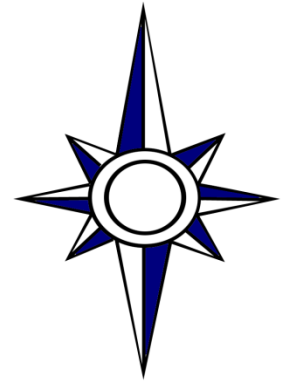


Comparative Connections

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Special Assessment: Asian Regionalism New Challenges, New Vision, Pedestrian Progress

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After a decade of rising regionalist aspirations and a flurry of community-building initiatives, the past year and a half has seen a slight shift in the momentum and direction of Asian regionalism. While the signing of regional free trade agreements continues apace and discussions on regional cooperative mechanisms proceed unabated, the perceptions and political goals of many in the region have been recalibrated in the face of new challenges and new opportunities. By far, the biggest challenge was the global economic crisis, which had a mixed impact on Asian regionalism. On one hand, it spurred calls for regional action, much in the way of the financial crisis that hit Asia hard in 1997-98. Moreover, the relatively swift recovery of Asian economies seemed to highlight the fact that world economic power is shifting to East Asia. On the other hand, crisis revealed the extent to which East Asia remains deeply integrated with the global economy, in both trade and finance, and it called into question the relevance of regional solutions for dealing with global challenges.

New opportunities arose with the election of new political leaders in Australia, Japan, and the US, each of whom placed regional initiatives high on their political agenda. Australia's Kevin Rudd and Japan's Hatoyama Yukio laid out competing grand visions for regional architecture that engaged Asian diplomats and policy analysts in lofty and abstract debates about institutional design and the proper membership and pacing for community-building. The change in the US had an even greater impact on regional dynamics. After years of Bush administration policies that were perceived, fairly or not, as showing a lack of US interest in regional engagement, the Obama team took every opportunity to deliver the message that "the US is back" in Asia. Its outreach to ASEAN has been particularly aggressive, raising the hopes and expectations of those who would like to see greater US involvement in regional community-building.

On the ground, however, progress on achieving tangible cooperation in regional frameworks, both trans-Pacific and East Asian, has been meager at best. The global economic crisis gave rise to the G20 that, while elevating the symbolic weight of Asian economies in global governance, has also created institutional competition for regional frameworks. Regional economic integration faces emerging and unresolved challenges, as the noodle bowl of bilateral free trade agreements (FTAs) grows more tangled and the impact of Chinese economic competition deepens. Meanwhile, effective frameworks for multilateral security cooperation remain elusive.

Economic challenges and policy responses: the global economic crisis

The contours of Asian regionalism over the past 18 months have been shaped primarily by the severe global financial crisis that erupted in fall 2008. The crisis originated in the US, with the collapse of the sub-prime mortgage market in 2007 and the demise of Lehman Brothers in September 2008. However the financial crisis quickly spilled over to Asia and the rest of the world, creating the worst synchronized world recession since the 1930s. The fact that the crisis dealt such a swift and sharp blow to the economies of East Asia took many by surprise. Asian banks were far less exposed to the direct impact of the global financial shock because they had not invested in the toxic assets nor engaged in many of the risky financial practices of their counterparts in the US and Europe. Yet, the unfolding economic crisis impacted the region especially hard through trade. The sharp economic downturn of the US and Europe reverberated through the Asian supply chain, leading to plummeting exports and industrial production. From peak to trough, Asian exports tumbled by over 30 percent, and real GDP fell by more than 8 percent in Japan and about 7 percent in other emerging Asia markets (excluding China, India, and Indonesia), which is not far from the 8.3 percent contraction in GDP experienced during the Asian financial crisis of 1997-1998.

“Decoupling” myth exposed

The crisis and its aftermath have reshaped understandings and aspirations surrounding Asian regionalism in several profound ways. First, it shattered the myth that Asia was “decoupling” from the US and the global economy. The decoupling thesis had been gaining currency in Asian policy circles as rapidly rising levels of intra-regional trade over the past decade seemed to suggest that Asian economies were decoupling from the global economy to form an autonomous zone of economic dynamism. The argument rested on two premises – first, that the declining share of exports to the US and other Western markets indicated that the region was increasingly self-reliant as a source of demand; and second, that China’s rapidly growing base of middle-class consumers would serve as the primary engine of growth and cushion against a US slowdown or global recession.

The precipitous declines in Asian exports and economic growth in the wake of the crisis exposed the shortcomings of the decoupling argument. Not only did China’s market fail to cushion the blow of the global slowdown, but China’s intra-regional imports initially contracted more sharply than US imports of East Asian goods (-17 percent for China compared to -6 percent for US in the fourth quarter of 2008). The central fallacy of the decoupling argument was to ignore the implications of East Asia’s increasingly networked trade, which actually served to *increase* linkages to the global economy. Growing levels of intra-regional trade have been driven by production networks engaged in cross-border trade in parts and components, in an increasingly fragmented regional chain of production. More than two-thirds of trade within Asia consists of intermediate goods, much of which is destined for assembly in China and exported outside the region. Only about 20 percent of East Asian trade has its final demand in Asia. This heavy dependence on US and global export markets was the key reason why Asia was not immune to the contagion of the global financial crisis.

Policy responses: more global than regional

Political decoupling was also called into question by the global economic crisis. Policy responses to the economic crisis were primarily global and unilateral rather than regional. This contrasts with the Asian financial crisis of the previous decade, which generated a flurry of regional policy responses and institution-building, ranging from Japan's proposed Asian Monetary Fund and its offspring the Chiang Mai Initiative (CMI), to Japan's Miyazawa Initiative for regional economic recovery, to the institutionalization of ASEAN Plus 3 summitry. By contrast, the major change in financial architecture brought about by the recent economic crisis was the rise of the G20 and its displacement of the G8 as the "premier forum" for global economic management. Half of G20 membership is comprised of Asia-Pacific nations, with the "Asia 6" (Japan, China, India, Korea, Indonesia, and Australia) drawn from East Asia Summit (EAS) countries, and an additional four Asia-Pacific countries that are members of APEC (US, Russia, Canada, and Mexico). The three G20 summits convened between September 2008 and September 2009 became center-stage for global discussions on responding to the crisis and reforming international financial regulations, overshadowing not only the G8 but also APEC and ASEAN-centered regional dialogues. Further, there was no attempt to coordinate a regional strategy within the G20 or in regional-based forums. Major Asia-Pacific economies including the US, China, Japan, and Korea each put forth large stimulus packages, but they did so in an uncoordinated fashion, without devising collective targets or discussing the regional and global impact of their policies. Other than reiterating G20 pledges to refrain from trade protectionism, no serious effort was made to devise a collective regional strategy of fiscal or monetary response.

Regional financial mechanisms were also overshadowed by global policy responses. Most revealing was South Korea's response to the financial turmoil in fall 2008. Rather than drawing on its swap arrangements through the Chiang Mai Initiative, which amounted to \$23 billion, Korea instead turned to the US Federal Reserve for a \$30 billion line of credit with the government announcing that "the Korea-US swap line will be used prior to other liquidity supplies." The Fed also extended \$30 billion swap lines to Singapore, Australia, Japan, Brazil, Mexico, Canada, and several European central banks, which played a significant role in stabilizing these key regional financial markets. The liquidity provisions of the Chiang Mai Initiative, on the other hand, were not utilized by any of its ASEAN plus 3 members. In part this was due to the availability of credit from the US Federal Reserve, although a more significant factor was the massive foreign exchange reserves that East Asian countries have built up as unilateral strategies of insulation against a liquidity crisis.

Nonetheless, despite the limited relevance of regional financial institutions like CMI, the crisis did spur East Asian efforts to strengthen regional financial mechanisms and other areas of economic cooperation. Several ASEAN leaders called for expanding and strengthening the CMI, and the "Plus 3" countries of Japan, China, and Korea responded to these calls in ways that satisfied but also unsettled ASEAN. In an unprecedented trilateral summit held in Fukuoka, Japan in December 2008 – unprecedented because it was held apart from any ASEAN meetings – the three leaders announced that they would work together to accelerate the planned "multilateralization" and expansion of the CMI, with Japan, China, and Korea contributing 80 percent and ASEAN countries contributing 20 percent for a combined pool of reserves totaling \$120 billion. They also announced the creation of additional swap lines between China-Korea and Japan-Korea, raising the ceilings of swap lines to roughly \$30 billion each, seemingly in an effort to match the credit line offered by the US Fed. ASEAN countries had a mixed reaction to

this new trilateral cooperation – on the one hand, they welcomed progress on expanding the CMI and better relations among their Northeast Asian neighbors; yet they quietly expressed anxious concern about being left out and potentially marginalized in discussions on regionalism among the three powers.

The awkwardly named “Chiang Mai Initiative Multilateralization” (CMIM), which came into effect in March 2010, is the one tangible accomplishment and sign of progress toward regionalism that can be clearly linked to the global financial crisis, although its relevance is open to question. Japan and China managed to overcome their rivalry in formulating their relative contributions, which implicitly determines their voting weights and control over the institution. The compromise solution has both Japan and the combination of China and Hong Kong contributing \$34.4 billion each, or 32 percent each of the total \$120 billion. Critics point out however that the emergency liquidity available to CMIM borrowers, even in the new pooled arrangement, still falls well short of what would be needed to stem a liquidity crisis like the one experienced in the 1997-1998 Asian Financial Crisis. Moreover the link to the International Monetary Fund (IMF) remains in place, meaning that borrowers can only access 20 percent of funds before being subject to IMF authorization and conditionality, much to the dismay of ASEAN countries. ASEAN plus 3 countries have committed to establishing a regional surveillance unit to bolster the CMIM and pave the way to removing the IMF linkage, but they remain deadlocked over the details. Still, although the practical importance of the CMIM is debatable, the symbolic importance of the CMIM is significant, as the most advanced regional project and a framework that has generated genuine cooperation between Japan and China.

On trade, the crisis shifted the debate in Asian policy circles from “decoupling” to “rebalancing.” Proponents of rebalancing argue that Asian economies need to rebalance growth by relying less on exports and more on domestic demand. However stimulating domestic demand would require stronger social safety nets, since Asian consumers cannot be enticed to reduce their savings in favor of consumption as long as they remain concerned about retirement. Given the difficulties of discussing social safety nets in such a diverse region, much of the “rebalancing” discussion was diverted back to trade and FTAs, a relative comfort zone for many Asian governments. Taking a regional perspective, advocates argue that the best way to deal with global imbalances is to build up regional demand through a region-wide FTA. In this view, economic integration through an ASEAN plus 3 or ASEAN plus 6 FTA would unleash regional economic growth and reduce dependence on the US and European markets. In short, rebalancing became a new way to talk about decoupling – if East Asia had not yet successfully decoupled from the West, it could do so by rebalancing growth through region-wide FTAs.

Despite these calls for a region-wide FTA, however, very little progress was made on the ground. East Asian economies remain politically divided over their preference for an ASEAN plus 3 or an ASEAN plus 6 FTA. Meanwhile the noodle bowl of regional FTAs grew more tangled as a raft of bilateral and “ASEAN Plus 1” FTAs came into force, each with widely varying scope and coverage of trade and services, rules of origin, lists of exceptions, and other provisions.

Economic recovery brings mixed forecast for regional integration: some sun, some clouds

By mid-2009 signs of economic recovery had appeared in the region. China in particular emerged from its slowdown with rapid industrial recovery and a healthy appetite for regional imports. Optimists heralded these “green shoots” of economic recovery as further signs of the bright prospects for Asian regionalism and regional economic integration. Yet there are clouds on this sunny horizon. As China surges in competitiveness, driven in part by import substitution and an undervalued currency, it has grown less dependent on imports from ASEAN. The *Asian Wall Street Journal* recently reported that Chinese exports to the six major ASEAN economies grew at an average annual rate of 14 percent from 2006-2009, while its imports from ASEAN grew by only 5.7 percent. According to official Chinese trade data, ASEAN’s trade surplus with China shrunk dramatically from \$14.2 billion in 2007 to only \$400 million in 2009, with China actually running a trade *surplus* with ASEAN of \$400 million in the fourth quarter of 2009. Moreover, the World Bank reports that economic growth in developing East Asia, excluding China, was an anemic 1.3 percent for 2009, which means that the glowing assessments of China fueling economic recovery in the region are not entirely accurate.

China’s surging exports to ASEAN has caused economic dislocation and growing political opposition to further economic integration. Opposition has been loudest in Indonesia, where manufacturers have pressured the government to delay implementation of the ASEAN-China FTA, which went into force on Jan. 1, 2010. In response, the Indonesian government formally requested to renegotiate parts of the trade pact to delay tariff eliminations on 228 products categories, including steel, chemicals, furniture, and textiles. It has also resorted to nontariff barriers to limit Chinese imports of sensitive goods. Complaints over “unfair” Chinese currency and trade policies are mounting in regional op-ed pages, casting some measure of doubt on the more optimistic scenarios of East Asian economic community.

The “vision thing”: new leaders, new architects

Against the backdrop of global economic recession and recovery, newly elected political leaders in key Asia-Pacific states sought to shape the debate over Asian regionalism by putting forth new proposals and grand visions for a new regional architecture. Both Australian Prime Minister Kevin Rudd and Japan’s Prime Minister Hatoyama Yukio laid out ambitious visions for the creation of a regional “Community” that would encompass both economic and security issues. Their competing proposals reignited the debate over definitional questions of regional community-building – who should be in, who should be out, and what kind of norms and structures are best suited to meet the challenges of such a large, politically and economically diverse region. The new Obama administration entered the fray by launching its own active regional diplomacy designed to deliver the message “the US is back” in Asia.

Australia

Prime Minister Rudd unveiled his vision for an “Asia Pacific Community” in a June 2008 speech that expressed strong dissatisfaction with the evolution of regional multilateral architecture, which had produced a patchwork of regional organizations, each with different memberships, narrow scope, and limited effectiveness. In his diagnosis, “none of our existing regional mechanisms as currently configured” are capable of engaging “in the full spectrum of dialogue, cooperation and action on economic and political matters and future challenges to security.” His

proposed solution to this problem was to create a single overarching regional body that “spans the entire Asia-Pacific region, including the United States, Japan, China, India, Indonesia and the other states of the region” that would combine economic, environmental, and security issues.

Rudd’s Asia Pacific Community (APC) idea was met with a decidedly lukewarm response in the region. Singapore in particular has been a vocal critic, complaining about Rudd’s lack of prior consultation with ASEAN governments and his failure to give adequate recognition to ASEAN’s central role in regional architecture. Rudd dispatched special envoy Richard Woolcott on a “listening tour” of the region to consult with other governments on the concept, but ASEAN remained cool to the idea, while China dismissed the proposal saying that “conditions aren’t ripe” to pursue the APC. In the face of this negative feedback, Rudd revised his ideas and adopted a more flexible approach to improving regional architecture. He abandoned the idea of creating a new structure, observing at the Shangri-La Dialogue at Singapore in May 2009 that “it is clear that no one wants more meetings” and “there is no appetite for additional institutions.” Instead, he focused on options that would expand and upgrade existing regional bodies, such as adding India to APEC along with a security mandate, or expanding the EAS to include the US and Russia, or creating an “Asian G8” that would meet on the sidelines of the G20.

Prime Minister Rudd convened a meeting of regional experts and government officials in Sydney in December 2009 to try to build consensus toward one of these options that would meet Australia’s aim of creating a more coherent and unified regional architecture. Yet Australia’s initiative has not gained much traction in the region. Interestingly, several leading intellectuals in ASEAN, such as Hadi Soesastro and Jusuf Wanandi, embraced some of Rudd’s ideas out of impatience with ASEAN’s slow institutional development. But Rudd has failed to win over any ASEAN governments. Indonesia, which initially had appeared warm to the idea, has recently decided to stand firm with Singapore to oppose the plan. According to the *Sydney Morning Herald*, President Yudhoyono told Rudd in early March 2010 that Jakarta’s priority lay in strengthening ASEAN. Similarly, Indonesian Foreign Minister Natalegawa told an Australian newspaper that Jakarta was “trying to avoid another layer, an out-of-nowhere construction not in concert, not in synergy with what we have.”

Japan

The debate over regional architecture heated up further when Japan’s Prime Minister Hatoyama floated his own concept for an East Asian Community (EAC) soon after taking office in September 2009. Within days of the inauguration of the new Democratic Party of Japan (DPJ) government, Hatoyama traveled to New York for the UN General Assembly meetings, where he first raised his EAC idea during a meeting with Chinese President Hu Jintao. In his speech to the UN, Hatoyama announced a “new Japan” that was ready to play a more proactive role, and floated his vision for creating an “East Asian community” that would be built on cooperation in trade, finance, currency, energy, environment, and disaster relief. The proposal was (and remains) exceedingly vague in its specifics and was wrapped in the gauzy rhetoric of Hatoyama’s concept of “*yuai*” or fraternity. Interestingly, the idea of Japan taking the lead in forging an EAC did not originate with Hatoyama and the DPJ. Prime Minister Koizumi had first put forward the idea during a visit to ASEAN countries in 2002 and Tokyo convened a summit with ASEAN in December 2003 to build toward such a union. Yet Hatoyama’s proposal was

launched in a different political context and a changed regional environment, and it sparked a very different response.

Hatoyama's EAC idea met with a rather warm reception in East Asia and a very cold one in Washington. Meeting with his counterparts at the Mekong-Japan summit, and with China and South Korea at the Trilateral Summit in Beijing, Hatoyama asked for and received support for his initiative. China and Korea welcomed the initiative as a sign of the new DPJ's willingness to work toward historical reconciliation, while ASEAN appreciated Hatoyama's assurance that ASEAN would be at the core and viewed the initiative as signaling a new Japanese energy and engagement in forging regional cooperation. However the US was quite unhappy with its being excluded in the initial proposal. US officials were concerned that Hatoyama's initiative was rooted in the DPJ's campaign pledge to establish a more independent stance from the US while drawing closer to East Asia. It also did not go unnoticed in Washington that Hatoyama had first announced the EAC concept in a meeting with Chinese President Hu Jintao, without any prior consultation with Washington.

The confusion about Hatoyama's intentions was exacerbated by a series of contradictory statements coming from Tokyo. Foreign Minister Okada Katsuya, while observing in a press conference that "many people have many different ideas," went on to suggest that the envisioned community would encompass the EAS countries but would not include the US. Subsequently Hatoyama appeared to reverse himself to insist that the Japan welcomed US involvement, although involvement was left undefined. In the midst of contentious discussions on the future of the Futenma base relocation plan, the US made it clear to Japan that it had no intention of being excluded from Japanese-led efforts at regional institution-building. Assistant Secretary of State Kurt Campbell responded sharply to Hatoyama's proposal during an October visit to Beijing by insisting that the US is "going to be part of this party." "We are an active player and we're going to want an invitation" to any regional grouping.

The United States

The reaction of the Obama administration to Japan's seemingly exclusionary vision of an EAC helped to spur and further shape its regional diplomacy, which had been active from the start. Hillary Clinton took her inaugural trip abroad as secretary of state to the East Asia and pledged more active engagement with the region and better relations with China. Most importantly, she included a visit to ASEAN headquarters in Jakarta, where she announced that the US was planning to accede to the Treaty of Amity and Cooperation (TAC). In July 2009, during her first ASEAN ministerial meeting, she signed the TAC and declared that the "United States is back" in Asia. This became the recurring theme of speeches and remarks made by Obama administration officials in the first year, with Secretary Clinton framing a major Asia-Pacific policy speech in Hawaii in January 2010 around this theme.

President Obama himself delivered this message during his visit to Asia for the APEC Leaders Meeting in November 2009. In a speech in Tokyo, he stressed the importance of multilateral organizations in the region, saying "I know that the United States has been disengaged from these organizations in recent years. So let me be clear: those days have passed." Calling the US an "Asia Pacific nation" and declaring himself "America's first Pacific President," Obama said

that the US “expects to be involved in the discussions that shape the future of this region,” and he pledged to “participate fully” in regional organizations. He added that US wants to engage with the EAS “more formally,” suggesting that it might seek membership in the grouping.

The Obama administration’s more active engagement with ASEAN was warmly embraced in Southeast Asia, especially by Singapore and Indonesia, where op-ed pages were filled with glowing assessments of Obama’s policies toward ASEAN and Asia. In addition to signing the TAC, the US announced a more flexible approach to dealing with the military rulers of Burma, signaling that US-ASEAN engagement would no longer be held hostage to this troublesome relationship. President Obama then convened the first US-ASEAN summit with all 10 leaders on the sidelines of the APEC summit in Singapore in November 2009, and issued a joint declaration endorsing the central role that ASEAN plays in regional multilateralism. The statement “reaffirmed the importance of ASEAN centrality” in the process of building regional architecture that is “inclusive, promotes shared values and norms, and respects the diversity within the region.” The message of “ASEAN centrality” was reiterated by Secretary Clinton in her Asia-Pacific policy speech in Hawaii in January 2010, and has been especially welcomed by ASEAN governments at a time when the G20 and Australia’s APC proposal are perceived as threats to ASEAN’s traditional role as driver of regional community-building.

In other areas, however, the Obama administration’s words of commitment and engagement were not met by much concrete action. The limitations of US policy on Asian regionalism were most clearly visible in trade policy, where the executive branch is severely constrained by rising skepticism toward free trade policies in public opinion and in Congress. US efforts to negotiate FTAs with regional partners in Asia, which had produced agreements with Singapore and Australia, a signed but unratified agreement with Korea (KORUS), and fitful negotiations with Thailand and Malaysia, essentially ground to a halt with the election of Democratic majorities in Congress in 2006. The Obama administration has been strikingly ambivalent on trade policy, and its hesitation to push for a seemingly strong win-win deal like KORUS has concerned many in the region who continue to hope for US leadership in regional economic integration. President Obama heard an earful of these concerns and complaints by East Asian leaders during his APEC trip in November. He responded by announcing the launch of negotiations for a Trans-Pacific Strategic Economic Partnership. TPP, as it has come to be known, would be a full-fledged FTA among the US and seven other Asia-Pacific countries – Singapore, Chile, New Zealand, Brunei, Australia, and Vietnam. Critics have derided TPP for its small size and its redundancy with existing US FTAs (with Singapore, Chile, and Australia). However the intent of TPP is as much strategic as commercial. By engaging in TPP negotiations, the US hopes to shape the debate over regional trade integration, and to give a boost of credibility to APEC’s “long-term goal” of creating a Free Trade Area of the Asia Pacific, or FTAAP.

TPP is very much a child of APEC. The original P3 agreement among Singapore, Chile, and New Zealand was launched by leaders attending the APEC forum in Los Cabos, Mexico, and was subsequently joined by Brunei at the following APEC Leaders Meeting. TPP is seen by its advocates as an ideal vehicle for building a trans-Pacific, comprehensive, “gold standard” FTA that would exert strong gravitational pull on other APEC members to join, diverting attention and negotiating resources away from rival economic frameworks that exclude the US. However, TPP negotiations are likely to be a long, complicated process and Congressional approval in the

end is by no means assured. The Obama administration will be hampered in negotiations by the lack of Trade Promotion Authority (TPA), which expired in 2007, and will be difficult to get from an increasingly polarized Congress. Meanwhile, the KORUS agreement continues to sit on the shelf, despite the clear economic and strategic advantages that would come from the creation of the largest free trade area outside of NAFTA. In short, it is still not clear whether the US is really “back” in the forefront of Asian regionalism when the name of the regional game is trade.

APEC presents an opportunity for the US to demonstrate engagement and leadership when it hosts APEC in 2011. Japan, which hosts APEC this year, and the US have been repeating the mantra that they are working very closely together to deliver a “one-two punch” for dynamic back-to-back APEC years. Whether the US and Japan have the vision and political will needed to revitalize APEC remains to be seen. It will take considerable lifting power to forge an agenda that departs in meaningful ways from recent years, which has seen APEC devolve into a talk shop on best practices on various issues and, since 2008, an echo chamber for G20 discussions on trade and finance.

Traditional drivers in the slow lane

China, ASEAN, and Korea were the prime drivers of regionalism and community-building earlier in the decade. China and ASEAN worked toward completing FTAs with each other and with other regional economic partners, but they were not in the forefront of launching or shaping the new initiatives, other than seeking to counter Australia’s proposals. ASEAN remains the central hub of the emerging network of regional FTAs, but it has been internally focused on the process of ratifying its Charter, establishing its Human Rights Commission, and dealing with the problems posed by Thailand’s domestic political turmoil and the disruptions that it caused for ASEAN’s calendar of meetings and summits in 2008-2009.

Korea, which had been a driver in the “East Asian Vision” process launched in 1999 that laid out the vision for an East Asian Community, demonstrated a strong rhetorical commitment to regionalism; it remained active in the trilateral cooperation process with its Northeast Asian neighbors, and President Lee announced with much fanfare a “New Asia Initiative” aimed at strengthening ties to Southeast Asia. Yet, Korea’s primary diplomatic focus shifted to the global rather than its regional diplomacy. Given its role as chair of the G20 in 2010 and as one of the “troika” of countries managing the G20 process, President Lee seized the opportunity to catapult Korea into the ranks of the leading world powers on discussions of financial and economic management as well as climate change and green technology, positioning Korea as a “bridge” between advanced economies and smaller Asian emerging market economies.

Asian regionalism “on the ground”: progress or more of the same?

While leaders and intellectuals in the region engaged in lofty debates on alternative grand visions for regional architecture and “community,” existing frameworks for regional cooperation continued to muddle through, with mixed results.

APEC adrift, still

APEC notched its 20th anniversary in 2009, but celebration was decidedly muted in light of its lackluster record in recent years and its struggle to emerge from the shadows of the new G20. APEC Leaders' Meetings in Peru in November 2008 and in Singapore in November 2009 were most notable for reiteration of pledges on trade and finance that many of the same leaders made in the days or weeks before at the G20 summits held in Washington (in November 2008) and Pittsburgh (in September 2009). This year will present the same problem, with G20 host Korea determined to hold the G20 summit in the days prior to Japan's hosting of APEC in Yokohama.

APEC's meeting in Singapore was especially disappointing. Unlike Peru in 2008, which came at the gloomiest moment of the global financial crisis and was President Bush's last major international event, Singapore was viewed as an opportunity to lay solid groundwork for the back-to-back hosting years by Japan and the US. But the results were broad, vague, and meager. Singapore was determined to attack the "noodle bowl" aspect of FTAs by finding some ways to harmonize rules of origin, but the issues involved are extremely complex and APEC work yielded little progress. Singapore also continued the trend of adding agenda items and buzzwords to APEC, like shiny baubles on a Christmas tree. It had planned to include climate change discussions in APEC as a lead-up to the December UN meeting in Copenhagen, but it dropped the issue in the face of strong behind-the-scenes opposition from China. Singapore chose instead to emphasize "inclusive" and "sustainable" growth, with dialogue geared toward economic recovery and reforms to spread growth to all sectors of society. Admirable goals to be sure, but not an agenda designed to yield concrete collective initiatives.

Meanwhile, the major trade initiative on the APEC agenda continues to be FTAAP, an ambitious but perhaps unreachable goal. APEC recognized FTAAP as a "long term goal" in 2006 and since then has been studying possible pathways toward its creation, such as enlarging, docking, or merging existing FTAs, or negotiating FTA "building blocks" on a chapter by chapter basis, or taking a traditional "single undertaking" approach. Many view the Trans-Pacific Partnership (TPP) as a potential breakthrough, since it offers an incremental, bottom-up approach that could be gradually enlarged to an APEC-wide FTA. Nonetheless TPP negotiations will take place outside the APEC framework, and a host of conceptual and political obstacles will make meaningful on-the-ground progress toward FTAAP difficult to achieve in the near future. Smaller steps toward meaningful reform of APEC's institutional framework would perhaps have a larger impact on facilitating harmonization and other useful areas of economic cooperation, but the resistance of some members to institutional reform has discouraged more activist members from pursuing them.

ASEAN Plus Three and the East Asian Summit

The timing of Thailand's assumption as Chair of ASEAN in July 2008 for an unprecedented 18-month tenure dealt an unlucky blow to ASEAN-plus dialogues. Thailand's domestic political turmoil caused a series of cancellations, postponements, and venue changes for ASEAN meetings, just as the region was facing the debilitating economic fallout from the global financial crisis. As a result, both ASEAN Plus 3 and the EAS underwent a two-year hiatus, with no summits held in 2008. ASEAN already had a crowded agenda focused on securing final ratification of its Charter and moving forward to implement the charter's provisions, including

drawing up the terms for a controversial human rights body. Coping with the economic crisis and ASEAN's organizational difficulties simply added to the distraction.

In terms of tangible accomplishments, the ASEAN Plus 3 Finance Ministers process continues to outpace all other regional projects in substantive cooperation and institution-building. As discussed above, the economic crisis spurred action by this grouping to accelerate the planned expansion and multilateralization of the Chiang Mai Initiative, although crucial components of the plan, such as establishing an Independent Surveillance Unit, have yet to be achieved. Meanwhile, Japan's proposal for an OECD-like regional policy institute, the Economic Research Institute for ASEAN and East Asia (ERIA), was successfully launched by the EAS countries. Designed to provide policy analysis and recommendations for economic integration among the 10 plus 6, ERIA is receiving positive reviews for its contributions. However the centerpiece of the trade agenda of both groupings is a region-wide FTA, and on this front very little progress is discernable. Political rivalry continues to drive discussion of the competing proposals, with China pushing for an East Asia Free Trade Area (EAFTA) among the 10 plus 3 countries, while Japan strongly advocates a larger Comprehensive Economic Partnership for East Asia (CEPEA) that would include the 10 plus 6 EAS countries. Leaders at the EAS in November 2009 agreed to consider these trade proposals "in parallel," but both appear to be on the slow track.

ASEAN Regional Forum (ARF): inching forward?

In contrast to the flurry of regional economic initiatives over the past decade that seem to herald deepening regionalism, on the security side the political difficulties of building trust and common interests around security issues have been much more apparent. The 27-member ARF continues to be recognized as "the main forum for multilateral security dialogue and cooperation" in the Asia-Pacific region, but almost since its inception it has faced the questions of relevance and effectiveness. The main challenge has been the very diverse political outlooks and interests of participants, with the majority of ASEAN members preferring a cautious and go-slow approach, which frustrates the more activist countries that seek robust dialogue and practical measures to deal with concrete security problems. These divisions have kept ARF on a slow path that has not moved much beyond the initial stage of confidence building to work on preventive diplomacy (as envisaged in the 1995 ARF Concept Paper). Further, the presence North Korea and Burma in the consensus framework of the ARF ensures that discussion of regional security or humanitarian issues related to these countries is taken off the agenda.

The sluggishness of the ARF led to proposals to transform the Six-Party Talks into a regional mechanism for dealing with security challenges, but the rising optimism (in some quarters) around these proposals three or four years ago have diminished considerably as the six-party process has faltered. Frustration with the ARF was also a primary motivating factor behind Australia's proposal for constructing a new regional structure that would deal more effectively with security challenges. The failure to gain traction on these proposals leaves the ARF firmly in place, at least for now, as the primary venue for forging regional security cooperation.

The ARF's activities over the past two years have not fundamentally altered the low expectations attached to the organization, but they do provide a glimmer of hope. First, the growing involvement of defense officials in the ARF process has yielded some value in dialogue, as well

as some support for concrete exercises for practical security cooperation. Second, in recent years the ARF has focused on nontraditional security issues, driven in large measure by reactions to regional crisis – Sept. 11 and the Bali bombings of 2002 gave rise to a focus on counterterrorism; a series of piracy and armed robbery incidents in the Malacca Straits early in the decade generated interest in working on practical contributions toward maritime security; and the 2004 Indian Ocean tsunami led to a new focus on disaster relief. As these agendas have developed, ARF members have begun to show a new, albeit limited, willingness to engage in practical security cooperation in these areas. Disaster relief in particular has been the focus of a number of desktop and field exercises over the past two years. Australia and Indonesia co-hosted a Disaster Relief simulation exercise in Indonesia in May 2008. Then, in May 2009, the US and the Philippines co-hosted an exercise in the Philippines to demonstrate a coordinated regional relief effort following a hypothetical typhoon. The “Voluntary Demonstration of Response” (VDR) was a five-day civilian-led and military supported demonstration of a coordinated regional relief effort, including joint search and rescue operations. It was the first field exercise ever conducted under the auspices of ARF, and it may point the way forward for more practical security exercises on disaster relief and other nontraditional security issues. It must be noted however that aside from the more activist ASEAN states – the Philippines, Indonesia, and Singapore – ASEAN as a whole remains cautious and at times resistant to proposals for organizing multilateral exercises under the ARF banner.

Chronology on Asian Regionalism May 2008-March 2010

May 4, 2008: ASEAN plus 3 finance ministers agree to expand and strengthen the Chiang Mai Initiative into a multilateral currency swap facility of at least \$80 billion.

June 3, 2008: The governing board of the Economic Research Institute for ASEAN and East Asia (ERIA) holds its inaugural meeting at the ASEAN Secretariat in Jakarta.

June 4, 2008: Australian Prime Minister Kevin Rudd unveils his vision for an Asia Pacific Community (APC) in a speech at the Asia Society in Sydney.

July 1, 2008: Japan-Indonesia free trade agreement (FTA) enters into force.

July 10-12, 2008: Six-Party Talks are held in Beijing after a nine-month hiatus.

July 21, 2008: The 41st ASEAN Ministerial Meeting is held in Singapore.

July 22, 2008: Foreign ministers from the 10 ASEAN countries along with South Korea, China, and Japan hold an ASEAN Plus 3 meeting in Singapore. They are later joined by the foreign ministers of Australia, New Zealand, and India for East Asian Summit (EAS) consultations.

July 23, 2008: Foreign ministers from the US, China, South Korea, Japan, North Korea, and Russia meet informally on the sidelines of the ASEAN Regional Forum (ARF) to discuss progress in the Six-Party Talks on denuclearization of the Korean Peninsula.

July 24, 2008: The 15th ARF is held in Singapore, focusing on disaster relief, North Korea's nuclear program, terrorism, the border dispute between Cambodia and Thailand, and the food and energy crisis.

July 24, 2008: North Korea signs the Treaty of Amity and Cooperation (TAC).

July 29, 2008: Doha Round negotiations at the World Trade Organization in Geneva collapse when the US, China, and India fail to resolve differences over agricultural protection in developing countries.

July 31, 2008: Japan-Brunei FTA enters into force.

Aug. 28, 2008: Eighth annual summit of the Shanghai Cooperation Organization (SCO) held in Dushanbe, Tajikistan.

Sept. 15, 2008: Lehman Brothers files for bankruptcy, setting off a financial panic that froze global credit markets, crushed stock and bond prices, and spread quickly to the real economy.

Oct. 1, 2008: China-New Zealand FTA enters into force.

Oct. 8, 2008: Philippine Senate ratifies the Japan-Philippine FTA, originally signed in 2006.

Oct. 23, 2008: China and Singapore sign an FTA.

Oct. 24-25, 2008: Seventh Asia-Europe Meeting (ASEM) summit is held in Beijing.

Oct. 29, 2008: US Federal Reserve announces temporary reciprocal currency arrangements of up to \$30 billion with central banks of Korea, Brazil, Mexico, and Singapore.

Nov. 14-15, 2008: Leaders of the Group of Twenty (G20) hold their first summit-level meeting in Washington, DC to address the global financial crisis. Leaders discuss financial reforms and pledge to refrain from trade protectionism and to revive Doha round.

Nov. 21-22, 2008: Asia Pacific Economic Cooperation (APEC) Leaders Meeting held in Lima, Peru. Leaders reiterate G20 pledges to refrain from trade protectionism and resume work on the Doha Round, and to work to improve international financial regulations and reform the IMF and World Bank.

Dec. 1, 2008: ASEAN-Japan FTA comes into force.

Dec. 8-11, 2008: Six-Party Talks are held in Beijing. The parties fail to agree on a protocol to verify North Korea's denuclearization.

Dec. 11, 2008: Japan-Philippines FTA enters into force.

Dec. 12, 2008: The central banks of Japan, China, and Korea announce additional currency

swap lines, increasing the size of one of the Japan-Korea swaps from the equivalent of \$3 billion to \$20 billion, and creating an additional swap arrangement between China-Korea in local currency equivalent to about \$30 billion.

Dec. 13, 2008: President Lee Myung-bak, Prime Minister Aso Taro, and Premier Wen Jiabao hold a trilateral summit in Dazaifu, Fukuoka, Japan – the first trilateral summit among the “Plus Three” countries to be held apart from ASEAN meetings.

Dec. 15, 2008: ASEAN Charter enters into force.

Dec. 25, 2008: Japan and Vietnam sign a bilateral FTA.

Jan. 1, 2009: Singapore-China FTA enters into force.

Feb. 16-22, 2009: US Secretary of State Hillary Clinton visits Japan, Indonesia, South Korea, and China.

Feb. 27, 2009: ASEAN and Australia/New Zealand sign an FTA.

Feb. 27-March 1, 2009: The ASEAN summit is held in Hua Hin Thailand, after being postponed in December due to political demonstrations that closed Bangkok’s airports.

March 5, 2009: Korea and Australia announce launch of formal negotiations for fTA.

April 2, 2009: Second G20 Leaders’ Economic Summit held in London.

April 28, 2009: China and Peru sign FTA.

May 3, 2009: Finance ministers from ASEAN Plus 3 announce agreement on the Chiang Mai Initiative Multilateralization (CMIM), which will expand the currency-swap facility from \$80 billion to \$120 billion. They also commit to establishing a regional surveillance unit, although details are left unspecified.

May 4-8, 2009: The US and the Philippines co-host the Voluntary Demonstration of Response (VDR) on Disaster Relief in the Philippines, with 20 ARF countries participating and 12 countries contributing civilian and military resources.

May 26, 2009: Foreign ministers of the Asia-Europe Meeting (ASEM) announce plans to expand membership to include Australia on Asian side, and Russia on European side, for the next ASEM summit meeting scheduled for October 2010 in Brussels.

May 29, 2009: Australian Prime Minister Kevin Rudd addresses Shangri-La Dialogue in Singapore and makes a revised case for his Asia Pacific community proposal.

June 15, 2009: Ninth SCO summit is held in Yekaterinburg, Russia.

June 16, 2009: The first Brazil, Russia, India, and China (BRIC) summit is held in Yekaterinburg, Russia.

July 18-23, 2009: The 42nd ASEAN Ministerial Meeting, Post-Ministerial Conferences, and 16th ARF meet in Phuket, Thailand.

July 22, 2009: Secretary Clinton at the ASEAN Post-Ministerial Conference, signs ASEAN TAC, while declaring “The United States is back in Southeast Asia.” She also announces US plans to open a mission to ASEAN in Jakarta, with the US ambassador to ASEAN in residence.

July 23, 2009: Secretary Clinton meets foreign ministers from the four Mekong riparian states (Cambodia, Laos, Thailand, and Vietnam) on the sidelines of the ASEAN summit to discuss bilateral cooperation between the two river basins of the Mississippi and the Mekong.

Aug. 6, 2009: India and Korea sign an FTA.

Aug. 13, 2009: India and ASEAN sign a FTA after six years of negotiations.

April 14, 2009: Japan and Peru launch negotiations for an FTA.

Sept. 21, 2009: Prime Minister Hatoyama meets Chinese President Hu on the sidelines of UN General Assembly meeting in New York, and broaches his idea of an East Asian Community, modeled on the European Union.

Sept. 23, 2009: Secretary Clinton announces a change in the Obama administration’s Burma policy to engage the military junta while still maintaining economic sanctions.

Sept. 24-25, 2009: Third G20 Economic Summit held in Pittsburgh, Pennsylvania. Leaders announce that the G20 is now the “permanent council for international economic cooperation,” replacing the G8 as the premier economic forum.

Oct. 1, 2009: Japan-Vietnam FTA enters into force

Oct. 10, 2009: Second Trilateral Summit between Japan, Korea, and China, held in Beijing.

Oct. 23, 2009: 15th ASEAN summit held in Hua Hin, Thailand. ASEAN leaders officially launch the new ASEAN Inter-governmental Commission on Human Rights (AICHR), with the aim of promoting regional cooperation on human rights and curbing human rights abuses.

Oct. 24, 2009: Twelfth ASEAN Plus 3 summit held in Hua Hin, Thailand.

Oct. 25, 2009: Fourth EAS meeting held in Hua Hin, Thailand. The summit had been rescheduled with change of venues several times due to the 2008-2009 Thai political crisis.

Nov. 6-7, 2009: First Japan-Mekong Summit held in Tokyo, Japan. Prime Minister Hatoyama meets leaders of Cambodia, Laos, Myanmar, Thailand, and Vietnam, and pledges to extend at least \$5.6 billion in fresh assistance to the Mekong region over next three years.

Nov. 14, 2009: President Obama announces in a speech in Tokyo that the US will negotiate a Trans-Pacific Economic Partnership, (TPP), with seven Asia-Pacific countries: Australia, Brunei Darussalam, Chile, New Zealand, Peru, Singapore, and Vietnam.

Nov. 14-15, 2009: APEC Leaders Meeting held in Singapore, with discussions on the theme of “Sustaining Growth, Connecting the Region.”

Dec. 3-5, 2009: Australia holds “Asia Pacific community conference,” a 1.5 track conference in Sydney to discuss Prime Minister Rudd’s proposals for creating an “Asia Pacific community.”

Jan. 1, 2010: ASEAN-China FTA comes into effect.

Jan. 1, 2010: ASEAN-India FTA comes into effect.

Jan. 1, 2010: ASEAN-Australia-New Zealand Free Trade Agreement comes into effect.

Jan. 1, 2010: India-Korea Comprehensive Economic Partnership Agreement enters into force.

Jan. 12, 2010: Secretary of State Hillary Clinton delivers major policy speech on “Regional Architecture in Asia: Principles and Priorities” at East-West Center, Honolulu Hawaii.

January 20, 2010: China and Taiwan begin formal talks on a trade deal termed the Economic Cooperation Framework Agreement (ECFA).

March 15-19, 2010: First round of TPP negotiations are held with trade officials from Australia, Brunei Darussalam, Chile, New Zealand, Peru, Singapore, US, and Vietnam.

March 24, 2010: Japan holds symposium on “Building the East Asian Community,” featuring presentations by 10 leading policy voices from the Asia-Pacific region, hosted by the Foreign Ministry’s affiliated think tank, the Japan Institute of International Affairs (JIJA).

March 24, 2010: The Chiang Mai Initiative Multilateralization (CMIM) agreement comes into effect.

March 29, 2010: New Zealand and Hong Kong sign a closer economic partnership (CEP) agreement, Hong Kong’s first FTA aside from its FTA with mainland China.