it is unclear to what extent this sum was additional aid rather than funding switched from other programmes.

27 The proposal for an ASEAN Plus Three swap arrangement originated in the Fourth ASEAN Finance Ministers Meeting, held in Brunei Darussalam on 24–25 March 2000. At that meeting, the ministers agreed to explore ways to extend the ASEAN agreement to include China, Japan and Korea with the guideline that 'the size of the facility should be large enough for the requirement of the East Asian region'. See Department of Economic Affairs, Kingdom of Thailand (2000). Tokyo had, however, continued to push for the creation of a region-wide facility despite the earlier rebuff at Manila. See Castellano (2000).

28 The figures for the individual economies are: Indonesia $35 billion; Malaysia $71 billion; Philippines $14 billion; Singapore $113 billion; and Thailand $48 billion. Figures current at the end of March 2005 sourced from *The Economist*.

29 For instance, Gloria Macapagal Arroyo, then Vice President of the Philippines, in advocating the creation of an Asian Monetary Fund in September 2000, asserted that 'An AMF could be set up in conjunction with the IMF, perhaps with less stringent conditionalities' ('Asian Monetary Fund to Help Region Proposed', *Manila Bulletin*, 28 September 2000, accessed at http://www.mb.com.ph/main/2000 per cent2D09/mn092809.asp, 10 March 2001).

30 For details of the ASEAN scheme, see ASEAN Secretariat (1998).

31 For discussion of the arrangements see 'Japan Reaches Currency Swap Deals with Malaysia, Thailand, South Korea', *Wall Street Journal* (10 May 2001); 'IMF Can Play Role in Asian Currency Swap Plan', *Bernama* (6 April 2001) http://www3.bernama.com/web/business/bu0604_11.htm (accessed 15 May 2001).

32 'ASEAN +3 Agrees to Expand Currency-Swap Pacts', *Wall Street Journal* (5 May 2005).

33 Quoted in Castellano (2000b) who provides further discussion of the various proposals.

34 Established in 1991 in response to an initiative from the Japanese government, EMEAP includes representatives of the central banks of Australia, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand. For further discussion see Amyx (2005).

35 See 'Asian leaders look to free trade area with China', *Financial Times* (7 November 2001); 'Seoul Cool on NE Asian Trade Zone Plan', *Financial Times* (8 November 2001).

36 On Thailand, for instance, see Solingen (2005).

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