Reviewing Regional Resilience: Fostering Financial Fraternity?
HA4001 ASEAN in the 21st Century

Assignment 3: Research Paper

Reviewing Regional Resilience:
Fostering Financial Fraternity?
Introduction

“The ASEAN Economic Community (AEC) shall be the goal of regional economic integration by 2015. AEC envisages the following key characteristics: (1) a single market and production base, (1) a highly competitive economic region, (c) a region of equitable economic development, and (1) a region fully integrated into the global economy.”

(ASEAN Economic Community Blueprint, 2008)

The AEC represents one of three pillars\(^1\) that prop up the as-yet-unrealized dream of an ASEAN Community (AC15) as proposed at the 2003 Bali Summit. ASEAN ambitions have perhaps led its leaders to put the cart before the horse – promising more and doing less, as curiously reflected in their voluntary scaling-back of the initial deadline of 2020 to what is the contemporaneous 2015. ASEAN commentators such as Michael Leifer (1999) and Lee Jones (2015), hailing from the neorealist oeuvre, would perhaps express marked surprise if the AC15 even materializes in a belated 2020, whilst constructivists-institutionalists such as Katsumata (2006), Ravenhill (2008), Koga (2010) and Track II academics are more inclined to emphasize – as did current ASEAN Secretary General Le Luong Minh in 2013 – that the AC15 “is a process, not an event”\(^2\). This statement, unfortunately, continues to hold true, and the (now-defunct) scorecard assembled by the 2012 ASEAN Secretariat suggested that the four packages of integration measures: i) creating a single market and production base, ii) a competitive economic region, iii) equitable economic development, and iv) integrating into the global economy were only 66%, 68%, 68% and 86% complete (Jones, 2015).

Nonetheless, this paper seeks to furnish a macro-political understanding of ASEANs trajectory before and after the 1997/8 Asian Financial Crisis, and attempt to decipher if the current state of quasi-institutionalization achieved in the politico-economic domain is sufficient to safeguard the region from a repetition of previous wrongs. Indeed, as Dieter (2008) argues, the legacy of the Asian crisis continues to be the most important factor that drives economic cooperation in Asia. What then constitutes “integration” in the region? Dieter, again, furnishes 4 criteria: 1) the facilitation of trade in goods and services by providing stable monetary conditions, 2)

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\(^1\) The other two being the ASEAN Political Security Community (APSC), and the ASEAN Socio-cultural Community (ASCC)

\(^2\) (Asean.org, 2013)
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the provision of efficient, well-functioning financial markets, 3) the prevention of financial crisis and, 4) the regional management of credit and currency crises. The vexing question that requires explication should then be: is the AEC merely an extension of ASEAN’s “imitation community” with “an attractive façade of public pronouncements masking a deliberate lack of real substance” (Jones & Smith, 2002), as realists charge? Or is it in fact part and parcel of the self-conscious and slow-moving respect for the musyarawah-mufakat mechanism that has led constructivists to herald the “norm brewery/entrepreneur” function of a traditionally sovereignty-centric region? This paper therefore seeks to make explicit some of the tensions inherent within ASEANs historical modus operandi and hopefully explain some of the options the region has at its disposable in the process of realizing the goal of the AEC, and by extension, the AC20.

Relevance

Particularly given how the “developmental imperative” according to the Rostovian (1960) model has constantly featured as the raison d'être for the tolerance of authoritarian dictatorships in the region, and that, as in the Asian Values debate of the 1990s (Ojendal & Antlov, 1998), the augmented social contract observed by the state and the people is legitimated through the furnishing of progress and prosperity – economic collapse is likely to mean political revolution, and there are numerous historical precedents to support this assertion. The democratic protestations that overthrew Ferdinand Marcos in 1985 was a result of impending economic collapse of the peso, and we note that his administration possesses the notorious title of being the second biggest kleptocracy in human history. The title of the first, unsurprisingly, goes to General Suharto’s regime that resigned at the height of the economic Götterdämmerung in the middle of 1998 amid widespread demonstrations of discontent. That military generals who arbitrarily install themselves in power through violent and undemocratic means are manifestly politically illegitimate is well understood – if not always observed – as ASEAN’s acquiescence with Myanmar’s half-a-century of junta repression in their eventual accession in 1997 demonstrates.

3 At a 2014 valuation of $21.6 billion USD
Even then, the winds of change are currently heralding a political breath of fresh air, with Aung San Suu Kyi’s National League for Democracy (NLD) securing 80% of the popular vote and (more importantly) possession of the mandate to choose the president, ending the army’s stranglehold on power. Although this long-overdue (and largely indigenous) incipient democratization does not strictly impinge upon the development of economic solidarity per se, it must be noted that Myanmar can be taken to represent a microcosm of the CLMV states in general – their conspicuous undemocratic political systems, closed markets, and general poverty contrasts starkly with the more developed ASEAN states such as Thailand, Singapore, and Malaysia. Liberal institutionalists, therefore, need to temper any grandiose ambitions at creating some intergovernmental common/emergency currency agreement when confronted with the (politically, economically, and socially) polarized region of South East Asia.

To avoid reverting to previous predilections for “lowest common denominator” agreements and regional paralysis as a result of the hasty inclusion of the CLMV states in the 1990s, the “ASEAN-minus-x” has been adopted to accommodate the adjustment of newer entrants. This ad-hoc, voluntary, and ultimately fragmented mode of regional development is perhaps likely to further polarize what is already a motley crew of member states, and widening gaps of inequality would mean that divergent strategies for remedial action on particular countries would have to be sought in the event of another financial meltdown. Even the relative homogeneity of European Union members has not translated into a coherent economic strategy for an ailing Greece, and there is little reason to believe that the unintended fragmentation of regional solidarity is beneficial for the tackling of crises. ASEAN, therefore, cannot afford to be content with continually harvesting the “lowest hanging fruit” vis-à-vis regional cooperation and development.

Some scholars (Simon 2012; Emmers, 2009; Buzan, 2003) charge that the disputes in the South China Sea (SCS) possess the potential to spark a reversion to an arms race reminiscent of the Cold War era, and this paper is cognizant that the APSC has much to improve upon in its heretofore anaemic attempts at constraining Chinese ambitions vis-à-vis the “U-shaped swathe” of the SCS. Recent American

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4 Cambodia, Laos, Myanmar, and Vietnam
provocations⁵ have been framed as the “protection of freedoms of navigation” as reflected in the United Nations Convention on the Law of the Sea (UNCLOS), and future friction is perhaps unavoidable. To what extent ASEAN’s “nascent security community” is able to balance U.S. interests in the strategic “pivot of Asia” against Chinese ascendency remains open to interpretation, and is beyond the scope of this paper. Suffice to say, however, that both the AEC and APSC face mounting obstacles in their quest to support the realization of the AC15/20. Economic cooperation, however, remains less controversial by virtue of it being less politically sensitive, and therefore (arguably) more amenable to the engendering of solidarity.

**Historical Backdrop**

The Asian Financial Crisis came about through the imprudent transfer of vast sums of capital remotely, currency speculation, and the implosion of the Thai real-estate bubble. Rüland (2010) asserts that the high domestic interest rates that spurred (a premature) financial liberalization, leading to “a massive influx of short-term capital in the form of portfolio investments”. The availability of cheap credits on offshore markets allowed excessive borrowing from institutional lenders (Ba, 2009), and the eventual inefficient allocation of capital to inefficient state-linked companies, coupled with an appreciating US Dollar and depreciating Chinese Yuan coincided to turn once-thriving markets into (metaphorical) brutal battlefields (Acharya, 2005). Sovereign wealth funds were rapidly extinguished in the immediate aftermath of the crisis due to a combination of state attempts at remedial action (such as quantitative easing) and spiralling depreciation of the Baht, Won, and Rupiah. Rüland (2010) notes in retrospect, however, that the limited size and diversity of ASEAN economies militated against the viability of such an intervention mechanism (consider a parallel to the European Monetary System) before the crisis hit, and from this perspective it seems that a regional self-help institution was simply unfeasible in the early 1990’s or before.

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⁵ In the sailing of the American Navy’s USS Lassen through the disputed Exclusive Economic Zone (EEZ) claimed by China, and the flying of American bombers near reclaimed Chinese islands – both in November. More “patrols” have been declared to be forthcoming.
The reaction of supranational operations to these events will be further elucidated in an attempt to contextualize ASEAN’s resolve in the wake of the crisis, and this paper therefore asserts that economic issues are of exigent concern to ASEAN elites. A brief revisiting of the history of Southeast Asia – and, by extension, ASEAN – is perhaps necessary in order to appreciate the significance of “development”, “institutions” and “regionalism”, as subjectively experienced by its member states, if we are to appreciate how ASEAN’s characteristic mode of subaltern realism coalesces to prejudice greater regionalism in the economic sphere – despite the fact that the engendering of financial solidarity is likely to confer substantial benefits unto member states – particularly in crisis situations. Southeast Asia’s (SEA) historical reality as a peripheral – and, in some conceptions, a residual category – has been marred by foreign conquest, dominion, and intervention during different epochs. Although the vastly different trajectories of the former Dutch, British, and French colonies in SEA defy easy categorization under some generic heading of “colonization”, and the distinct multiplicity of peoples inhabiting a discontiguous territory (consider the sprawling archipelago of Indonesia and Malaysia) highlights the inherent lack of similarity between ASEAN member states, there exists much consensus within the Southeast Asian collective conscience that neo-colonialism in any form is to be avoided at all costs. Whether this ideological resolve manifests itself in reality, or merely as rhetorical device, however, is a matter for academic debate.

The 1955 Bandung Conference – a precursor to the Non-Aligned Movement (NAM) as established in Beograd in 1961 – therefore represents the starting point in the eventual formalization of ASEAN’s resolute upholding of the principles of non-interference in the affairs of other states, national self determination, respect for territorial sovereignty, and the renunciation of the threat/use of force, as later enshrined in the Treaty of Amity and Cooperation (TAC) signed in 1976 at the ASEAN summit in Bali (Acharya, 2005; Stubbs, 2008). The Zone of Peace, Freedom and Neutrality (ZOPFAN) signed earlier in 1971 also reflects a resolute refusal to allow Southeast Asia to function as a theatre for great-power proxy conflicts, as illustrated in their stated aim to be "free from any form or manner of interference by outside Powers". Although ASEAN declarations have historically been thick on symbolism but thin on concrete results, the abovementioned norms have rarely been
compromised or challenged\textsuperscript{6}. This has important ramifications in the understanding of the subsequent developments during the Asian Financial Crisis.

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Furthermore, the entrenchment of a crony-capitalist oligarchy in the original 5 ASEAN members is a result of its symbiotic inter-linkages with the ruling elite, and this must be taken into consideration in any diagnosis of ASEAN’s state of affairs prior to the 1997 imbroglio. *Laissez-faire* market mechanisms were implemented in only specific, marginal sectors of the economy, and state-intervention into the market (with obvious vested economic interests) became ASEAN’s standard modus operandi. Consider, for example, that Indonesia represents ASEAN’s largest aviation market that is amenable to increasing integration – yet, it consistently opts out (as sanctioned by the ASEAN-minus-x framework) from the liberalization of its services, reflecting strong pressure from state-owned airline Garuda and other Indonesian airlines that are relatively uncompetitive vis-à-vis other low cost regional carriers (Centre for International Law, 2013).

Consider also, that Malaysia’s steadfast refusal to integrate its financial services despite its notoriously inefficient domestic banking sector and the blatant protectionism (in the form of Non-Tariff Barriers) that undergirds governmental faith in the national automotive industry (Proton Holdings Berhad) is a function of endemic patronage of UMNO-Malay capitalists (Wad, 2009). Recent events involving malfeasance in the highest echelons of Kuala Lumpur in the 1Malaysia Development Berhad (1MDB) and its associated scandals merely function as a leitmotif of the point. It is also noted that the AEC’s “sensitive list” includes automotive components and a plethora of other commodities that are strategically protected by nationalistic sentiments and considerations (Lim 2009). This peculiar corporatist mode of development that, on the one hand, sanctions the encroachment of free-market tenets without the concomitant retrenchments of strategic state-directed “growth” into vital

\textsuperscript{6} See Jones’ (2010) work “ASEAN's unchanged melody? The theory and practice of ‘non-interference’ in Southeast Asia” for a polemical (and, undeniably frank) account on the Janus-faced nature of ASEAN. In his interview with Bilahari Kausikan, the senior Singaporean diplomat admits, ‘frankly, we have been interfering mercilessly in each other’s internal affairs for ages, from the very beginning’. See also, Jones (2007), on ASEAN “intervention” in Cambodia.
sectors on the other was met with much (initial) welcoming from Western democracies (World Bank, 1993) as the ideological counterweight to Dependencista, autarkic, or otherwise Socialist modes of development that characterized Latin American and African countries.

However, as the economic miracle of the “Asian Tigers” that seemed to promise unfettered potential for growth eventually faded, the 1997/8 Asian financial crisis provided the Western world the opportunity to discredit the increasing prominence of Asian economies and their unique developmental trajectory. Indeed, as the “contagion” effects of the crisis spread, one by one, the export-oriented manufacturing sectors of the Newly Industrialized Economies (NIEs), IMF intransigence to their plight ensured that vital inflows of capital desperately needed to resuscitate their flailing monetary and financial systems were withheld until neoliberal nostrums were hastily imbibed. Structural-adjustment packages (SAPs) of “conditionalities” were marketed as a panacea that would purge the Asian body-politic of its fetish for state-directed growth, which Western scholars deemed as a form of quasi-neoliberal heterodoxy that was unsustainable and particularly susceptible to corrupt influences. Although ASEAN has long held Marxist-Leninist ideals in contempt, Keynes (1920) prosaically notes, on the historical hegemony and increasing (inter?)dependence of Western capital:

“Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch its currency.”

Analyzing Existing Mechanisms

Although Asian academics have been swift to decry the predatory responses of Western-backed supranational entities, it is perhaps instructive to analyze the mechanisms that ASEAN has put in place in wake of the crisis. The Chiang Mai Initiative (CMI) as established in 2000 by the ASEAN+3 represents the implementation of currency swap arrangements, along with bilateral and plurilateral initiatives for cooperation (Hund, 2010), and this was aimed at functioning as a regional liquidity buffer. Dieter (2008) further argues that Asia’s traditional reliance on the U.S. Dollar as an exogenous exchange rate anchor and its function as both a reserve and invoicing currency was partly responsible for the rapid destabilization
experienced during the crisis, with Dayaratna-Banda & Whalley (2007) attributing Asia’s current penchant for hoarding foreign currency reserves as reflecting the political will to avoid another financial meltdown.

Dieter believes that this massive accumulation represents merely one strategy of what is essentially a dual-pronged approach – the other being the creation of the money-swap agreements – which operates akin to “strands of a spider’s web”, as referred to by Singapore’s Second Minister Lim Hng Kiang (Rowley, 2001). More importantly, the CMI arrangement ensures that the speculative attacks that hampered economic recuperation in 1997 can be avoided given that one-way bets on the external value of the currency in question are impossible (Dieter, 2008). Chung and Eichengreen (2007) go as far as suggesting that hedging against future downturns should not be the sole motive galvanizing greater regional cooperation – and that:

“...[t]he readiness of East Asian governments and central banks to commit meaningful financial resources to these regional initiatives signals a departure from the status quo ante.”

In buttressing this “two-pronged” approach of accumulating vast foreign currency reserves and the establishment of bi- and plurilateral hard currency swaps between countries such as Malaysia, South Korea and Thailand, an agreement that facilitates information exchange on the movement of short-term capital in the region along with an “early warning mechanism” that alerts the respective governments of potential issues (Stubbs, 2002) represents another quasi-institutional attempt at fostering some solidarity amongst ASEAN (and the East Asian +3 states of South Korea, Japan, and China). There are, however, competing perspectives on the effectiveness of the both the currency swaps and the monitoring mechanisms, as Dieter (2008) explains:

“In March 2000, the central banks of the ASEAN countries, together with China, Japan and South Korea, collectively had foreign reserves of well over $800 billion.... By comparison, the entire Eurozone currently has reserves of about $340 billion. Even if only 10%–20% of East Asia’s reserves were available for the regional fund, participating economies could easily overcome any liquidity crisis without help from Washington.”

Others such as Marshall (2002) and Sevastopulo (2002) finds that, contrary to the US$80-$160 million that is thought to be needed for the sustainabilty of such a mechanism, members of the ASEAN+3 only intend to commit a small portion of the
agreed amount. This pessimism leads him to conclude that the swap agreements are merely reflective of political symbolism and the paying of lip service to the idea of regional autonomy and solidarity against Western neo-imperialism. Marshall (2002) elucidates:

“Now that most regional countries have floating currencies, a repeat of the 1997 economic meltdown is seen as unlikely. And the amounts of money involved remain largely ineffectual. . . . The main significance of the swap web, analysts say, is that some of its proponents see it as a precursor to an Asian Monetary Fund. . . . Few, however, see much hope for an AMF any time soon.”

The abovementioned proposal to engender a “regional surveillance network” and information sharing is part of the so-called “Manila Framework” (Ba, 2009) that arose in the wake of the crisis. This project was to be initially financed by the Asian Development Bank (ADB) before its transfer to the ASEAN Secretariat based in Jakarta (Ibid). The mutual suspicions that exist intramurally within ASEAN not only prejudice any pooling of sovereignty but also the sharing of “sensitive information” – making any monitoring mechanisms little more than “paper tigers” that possess little breadth or authority by virtue of the lack of precise, timely, and transparent information that member states are assumed to readily furnish (Hund, 2010). Rüland (2010) is convinced that the proposal to utilize local currencies for intra-ASEAN trading will not alleviate any shortages in foreign exchange. This belief is supported by the fact that intra-ASEAN trade accounted for 22.8% in 1996, and almost 2 decades later in 2014 this percentage has not changed significantly (24.1%). As quoted from the ASEAN Secretariat in 2014, the dominance of firms involved in intra-ASEAN trade from Singapore (34% in 2013), Malaysia (19.6%), and Thailand (17%) reflect the asymmetrical and non-interdependent nature of ASEAN member economies. Competition, rather than complementarity, therefore functions as the lubrication for ASEAN trade.

It is therefore the similarity (with Singapore a curious exception) of industrial output (particularly manufacturing) that ensures the ASEAN Free Trade Agreement (signed in 1992 to reduce intra-ASEAN tariffs and to invite foreign direct investment) remains ineffective. Scholars such as Jones (2015), Hund (2010) and Ravenhill (2008) have all expressed conviction that the AFTA, although crucial for the reduction of anti-competition protectionism within the region, remains ineffective due to the
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structural conditions of the political economy of member states. Mahathir’s
exhortation for the creation of an Asian Monetary Fund (AMF) as a counter-
hegemonic solution to the purported neo-colonial predilections of supranational
institutions almost materialized at the behest of Japanese-funded altruism at the end of
1997 (Chey, 2009) until such proposals were abandoned having met with much
hostility from the U.S, China, and the pro-Western continuum within ASEAN
(Stubbs, 2014), such as Singapore and Philippines. This reflects the divergent
strategic interests of diverse member states that are unlikely to be reconciled in the
near future. Other grandiose ambitions, such as the establishment of an “ASEAN
Common Time” (ACT) set at UTC+08:00 (Ba, 2009) in order to standardize time and
facilitate trade, investment, and business, has also been marginalized given that
realistic consideration point to its impracticality.

In revisiting the progress of realizing AEC goals, we therefore find 1) the
single market and production base has proceeded in an ad-hoc fashion, with AFTA
liberalization an unfinished project, and with national sensitivities hampering further
progress, 2) developing a “highly competitive region” remains a dynamic work in
progress, with capital and production increasingly migrating to China, India, and
Korea, with domestic protectionism significantly distorting the supply-demand free-
market enterprise, reducing ASEANs competitiveness, 3) equitable economic
development remains a utopian endeavour, particularly when CLMV states are taken
into account, and ASEAN has never professed any desire for intergovernmental
redistributive mechanisms within the region, 4) the full integration of ASEAN into the
global economy also remains fragmented – as the crisis shows, utter dependence on
IMF prescriptions has not proven to be beneficial for ASEAN member states (with
Singapore the possible exception) – yet, ASEAN remains wary of forming a regional
currency bloc or developing specific regional institutions with the sovereign capacity
and autonomy to “bail-out” or rescue states facing economic hardships. We note, for
example, that even the CMI does not function independently of IMF imprimatur or
oversight, and remains dependent on specific criteria7 before the disbursement of
currency swaps in a crisis can be sanctioned.

7 Only the first 10% of credit or funds for the currency swap is exempt from IMF oversight
Role of the ASEAN Secretariat

As reflected in the organization website, the ASEAN Secretariat was set up in 1976 with a role to “initiate, facilitate, and coordinate ASEAN stakeholder collaboration in realizing the purposes and principles...in the ASEAN charter” (ASEAN.org, 2014). The active nature of such a mission statement belies its inability to implement, enforce, sanction, or as aforementioned, even adequately monitor any member states. At the 2004 10th Summit in Vientiane, ASEAN adopted the Protocol on Enhanced Dispute Settlement Mechanism (ASEAN Secretariat, 2004) in order to expedite the management of any real or putative conflicts. Yet, as Ravenhill (2008) explains, such pseudo-authoritative bodies are often treated with suspicion, and ultimate recourse typically proceeds via the established organizations such as the World Trade Organization (WTO), IMF, or ICJ (particularly on sovereignty matters, such as Singapore’s successful claim on Pedra Branca). He also notes that even the ability to “name and shame” is compromised when states withhold sensitive information from the coordinating agencies under the mandate of the Secretariat.

Given ASEANs aversion to legalistic or otherwise binding commitments, and the deliberate refusal to hand more structural enforcement power to the Secretariat, it remains difficult to envision the spontaneous manifestation of concrete strategies under its limited tutelage. Nonetheless, this paper tentatively proposes a number of measures that the Secretariat can adopt in order to encourage further economic cooperation – and, by extension – foster a greater ethic of regional resilience.

1. Firstly, the Secretariat requires more money and more manpower. The current organizational structure remains both understaffed and underfunded, and if the Secretariat is to possess any authority on economic matters, it is evident that a commensurate amount of financial wherewithal is necessary for it to carry out its mandate effectively.

2. Secondly, the Secretariat cannot be a position that works independently of the respective national governments – such a role inevitably raises realist questions about “who watches the watchmen” – and ASEANs sovereign-conscious nature dovetails with non-interference and the procedural principle of consensus-through-consultation. Instead of attempting to forcibly establish
an independent and autonomous role for the Secretariat, this paper suggests that the Secretariat meet personally with the finance ministers of the various member states every quarter to keep updated with new developments, share information, highlight irregularities or potential challenges, and monitor or review stated agreements. Such regular and informal meetings should be held closed-door and adhere to diplomatic protocols of secrecy in order to assuage ASEAN fears of “losing face”.

3. Thirdly, the lack of complete political autonomy can be compensated with the provision of an independent commission/taskforce/policy-team that is tasked to compile, gather, and analyze data on a broad range of issues on member states. This ensures that the Secretariat does not become beholden to vested national interests, skewed data, or outright deception, particularly given that the various ASEAN-Institute of Strategic and International Studies/Track II policy institutes are typically largely dependent upon government funding, and therefore, largesse.

4. The Secretariat can take on an advisory role instead of one that focuses on brute enforcement. Political elites would be encouraged to defer to the judgment of the Secretariat and his team unless there are strong objections. Given the larger number of members and their undeniable political and economic diversity, consensus is unlikely to be achieved, and this “soft approach” complements the existing norms that privilege informal and non-binding procedures which function as a signaler of intent, and confidence-building measures.

Through these 4 abovementioned proposals, the Secretariat could significantly move toward shedding its purported label as ASEANs white elephant. A decade into the 21st century, ASEAN is gradually admitting that the doctrine of “regional resilience” through “national resilience” is as obsolete as it is archaic, particularly in a globalized and interconnected financial system. Fostering financial fraternity, therefore, should be the objective of the Secretariat, lest history repeat itself. The Trans-Pacific Partnership (TPP) is an interesting – if ambitious – attempt at engaging a significant proportion of states in economic multilateralism, and the Secretariat could use this as a springboard to prove its mettle.

(4100 words, excluding bibliography and footnotes)
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